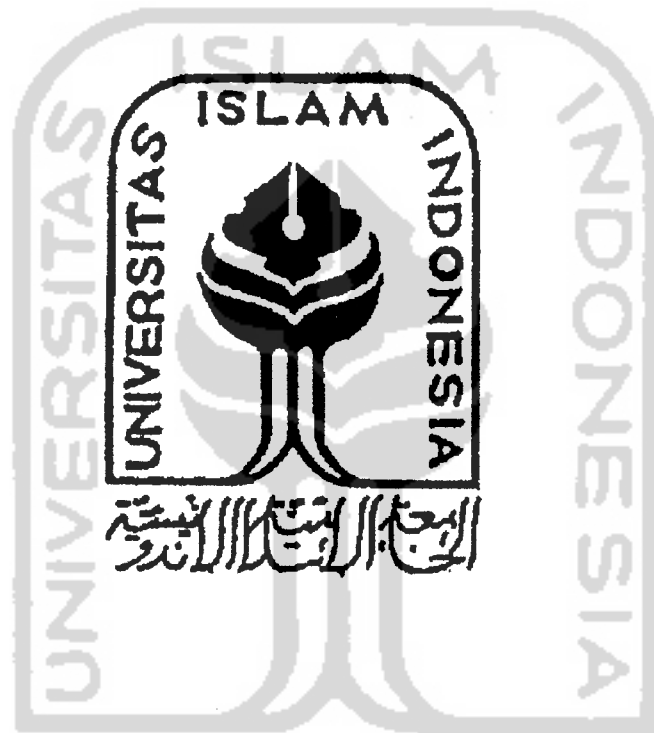


**THE EVALUATION OF ROOM RENT PRICING DECISION
A CASE STUDY ON INDRAMAYU GENERAL
REGIONAL HOSPITAL**

A THESIS

**Presented as Partial Fulfillment of the Requirements
To Obtain the Bachelor Degree in Accounting Department**



By

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YOGYAKARTA
2004**

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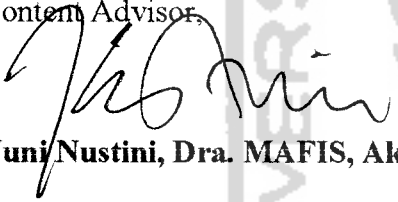
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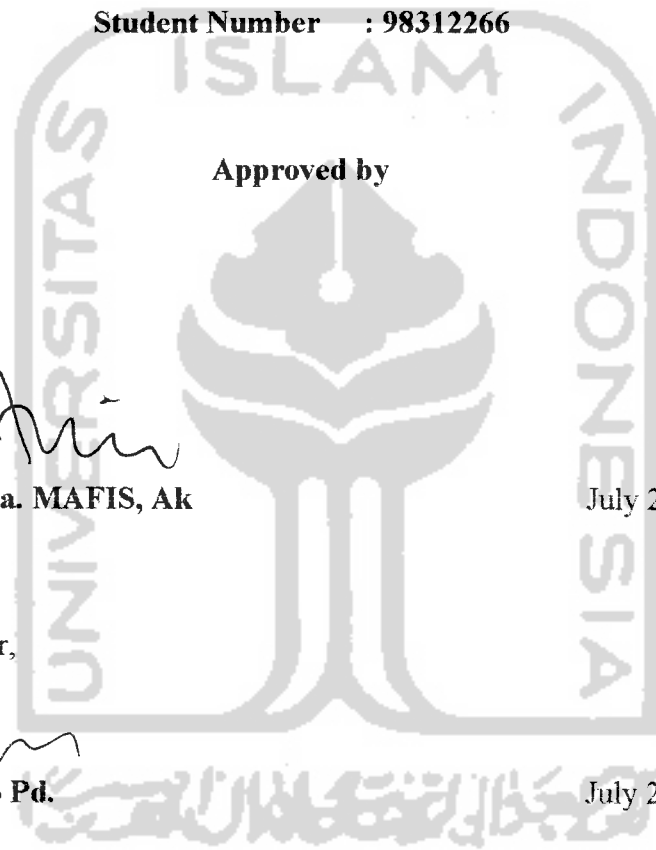

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July 20, 2004

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Bismillahirrahmannirrahim

*My Endless Faith to the Almighty Allah SWT
and his Prophet, Muhammad SAW
bring such courage to be strong and brave
as Allah SWT makes all possible for you
Only when you are eager to try*

Have we expanded thee thy breast? And removed from thee thy burden
The which did gall thy back?

