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## ANALYSIS OF THE APPLICATION OF DIFFERENTIAL ACCOUNTING INFORMATION IN DECISION MAKING RECEIVING OR REJECTING SPECIAL ORDERS TO INCREASE CORPORATE PROFITS

Epi Fitriah<sup>1</sup>, Yuni Rosdiana<sup>2</sup>, Affandi Iss<sup>3</sup>, Helliana<sup>4</sup>, Yola Septidiana<sup>5</sup>,

Faculty of Economics and Business, Islamic University, Bandung,  
Jl. Tamansari No.1 Bandung Indonesia

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**ABSTRACT:** *This study aims to determine the application of differential accounting information in decision making to accept or reject product special orders at Company X; The level of profit development in company X; The use of differential accounting information in decision making to accept or reject product-specific orders can increase profits in company X. The research method used in this research is the case study method and descriptive analysis. Data collection techniques using questionnaires, documentation and interviews. Data analysis using Likert scale and calculation of profit growth rate. Based on the results of the study note that the application of differential accounting information in decision making to accept or reject special orders at company X is included in the inadequate criteria. The level of earnings growth in Company X is volatile. With the analysis of the application of differential accounting information when company X receives a special order from a customer, the company can decide to accept or reject the order appropriately so that the company's profit increases.*

**KEYWORDS:** differential, accounting information, decision making, profit

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## INTRODUCTION

In today's modern era accounting is becoming increasingly desirable and increasingly helping in the company's business activities or trading business. Management accounting which is part of accounting has several objectives, one of which is for decision making. Decision making is a process of a systematic approach to choosing *alternative* which is most appropriate to solve a problem (Siagian (Hasan, 2002); Atmosudirjo, 1982; James (Hasan, 2002: 10)). In decision making, a phenomenon that is often faced by management is uncertainty. This is because there is a possibility that management in the company is faced with various alternatives that must be chosen and analyzed. In addition, management is also faced with one of the considerations in deciding the best option, which is the impact of the decision on the company's net profit to obtain maximum profit, so management must determine the right selling price (Mulyadi, 2001; Supriyono, 1991; Siahaan, 2007).

Based on observations of company X in Bandung, this company is often faced with the problem of making decisions on special orders, that is, orders outside of normal sales. These special orders usually ask customers for prices that are lower than the normal selling price

in this company X, so the company has a dilemma whether this special order will be accepted or not. If the special order is accepted, the company is worried that it will suffer a loss and if it is rejected, the company will risk losing customers. On the other hand, this company has not maximized the capacity of production machines to the maximum, so the company has idle capacity that is not used. Therefore the company must properly analyze the special order, so the company does not lose the opportunity to earn additional profits.

Earnings at company X in Bandung from 2011 to 2015 tend to continue to increase, but in the period 2015 to 2018 experienced fluctuations in profits and decline in profits each year. Especially, in 2015 the company had a profit of Rp.614,322,000.00, then in 2016 the achievement of company profit decreased by Rp.582,435,000.00. Likewise for 2017 the company's profit continues to decline in the amount of Rp 573,232,615.00.

The application of accounting information of company X in Bandung is also not good because management has difficulty in deciding to accept or reject special orders because the company does not yet have the right calculation in making the decision. In calculating the cost of production, management does not have an accurate accounting calculation. Management only uses general cost estimates to measure the costs incurred and the selling price of a product is determined from the estimated estimated production costs incurred plus the benefits from the estimated estimated production costs using simple and manual analysis.

Based on the description above, it is important for researchers to conduct research relating to the analysis of differential accounting information to assist management in making the right decision when the company gets special orders, so it is expected that maximum profit can be achieved. Therefore, researchers are interested in making the title "**Analysis of the Application of Differential Accounting Information in Decision Making Accepting or Declining Special Orders to Increase Company Profit**"

In accordance with the background of the study, the issues that will be discussed in this study can be identified as follows:

- 1) How the application of differential accounting information used by management in making decisions to accept or reject special orders at Company X in Bandung?
- 2) What is the level of profit development at company X in Bandung?
- 3) How the application of differential accounting information can be used by management in decision making to accept or reject special orders so that profits increase at company X in Bandung

Based on the identification of the problems mentioned above, the purpose of this study is:

- 1) To explain how the application of differential accounting information in tactical decision making reject or accept special orders at company X in Bandung
- 2) To explain the level of profit development at company X in Bandung

- 3) To explain the application of differential accounting information can be used by management in making decisions to accept or reject special orders so that profits increase at company X in Bandung

## LITERATURE REVIEW

**Accounting Information Differential Information** is one of the important things needed by management in managing the company, so that management can take the right decisions. One important information that is usually needed as a basis for planning and decision making is differential accounting information (Mulyadi, 2001: 17). Differential accounting information is: "information that presents different estimates of income, costs and or assets if a particular action is chosen, compared to other alternative actions" this is stated by Halim and Supomo (2005: 8). Then the definition of differential accounting information stated by Munawir (2002: 305) is: "information costs that will occur in the future (*future costs*) which are expected to be different for each alternative and useful for management for decision making to choose one of the best alternative actions".

