



Understand and Able to Use Relevant Cost Concepts in Making Decisions that Provide More Provide More Profits Big

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ABSTRACT

In this era of globalization and an ever-changing economy, companies, especially those operating in the manufacturing industry, must be very careful in managing costs and taking advantage of opportunities to maximize profits. The purpose of this research is important for managers and management teams to continue to learn and adapt, understand industry trends and developments, and make decisions based on accurate and relevant data analysis and information. Qualitative research methods that use in-depth interviews and case studies, especially in the context of the use of relevant costs in decision making. Based on the research results, relevant costs are an important element in the managerial decision making process. It includes costs that will change or arise as a result of a particular decision.

INTRODUCTION

In this era of globalization and an ever-changing economy, companies, especially those engaged in the manufacturing industry, must be very careful in managing costs and taking advantage of opportunities to maximize profits. Maintenance and upkeep costs are one of the costs that manufacturing companies must consider. This cost is important to ensure operational efficiency and effectiveness. To reduce this cost, companies can invest in efficient and proactive maintenance systems, such as condition-based maintenance, where maintenance is carried out based on needs, rather than a fixed schedule. When a machine has reached its economic life limit, replacement becomes essential. It may be expensive, but it can reduce long-term operational costs and increase productivity. Using the latest technology can also improve efficiency and produce better quality products.

Efficient use of fuel can be an effective way to reduce costs. Technological innovation can help with this. For example, switching from fossil fuels to renewable energy can reduce costs and also contribute to environmental efforts. Companies should strive to achieve cost efficiency. This could be through process automation, use of advanced technology, or implementing a cost management system. By reducing costs, profits can be increased. Investments in research and development of new products can open up new opportunities and bring in additional revenue. Companies should also strive to always adapt and evolve to stay relevant to market developments.

Profit is a key indicator of a company's financial health. Through cost and revenue analysis, companies can determine measures that will increase profits. Cost calculation methods such as variable, fixed, and relevant costs can help in making better decisions. In every aspect, whether it is pricing, cost adjustment, product innovation, or marketing strategy, making the right decision is key. Making decisions based on deep analysis and understanding of such aspects can lead to greater business success.

Managers are leaders who must be able to motivate their teams and make strategic decisions. They must have a clear vision, the ability to communicate effectively, and skills in decision-making. Their abilities in management functions, such as planning, organizing, controlling, and supervising, greatly influence the success of the company. In a competitive market, companies must have a good strategy and effective management. This could involve improving product quality, operational efficiency, good customer service, or continuous innovation. All of these require the right decisions and good management.

The purpose of this research is important for managers and management teams to continuously learn and adapt, understand industry trends and developments, and make decisions based on accurate and relevant data analysis

and information. By doing so, they can ensure that the company remains on the right path to sustainable success.

RESEARCH METHODS

Qualitative research methods using in-depth interviews and case studies, particularly in the context of using relevant costs in decision-making, may involve the following aspects:

1. Sample Selection

Respondents in this research are usually selected based on specific criteria, such as their position in the organization and their experience in using relevant costs. This may involve finance managers, senior executives, or other finance professionals.

2. Interview Design

In-depth interviews typically use open-ended questions to gain a broad and deep understanding of the respondents' experiences and perspectives. These questions are designed to create a free conversation that allows respondents to talk about the topic in their own way.

3. Case Study Approach

Case studies usually involve an in-depth analysis of a specific situation or event. In this context, a case study might focus on a specific company or business unit and how they use relevant costs in decision-making.

4. Data Analysis

Data collected from interviews and case studies were then analyzed using qualitative techniques such as category coding, theme searching, and narrative interpretation.

5. Making Interpretations:

After analysis, the researcher will try to interpret the data. Research results are often presented in the form of narratives that explain how relevant costs work in decision-making and their impact on company profits.

This qualitative research has the strength of revealing deep and nuanced insights into how theoretical concepts such as relevant cost are used in real practice.

RESULTS AND DISCUSSION

Qualitative research, in contrast to quantitative research, examines concepts in depth and detail, focusing more on understanding processes and phenomena rather than statistics and numerical data. Typically, qualitative research includes in-depth interviews or case studies with experienced managers, executives or finance professionals. The results may be narratives or stories about how they use relevant costs in decision-making and their impact on the company's bottom line. Qualitative research, with its focus on deep understanding and context, often involves in-depth interviews and case studies. In the context of using relevant costs in decision-making, here's how the process might unfold and the resulting outcomes:

Researchers will conduct in-depth interviews with managers, executives, or finance professionals. These interviews are typically open-ended and exploratory, allowing respondents to speak freely about their experiences and understandings. For example, they may be asked about how they use the concept of relevant cost in strategic decision-making, or how they determine what is considered relevant cost in their context. In addition to interviews, qualitative research may also include case studies. These usually involve an in-depth analysis of a specific situation or event. For example, researchers might study how a company uses relevant cost in making decisions about investment projects, and the impact this has on their bottom line.

The result of this research, how certain companies use relevant costs to make investment decisions that ultimately result in increased profits. In this case, qualitative research on the use of relevant costs in decision making seeks to understand how the concept functions in a real context, and how it impacts company performance. Qualitative research on the use of relevant costs in investment decision-making does provide valuable insights into how this concept functions in the real world and affects company performance.

Relevant costs in this context refer to costs that will change or arise as a direct result of a decision. For example, if a company decides to purchase a new machine or expand a facility, relevant costs would include the cost of purchasing the machine, additional operational costs, and changes in variable costs such as raw materials and labor. In the decision-making process, companies will identify all relevant costs and potential revenues associated with the investment. They will then compare these potential revenues to the relevant costs to determine whether or not the investment will generate a positive net profit. This is the essence of cost-relevant analysis.