And raised high the esteem (in which) thou art held)?

So, verily, with every difficulty, there is relief:

Verily, with every difficulty, there is relief,

Therefore, when thou art free (from thine immediate task), still labour hard,

And to thy Lord turn (all) thy attention.

(Al-Qur'an, Al-Inshirah: 1-8)

"Pray as if no work could help
and as if no prayer could help"

*I dedicate this thesis To my beloved parents,
H. Achmadi and Hj. Sukasti Dj. Dra. M.pd
For their everlasting love and support*

ACKNOWLEDGMENTS

All the praise and grateful only to Allah SWT, The Cherisher and Sustainer of the world, The Creator and The Owner of everything. It is only by His will and permission that this thesis within the title of **‘The Evaluation of Room Rent Pricing Decision. A Case Study on Indramayu General Regional Hospital’** presented as one of the requirements to obtain the Bachelor Degree in Accounting Department, can be completely finished. There is no such word and feeling that I can express, except “Thanks God, finally I can pass it”.

In this opportunity, I would like to express my great appreciation and gratitude to many people that are supportive, and giving much attention and thoughts in order to make it sounds and real. Hence, with all my respect, I would like to thank to these followings:

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Pontianak'. It's amazing; you can accompany me to the library, and teach me how to be brave and strong)

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Finally, I confess honestly that my thesis is far from being perfect. With all of my weaknesses, I sincerely apologized for every mistake that I have made during and in the work of this thesis. I would also gladly invite some critics and suggestion in order to improve the content of this thesis.



Yogyakarta, July 2004,

Lucky Pumamasari

TABLE OF CONTENT

Page of Title	i
Approval page	ii
Legalization Page	iii
Acknowledgement	iv
Table of Content	vi
List of Table	ix
List of Figure	x
List of Appendices	xi
Abstract	xii
Abstrak	xiii

CHAPTER I : INTRODUCTION

1.1 Background of the Problem	1
1.2 Problem Identification	5
1.3 Problem Formulation	6
1.4 Limitation of Research Area	6
1.5 Research Objectives	6
1.6 Research Contributions	7
1.7 Definition of terms	8

CHAPTER II : REVIEW OF RELATED LITERATURE

2.1.	Theoretical Review -----	9
2.1.1.	Pricing -----	9
	2.1.1.1. Purposes of Price Determination -----	10
	2.1.1.2. Factors to Consider when Setting the Price -----	12
2.1.2.	Activity Based Costing -----	16
	2.1.2.1. Activity -----	18
	2.1.2.2. Cost Driver -----	23
	2.1.2.3. Activity Based Costing Structure -----	25
	2.1.2.4. Steps to Establishing an Activity Based Costing System. -----	28
	2.1.2.5. Limitation Of Activity Based Costing System -----	33
2.1.3.	Activity Based Costing in Service Company -----	34
2.1.4.	Several Pitfalls on Activity Based Costing System -----	36
2.2.	Conceptual Framework -----	40

CHAPTER III : RESEARCH METHOD

3.1.	Research Method -----	43
3.2.	Research Subject -----	43
3.3.	Research Setting -----	44
3.4.	Research Instrument -----	44
3.5.	Research Variable -----	45
3.6.	Technique of Data Analysis -----	45

i.

CHAPTER IV RESEARCH FINDING, ANALYSIS, AND IMPLICATION

4.1.	Research Description and Findings -----	47
4.1.1.	Company Profile -----	47
4.1.1.1.	Rule and Regulation -----	48
4.1.1.2.	Organization Structure and Job Description -----	48
4.1.1.2.1.	Organizational Structure-----	49
4.1.1.2.2.	Job Descriptions -----	50
4.1.1.3.	Vision, Mission, Motto-----	52
4.1.1.4.	Medical and Non-Medical Means and Infrastructure -----	53
4.1.1.5.	Indramayu General Regional Hospital Employees -----	53
4.2.	Analysis -----	53
4.2.1.	Pricing Implemented By Indramayu General Regional Hospital-----	53
4.2.2.	Implemented ABC System-----	56
4.2.2.1.	Steps in Activity Based Costing System Design -----	57
4.2.3.	The Comparison between Traditional Method with Activity Based Costing -----	71
4.2.4.	The Evaluation of Activity Based Costing System Approach In Determining Tariff and Hospital Management Tariff -----	73