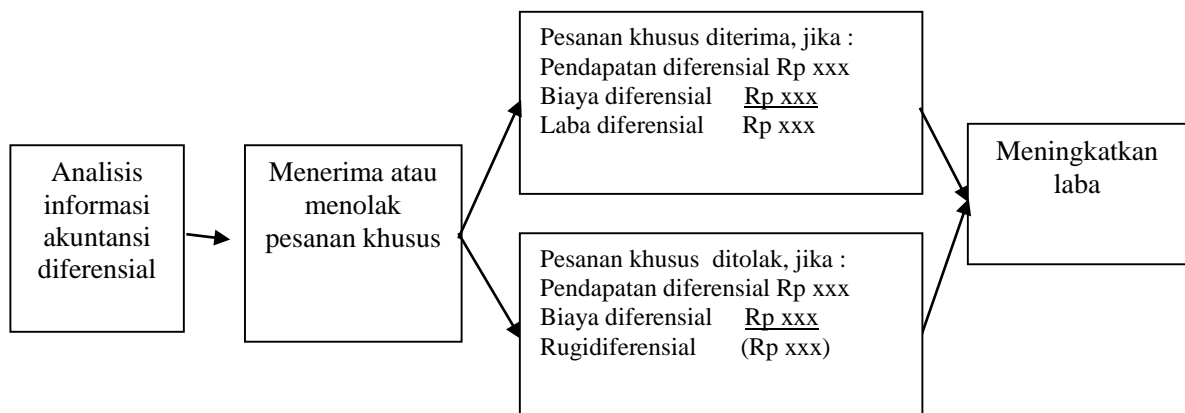
### Decision Making Accepting or Refusing a Special Order

Siagian (Hasan, 2002: 10) states that decision making is: "A systematic approach to the nature of the alternatives faced and taking action which according to the calculation is the most appropriate action. Then there is also the opinion of James (Hasan, 2002: 10) that decision making is "the process used to choose an action as a way of solving problems." Special order decisions as stated by Hansen & Mowen (2009: 282) focus on the question of whether special prices should be accepted or rejected. Management decision-making in making decisions rejecting or accepting special orders is explained by Mulyadi (2001: 149), namely: If differential income (ie additional revenue from receiving special orders) is higher than the differential cost (ie additional costs due to fulfilling the special order ), we recommend that you receive these special orders. On the other hand, if differential income is lower than the differential cost, then special orders should be refused.

Differential accounting information can be said to be information that is needed by management, when management faces several alternative solutions to the problem. The information presented in differential accounting consists of differential costs, differential income and differential profits when the company chooses one alternative compared to the other alternatives, making it easier in the decision making process (Halim and Supomo, 2005; Sunarto, 2004; Munawir, 2002). Decision making is a process of a systematic approach to choosing *alternative* which is most appropriate for solving a problem (Siagian (Hasan, 2002); Atmosudirjo, 1982: 97; James (Hasan, 2002: 10)).

Decision making taken by management when a company gets a special order must consider differential accounting information, so that management can take the right decision to increase company profits.

Profit is the total income reduced by total costs (Nafarin; 2007, Kuswadi; 2005, Hanafi; 2010, Halim and Supomo; 2005). Based on the description above, it is necessary to analyze the use of differential accounting information when companies get special orders so that the decision to accept or reject these special orders can increase company profits, this research is supported by research conducted by Mustika (2005), Pachori and Sexana (2012), Patariato (2012), Ishmael and Osamor (2012). The following author presents the picture frame of mind