Suppose a company is considering updating its production equipment. They identify that the new machinery will require an initial investment, but will improve production efficiency and reduce raw material and labor costs. As such,

despite the initial additional cost, the additional revenue or cost savings in the long run may exceed those initial costs, resulting in a positive net profit.

In this qualitative research, it was found that the use of relevant costs in investment decision-making can have a significant positive effect on company performance. This is because it allows companies to make decisions based on an in-depth analysis of potential costs and revenues, ensuring efficient use of resources and the potential to increase profits. Companies that use this approach to investment decision-making can reap benefits such as improved operational efficiency, increased profits, and the potential for continued growth and expansion.

In conclusion, relevant cost plays an important role in investment decision-making, enabling companies to make choices based on the real, measurable impact of the investment. Thus, driving growth and better performance.

The research results also focus on context analysis, such as factors in the organizational and external environment that contribute to the effective use of relevant cost in decision-making.

Understanding and using the concept of relevant cost in business decision-making is critical to profit and operational efficiency. Relevant costs are costs that change or vary based on the decision alternatives taken. Relevant costs are the direct costs associated with a particular business decision. It is a cost that will change based on the alternative decision. For example, if a company decides to expand its product line, additional costs for raw materials and labor would be considered relevant costs. Irrelevant costs are costs that do not change based on the alternative decision taken. For example, the cost of fixed rent for a factory is not considered a relevant cost when deciding whether to produce more or less of a particular product.

This is a decision-making technique that involves comparing costs and revenues that change based on decision alternatives. For example, if a company is considering buying a new machine, they will need to compare the cost of the new machine with the potential revenue from increased production. Differential Analysis, also known as cost-based decision analysis or cost-benefit analysis. It is a key method in managerial accounting that helps in making profitable business decisions.

For example, a company may be considering whether it should purchase a new machine to increase production capacity. Other alternatives may be to continue with the existing machinery or look for other options such as leasing the machinery.

In this context, relevant costs are costs that will change based on the choice made. If the company decides to buy a new machine, the relevant costs will include the price of the machine, operational costs, maintenance and more.

On the other hand, the revenue or benefits that will be generated from the new machine should also be considered. For example, the additional revenue that may result from increased production capacity. After identifying all relevant costs and revenues, perform a differential calculation. This involves estimating the total revenue and total cost for each alternative. Then, the difference between revenue and cost (i.e., profit) expected for each alternative is analyzed. Finally, based on this analysis, a decision can be made. If the expected revenue from buying a new machine (net of costs) is greater than the expected revenue from other alternatives, then the purchase of a new machine may be the better choice.

Differential analysis is an important tool in business decision-making because it allows management to compare the costs and benefits of different alternatives and choose the most profitable option. Using the concept of relevant cost, companies can make decisions that maximize profits. For example, if the incremental cost of raw materials and labor to produce 100 additional units of a particular product is lower than the incremental revenue generated by selling those units, the decision to produce the additional units will maximize profit.

The concept of relevant cost is also used in making operational and strategic decisions. For example, in a decision about closing a warehouse, the company will consider relevant costs such as operating costs and warehouse storage costs, and also irrelevant costs such as warehouse rental costs, which will remain the same, no matter whether the warehouse is used or not. Relevant costs are also important in risk and uncertainty management. Identifying relevant costs can help managers understand the risks and uncertainties associated with different decision alternatives.

The concept of relevant cost is very important in making optimal profit-related decisions, especially in the areas of production and sales. Relevant costs are costs that will change as a result of the decision choices made, and these include variable costs such as raw materials and labor. Suppose a company produces 1000 units of a product, with a total cost of raw materials and labor of \$5000, generating revenue of \$10,000. If the company considers producing an additional 100 units, they must evaluate the additional cost (relevant cost) of producing these 100 units.

Then, if the incremental cost of raw materials and labor for the additional 100 units is \$500 and the incremental revenue that can be generated from selling these additional 100 units is \$600, the incremental profit generated is \$100. In this case, the incremental cost (\$500) is lower than the incremental revenue (\$600). Therefore, producing the additional 100 units will increase the company's profit. Thus, this is a decision that will maximize profit.

The essence of using relevant cost is that companies should consider the costs and revenues that will change based on the decision. This way, they can ensure that every decision they make will yield the most optimal results for their bottom line. Remember, the main goal in this context is to maximize profits. So, as long as the relevant cost is smaller than the relevant revenue, it is a potentially profitable and profit-maximizing decision.

CONCLUSIONS

Based on the research results Relevant costs are an important element in the managerial decision-making process. It includes those costs that will change or arise as a result of a particular decision. By identifying and analyzing relevant costs, managers can make better decisions.

In the context of investment and expansion, companies can use the concept of relevant costs to ensure that any decisions taken will result in higher net income. For example, if the additional cost of an investment (e.g. purchase of new equipment) is offset by increased revenue or cost savings (e.g. improved efficiency), then the investment is worthwhile. In addition to investment decisions, the concept of relevant cost also applies to daily operational decisions. For example, in determining selling prices, outsourcing, or deciding to produce more products.

Through understanding and applying relevant cost, a company can improve their operational efficiency and generate a positive domino effect for the company's overall performance. In general, the use of the concept of relevant cost in decision-making is important for companies that aim to increase profits and operational efficiency. It is a key tool that decision makers can use to make better and more informed choices. As a result, it can help companies to achieve greater profit goals, while running operations in a more efficient and effective manner.

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