CHAPTER V CONCLUSION AND RECOMMENDATION

5.1.	Conclusions -----	74
5.2.	Recommendations -----	76
References -----		77
Appendices -----		79

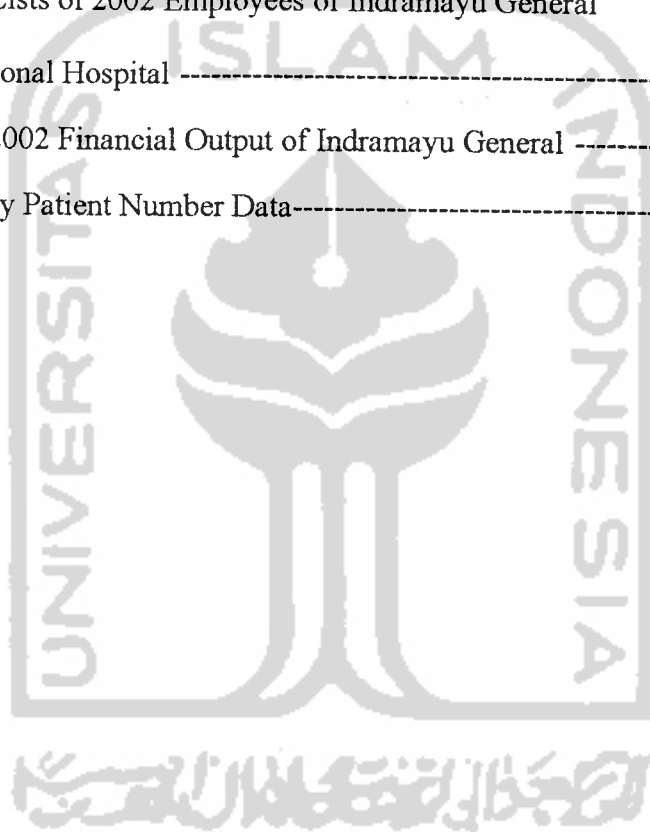
LIST OF FIGURE

Figure 2.1. The Traditional Two Stages Approach -----	26
Figure 2.2. The Activity-Based two-Stage Procedure-----	26
Figure 2.3 How Activity Based Costing Improve Upon Traditional Costing ----	27
Figure 4.1 Graphic Comparison -----	72



LIST OF APPENDICES

Appendix 1. The Hospital Director, Research Approval Letter.-----	79
Appendix 2. The Dean Appeal Research Letter -----	80
Appendix 3. The Lists of Indramayu General Regional Hospital	
Means and Infrastructure -----	81
Appendix 4. The Lists of 2002 Employees of Indramayu General	
Regional Hospital -----	87
Appendix 5. The 2002 Financial Output of Indramayu General -----	90
Appendix 6. Yearly Patient Number Data-----	91



ABSTRACT

Purnamasari, Lucky (2004). **The Evaluation of Room Rent Pricing Decision. A Case Study on Indramayu General Regional Hospital.** Yogyakarta: Accounting Department. International Program. Faculty of Economics. Islamic University of Indonesia.

The business development in every sector requires the expert management to decide the policy to bring the organization to the business competition. Neither profit nor non-profit organization has to apply a good management strategy to compete for defending the organization existence, as well as to survive in the competition. One of the ways to defend the existence of the organization is through applying a good cost management. Considering that condition, in applying the cost management, a good management has to describe the cost information clearly. A brief and accurate cost information will influence the management effort in deciding and determining the policy in arrange the price of every product which is offering to the customers.

This research was performed in Indramayu General Regional Hospital, a regional health institution owned by Indramayu regency. This research emphasizes on the evaluation towards the hospital management room rent pricing decision compared to the pricing based on the cost calculation result used Activity Based Costing system, a modern method, and one of sub-disciplines on Cost Accounting.

Based on the data analysis conducted, this research can give cost information more accurate, and useful, especially for the hospital management as a basic consideration in determining the selling price of their product, especially room rent.