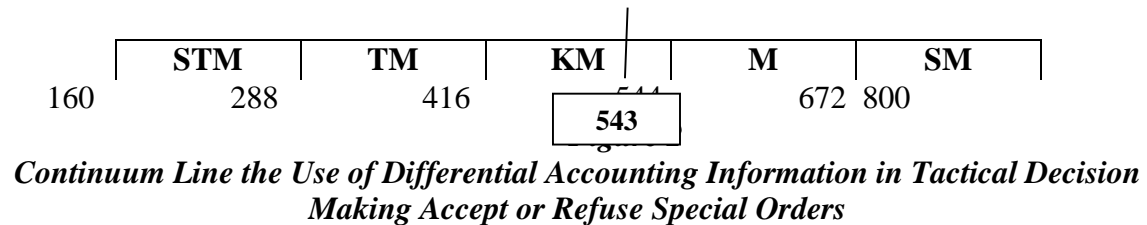
**Figure 1: Framework**

## METHOD

Method that will be used in this research is the case study method and descriptive analysis method. Data collection techniques using questionnaires, documentation and interviews. In this study there are two variables, namely differential accounting information in decision making to accept or reject special orders and profits. Data analysis using the Likert scale and continuum lines, as well as for the calculation of the level of development of corporate profits, this study uses the ratio of earnings growth. The rate of profit development is calculated from 2012 to 2018.

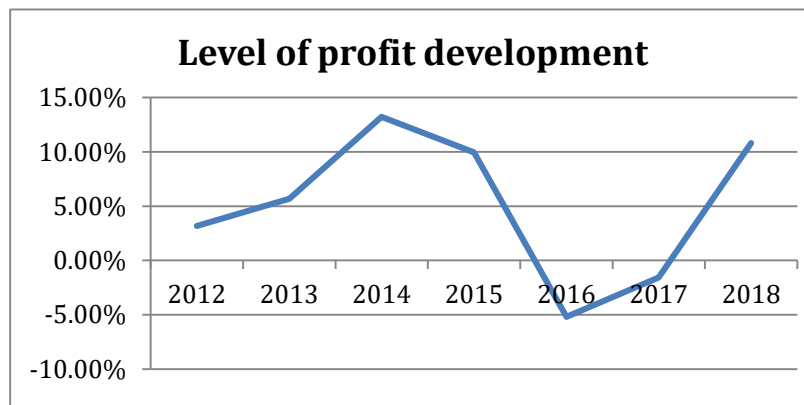
## RESEARCH FINDINGS AND DISCUSSION

The results of research using the Likert scale can be described in the continuum line below:



Based on the continuum line shows that the use of differential accounting information to make decisions in accepting or rejecting special orders at company X in Bandung using a Likert scale obtained a score of 543 with inadequate criteria.

The level of profit growth of company X in Bandung, is shown in the graph below: level of profit growth of company X



**Figure 2 : Graph Level of Profit development**

Based on the graph in 2014, company X experienced the highest percentage of profit increase of 13.21% of profit in 2013 amounting to Rp. 493,532,723.00 to Rp.558,732,612.00 in 2014. The high increase in profit was due to the fact that in 2014 the company conducted intensive marketing such as distributing brochures, entrusting products in stores and packaging beautiful product packaging to attract so that in 2014 the company has a high enough demand, this can increase the number of sales and corporate profits. In 2016 the company experienced a drastic decline in profit development that is -5.19%, this is caused by various internal company problems so that special orders that In this year, it is often accepted or rejected without going through precise differential analysis calculations, internal problems faced by the company at that time such as poor communication and inconsistency of policies implemented by the company coupled with an increasingly high

level of competition. In 2017 the company can reduce profit decline to -1.58% by improving company policy and creating new target markets by diversifying products. Finally, in 2018 the company will again increase its profit up to 10.82% by marketing via online such as Tokedia, shopee and also selling products in stores, minimarkets. In addition, in 2018 many companies also receive special orders so that companies often get additional profits and can increase company profits.

In November 2018 the company received a special order offer from customers of 300 dozen products at a price of Rp 115,000 per dozen, where the company's normal production capacity for products was 3,850 dozen, while the production plan was 3,500 dozen, so the company had an idle capacity of 350 dozen. Company X products are usually sold at Rp. 126,000 per dozen. Before analyzing, the following is the cost data obtained from company X internal data in Bandung:

**Table.1: Company X Product Costs for November 2018**

Remarks	Total
Production:	
CostsRaw Material Costs	Rp. 190 678 600
Direct labor costs	67.4697 million
Variable Factory Overhead Costs:	
Materials Maid	41.751 million
Fuels	9.8152 million
Packing	9.0635 million
Disposal	525,000
Transportation expenses	19.2612 million
cost of electricity and water	2.048 million
Phone Expenses	847 500
Fees Rupa- Rupa	4,162,800
Total Factory Overhead Variable	87,474,200
CostsFixed Factory Overhead Costs:	
Staff and general	salary 42,975,700
Car maintenance	2,275,000
Tax	1,803,500
Total Fixed Factory Overhead Costs	47,054,200
Total Production Costs:	392,676,700