ABSTRAK

Purnamasari, Lucky (2004). **The Evaluation of Room Rent Pricing Decision. A Case Study on Indramayu General Regional Hospital**. Yogyakarta: Jurusan Akuntansi. Program Internasional. Fakultas Ekonomi. Universitas Islam Indonesia.

Perkembangan bisnis di berbagai sektor membutuhkan manajemen yang ahli untuk menentukan kebijaksanaan guna membawa sebuah organisasi ke dalam kompetisi bisnis. Baik organisasi profit maupun non-profit harus menerapkan strategi manajemen yang baik untuk dapat berkompetisi guna mempertahankan eksistensi organisasi itu sendiri, begitu juga untuk dapat bertahan dalam persaingan. Salah satu cara untuk mempertahankan eksistensi sebuah organisasi adalah dengan menerapkan manajemen biaya yang baik. Menyadari hal itu, dalam menerapkan manajemen biaya, sebuah manajemen yang baik harus dapat mendeskripsikan informasi-informasi biaya secara jelas. Informasi-informasi biaya yang jelas dan akurat akan mempengaruhi kinerja manajemen dalam memutuskan dan menerapkan kebijaksanaan dalam menyusun harga produk yang akan ditawarkan pada konsumen.

Penelitian ini dilaksanakan di Rumah Sakit Umum Daerah Indramayu, sebuah institusi kesehatan daerah milik pemerintah kabupaten Indramayu. Penelitian ini menekankan pada evaluasi terhadap ketentuan penetapan harga sewa kamar oleh pihak manajemen rumah sakit, membandingkannya dengan penentuan harga/tariff menggunakan hasil perhitungan biaya berdasarkan Activity Based Costing sistem. Suatu metode costing modern, dan merupakan salah satu sub-disiplin dari akuntansi biaya.

Berdasarkan pada analisa data yang dilakukan, penelitian ini dapat memberikan informasi biaya lebih akurat dan berguna, terutama bagi pihak manajemen rumah sakit sebagai dasar pertimbangan dalam menentukan harga jual produk, khususnya sewa kamar.

CHAPTER I

INTRODUCTION

1.1 Background of the Problem

To achieve optimum development in this globalization era, business sectors require the experts in management, to anticipate every change in all business aspects. Tight business competitions need the company management accurateness to decide the policies to stand for the existence of the company and to win the global competition. Therefore, a company has to apply some concepts or strategies, and even to create policies in order to improve products quality for fulfilling the market need.

Many efforts support the development of company strategy. Pricing decisions strategy is one of the examples, which has big influence towards the increasing of product quality. It becomes the company policy to increase or decrease the product price. However, in gathering the discretion, the company should also consider some factors that influence pricing activities. It has to be considered that in applying the pricing decision, the company's policy should not only be oriented for profit, but also for the consumer satisfaction and to survive in business competition.

The improvement in science and technology has also become the way out to improve the product quality. Nowadays, science and technology have given their influences towards all of the company business activities. The result of its improvement is the company ability to produce various products or services that

are henceforth offered to the consumer. Besides, the consumers need to be aware in facing the improvement of science and technology, for there are many choices of product's price and quality. Considering that condition, the businesses competition will be firmed up and cause tight market.

In running and facing the tight market caused by the competition, there must be a confidence that will support the company management to participate actively and to win the competition. For that reason, the company management has to make strategies or policies, which are organized together, not only by the selling department that sell the product, but also financing, promoting and other department concerned, even government, to help and involve in such business policy.

For a profit-oriented organization, the company will get some profit from the selling revenue, by which the company activity will be financed. As long as the profit is earned fairly and not through collusion, monopoly power, or other unfair business practices, a company deserves a reward for a good business performance. However, for the non-profit organization, such as a government institution that gives society service, the aim is not a profit, it is to emphasize on how to survive in serving the society

In performing business activity, selling products, or rendering services, a company should consider some factors that can increase the selling volume. Two factors which influence the business activity and have to be noticed are; internal factors and external factors. Internal factors refer to the factors that come from the company itself, such as price, and product quality. Conversely, external factors

include those that come from outside of the company, such as economic condition, social environment and society culture, government policy and purchasing power.

The intern factor that has a big influence is product price. To decide the price level, the management has to estimate the business circumstances, including customer purchasing power, business location, competitor, market, and the business development it self, which are related to the pricing decision making to attract consumers. For that reason, in deciding the price level, the companies usually do market research. The acceptance of supply means the acceptance of price, but if conversely, the company has to adjust the price quickly, to avoid loosing market.

To improve the business development and become the superior in a long-range business competition, a company needs the existence of a quick, complete, and accurate information system as a supporting factor. A company needs the internal and external information, which are used as a basic for taking a management decision. This condition may influence the management to make a decision for the long-range plan of business orientation. One of the information needed by the company management is the cost information. Cost information functioned as cost control, cost operation, and for defending the existence of the company itself.

Related to the cost information, the company management also need the cost information for determining the pricing product decision. In a profit oriented

organization, the price determined, refers to gain profit, whether in a non-profit and public organization, the price that determined, refers to keep surviving with the aim to serve the society. Moreover, non-profit organization views that profit is less important than survival. As long as price covers its costs, the company can defend its business.

Indramayu General Regional Hospital is a regional institution, which fulfills the society need of health service. As a non-profit organization that owned by regional government, giving health service is becoming the main objective. That is why each price of health service product that charged must also consider the society condition, and in some cases, government should involve in making roles to manage this health institution.

One of the hospital services that offered to the society is room rent service, which is intended to provide services for the hospitalized patient. This room rent service is formulized as room rent price, or room rent tariff. It should be conformed among tariff, facility, and society purchasing power as the consumers still have other choice of health service.

In accordance with its function as regional government institution that serve the society in fulfilling the need of health, the policy of determining the pricing decision will become the responsibility of the hospital management based on government regulation.

Considering the importance of determining the pricing decision in the non-profit organization, especially a regional hospital that has to survive to serve the

need of health service for the society, the writer intends to explore her knowledge through the research. In relation with this matter, the writer proposes the thesis entitled “THE EVALUATION OF ROOM RENT PRICING DECISION”. It is a case study in Indramayu General Regional Hospital.

1.2 Problem Identification

Evaluating company's product pricing is a crucial management task, which has to be done carefully. Indramayu General Regional Hospital is a regional government institution that gives health service as the product, to all of Indramayu society.

In determining the health product pricing policy, the hospital management and the government have to place the priority to survive for giving the need of health service to the society, rather than to gain profit. For that reason, both hospital management and government should be wise in determining the way to design the health service price, or specifically in this case 'room rent tariff' that they offer to the society, at least to help the society taking the benefit from the health service.

One of the ways to design the health service product is applying a good planning in determining the product price using an exact method. In this case, an exact method means a good method that is appropriate with the hospital condition, and it can give an accurate information related to the hospital development, moreover in the situation of regional autonomy, whereas every institution need to be independent.

1.3. Problem Formulation

Based on the problem identification, the problems of this research are formulated as follow:

1. What is the recent method implemented by Indramayu General Regional Hospital?
2. How to set up the room rent price, using Activity Based Costing system in Indramayu General Regional Hospital?
3. Are there any significant differences between room rent pricing implemented by Indramayu General Regional Hospital, compared to pricing based on the cost calculation result using Activity Based Costing system?
4. What is the beneficial of using Activity Based Costing system compared to the pricing system implemented by the hospital?

1.4 Limitation of Research Area

The research is conducted in Indramayu General Regional Hospital, and restricted only to the room rent pricing decision procedures, which is implemented by the hospital compared to the pricing based on the cost calculation result using Activity Based Costing system.

1.5 Research Objectives

The objective of this research is to find out whether the room rent pricing decision implemented by Indramayu General Regional Hospital is appropriate or not

compared to the pricing under the Activity Based Costing system. Furthermore, the writer describes the Activity Based Costing system approach, for it can be beneficial to be used by the management in determining not only the room rent pricing decision, but also other health service pricing.

1.6 Research Contributions

The findings of the study will be beneficial in some ways, if the goals of this research are attained.

1. To the researcher

The result of this observation will be beneficial references to give more knowledge, even in exploring new experience related to the writer's educational background.

2. To the company

Hopefully, the observation will obtain some information about pricing under Activity Based Costing approach. It may be functioned as an additional consideration in determining policies related to the pricing decision.

3. To the society

This research may enlarge the knowledge, especially about product pricing decision; hence, it can become a reference to the academicians, lectures, and the students.