Source: Company X (Data that is reprocessed)

From the data above, the writer presents production costs to company X before any special

orders are as follows:

**Table 2: Production Costs Company X Before there is a Special Order in November 2018**

<b>Production</b>	<b>Costs Production Costs Per dozen</b>	<b>Total Production Costs (3500 dozen)</b>
Cost of Raw Materials	Rp. 54,479	Rp. 190,676,500
Direct Labor Costs	19,277	67,469,500
Variable Factory Overhead Costs	24,993	87,475,500
Fixed Factory Overhead Costs	13,444	47,054,200
Production Costs	Rp. 112,193	Rp. 392,675,700

Source: Company X (Data Processing Results)

When a company is faced with decision making when the company receives special orders from customers, one of which must be analyzed is differential information. Differential costs are one part that must be analyzed in this special order. Company X operates below normal capacity in other words that company X has an idle capacity of 350 dozen, so factory overhead costs remain differential costs. Thus, the production costs for special orders for November 2018 are as follows:

**Table 3: Production Costs for Special Orders for November 2018**

<b>Production</b>	<b>Costs Production Costs Per dozen</b>	<b>Total Production Costs (300 dozen)</b>
Raw Material Costs	Rp. 54,479	Rp. 1,6343,700
Direct Labor Costs	19,277	5,783,100
Variable Factory Overhead Costs	24,993	74.97,900
Production Costs	Rp. 98,749	Rp. 29,624,700

Source: Company X (Data Processing Results)

Based on table 2 and table 3, it is known that the total production costs that must be incurred by company X if a special order is received is Rp 98,749. Management must analyze further to see the company's differential profit if the special order is accepted or rejected. Researchers will present a comparative report on the application of differential accounting information for special orders at company X by looking at the differential profit from regular sales in the presence of additional sales from special orders. The analysis the researchers present in table 4 as follows:

**Table 4: Results of Analysis of Differential Accounting Information in Decision Making Accepting or Declining Special Orders at Company X in November 2018**

Description	With Special	Orders Without Special Orders	Differential
Income: 3500 dozen x 126,000 300 dozen x 115,000	Rp 441,000,000 34,500,000	Rp.441,000,000	Rp.34,500,000
<b>Total Revenue</b>	<b>Rp.475,500,000</b>	<b>Rp.441,000,000</b>	<b>Rp.34,500,000</b>
Variable: CostsRaw Material Costs Direct BOP Variable	Labor207.020.2 00 Costs73.252. 600 94,973,400	190,676,500 67,469,500 87,475,500	16,343,700 5,783,100 7,497,900
<b>Total Variable Costs</b>	<b>Rp. 375,246,200</b>	<b>Rp. 345,621,500</b>	<b>Rp. 29,624,700</b>
<b>Contribution Margins</b>	100,253,800	95,373,500	4,875,300
Fixed Costs :			
Fixed BOP	47,054,200	47,054,200	
<b>Total Fixed Costs</b>	<b>47,054,200</b>	<b>47,054,200</b>	
<b>Net Profit</b>	<b>Rp. 53,199,600</b>	<b>Rp. 48,324,300</b>	
<b>Differential Profit of</b>			<b>Rp. 4,875,300</b>

Source: Company X (Data Processing Results)

In table 4 it can be seen that if the company receives the order, the company will get a profit of Rp. 53,199,600, - whereas if the special order is rejected by the company, the company will only receive a profit of Rp.48,324,300 . Thus, in November 2018 company X took the decision to accept this special order because the company would get an additional profit of Rp. 4,875,300for this decision. From the results of the analysis of differential accounting information, the right decision can be made by the company, so company profits can increase.

## CONCLUSIONS

Based on the results of research and discussion, the following conclusions can be drawn:

- The application of differential accounting information in decision making to accept or reject special orders at company X falls within inadequate criteria. This can be seen from the lack of market separation between sales regular and special orders at the company and the lack of a differential cost analysis.



- b. The level of earnings development in the study period in Company X fluctuates.
- c. By analyzing the application of differential accounting information when company X receives a special order from a customer, company X can decide to accept or reject the order appropriately so that the company's profit increases.

### **Suggestion The**

- a) company should continue to apply and improve analysis of differential accounting information in its decision making.
- b) Companies should maximize production capacity within the company and if there is an idle capacity, the company can more actively utilize the idle capacity to fulfill special orders.

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