G. Definition of Terms

To provide the readers a thorough understanding, the writer explains some operational definitions.

1. Evaluation

Evaluation is “The appraisal of current phenomena in order to make a judgment with means considering both strength and weaknesses” (Holmes, Scott, Hodgson, Allan, and Nevel, Paul, 1991: 150)

2. Pricing decision

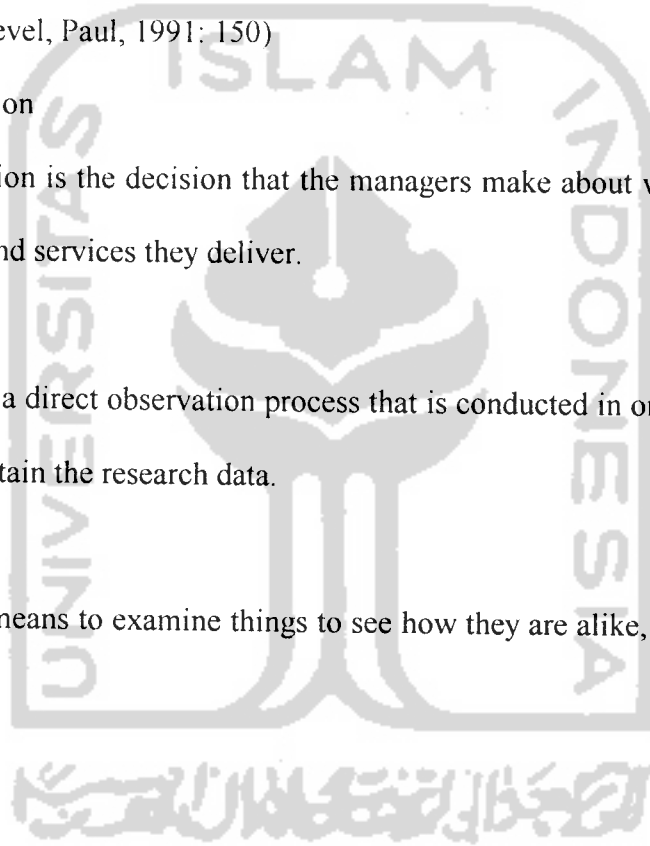
Pricing decision is the decision that the managers make about what to charge for the product and services they deliver.

3. Case study

Case study is a direct observation process that is conducted in one setting or more in order to obtain the research data.

4. Compare

To compare means to examine things to see how they are alike, and how they are different.



CHAPTER II

REVIEW OF RELATED LITERATURE

2.1. Theoretical Review

2.1.1. Pricing

In running business, managers have some discretion in setting prices. Price determines what product and services should be produced and in what amount. Price also determines how these products and services should be produced and for whom the product or services should be produced. The pricing decision depends on how much customers valuing the product, the pricing strategies, of competitors, and the costs of the product. The price of a product or service is the outcome of the interaction between demand for the product or service and its supply. Customers influence prices through their effect on demand. Costs influence prices because they affect supply. Competitors offer alternative or substitute products and so affect demand and price.

Berkowitz, Kerin and Rudelius (1986:287) write that:

Factors that limit the latitude of prices a firm may set are pricing constraints. Consumer demand for the product clearly affects the price that can be charged. Other constraints on price are set by factors within the organization: newness of the product, whether it is part or product line, and cost of and flexibility in changing a price. Competitive factors such as the nature of competition and prices set by competitors also restrict the latitude of an organization's ability to set price.

In marketing point of view, pricing become the most important decisions that usually faced by marketing executive. Pricing decisions also affect other components of the marketing mix, for price is the only marketing mix element that produce revenue. Consumers often use price as a basis for determining

product's value and suggesting a relationship between price and the perceived quality of an item. Price also may affect the advertising appeals for products.

Price is the amount of money charged for a product or service (Kotler, and Armstrong, 1997:312). It is the same definition with; broadly, price is the sum of the values consumer exchanges for the benefits of having or using the product or service. (Kotler, Bowen, Maken, 1996:403). Thus price affects income and spending behavior. For the consumer with a given price level, prices influence what to buy and what quality. For business firm, profits are determined by multiplying price per unit sold by the number of unit sold.

As pricing a product or service become the crucial management task, it is important for the management to decide a proper price for it will bring good impact in running business activities.

2.1.1.1. Purposes of Price Determination

Underlying any decision on pricing strategy must be a clear understanding of the clear organization's objectives. According to Cristopher H Lovelock (1996: 364-368), there are three basic categories of pricing objectives open to a service organization:

1. Revenue-Oriented Objectives

Private sector firms are profit-seeking organization. Within certain limits, they attempt to maximize the surplus of income over expenditures. Public, and non-profit service organization, by contrast, are more likely to be concerned with breaking even or keeping the operating deficit within acceptable bounds.

But although theirs is a not-for-profit mission, they cannot afford to ignore the revenue implications of pricing strategy.

2. Operations-Oriented Objectives

Some organizations seek to match demand and supply so as to ensure optimal use of their productive capacity at any given time. Hotels for instance, seek to fill their rooms, since an empty room is an unproductive asset. When demand exceeds capacity, however this organization may try to increase profits and ration demand by raising prices. Matching hotel demand to the number of rooms available may be achieved by pricing high at peak periods and pricing low to increase demand in off-peak period.

3. Stimulating Patronage

New services, in particular, often have trouble attracting customers. Introductory price discounts may be used to stimulate trial, sometimes in conjunction with promotional activities such as contests and giveaways. Firms wishing to maximize their appeal among specific types of customers need to adopt pricing strategies that recognize a differential ability to pay among various market segments. Realistically, each of the three perspectives noted must be included, although the comparative importance of profits, operations, and customer preferences may vary from one situation to another.

Table 2.1
Alternative Bases for Pricing

(1) Revenue Oriented
Profit seeking Make the largest possible surplus. Achieved a specific target level, but do not seek to maximize profit. Cover costs Cover fully allocated (including institutional overhead). Cover costs of providing one particular service or manufacturing one particular product category (after deducting any specific grants and excluding institutional overhead). Cover incremental costs of selling to one extra customer.
(2) Operations Oriented
Vary prices over time so as to ensure that demand matches available supply at any specific point in time (thus making the best use of productive capacity)
(3) Patronage Oriented
Maximize patronage (where capacity is not a constraint), subject to achieving a certain minimum level of revenues. Recognize differing ability to pay among the various market segments of interest to the organization and price accordingly. Offer methods of payment (including credit) that will enhance the likelihood of purchased.

2.1.1.2. Factors to Consider When Setting the Price

According to Kotler, Bowen and Makens in their book Marketing for Hospitality and Tourism 2nd Edition (1996:442), there are two factors that have to be considered when setting the price, there are internal and external factors that will affect the company pricing decision.

1. Internal Factors

a. Marketing objectives

- 1) *Survival*. It is used when the economy slumps or a recession is going on.

- 2) *Current profit maximization.* Companies may choose the price that will produce the maximum current profit, cash flow, or return on investment, seeking financial outcomes rather than long-run performance.
 - 3) *Market-share leadership.* When companies believe that a company with the largest market share will eventually enjoy low costs and high long-run profit, they will set low opening rates and strive to be the market- share leader.
 - 4) *Product-quality leadership.* To capture the luxury market, a business entity charges a high price for the high-cost products.
 - 5) *Other objectives.* Stabilize market, create excitement for new product, draws more attention.
- b. Marketing-mix strategy.
- Price must be coordinated with product, design, distribution, and promotion decision to form a consistent and effective marketing program.
- c. Costs
- 1) *Fixed costs:* Costs that do not vary with production or sales level.
 - 2) *Variable costs:* Costs that vary directly with the level of production.
- d. Organizational considerations.
- Management must decide who within the organization should set prices. In small companies, this will be top management; in large companies, pricing is typically handled by a corporate department or by a regional or unit manager under guidelines established by corporate management.

2. *External Factors*

a. Nature of the market and demand

- 1) *Cross selling*. The company's other products are sold to the guest.
- 2) *Up-selling*. This occurs through training of sales and reservation employees to offer continuously a higher-priced product that will better meet the customer's needs, rather than setting for the lowest price.

b. Pricing in different markets.

There are four types of markets.

- 1) *Pure Competition*. The market consists of many buyers and sellers trading in a uniform commodity.
- 2) *Monopolistic competition*. The market consists of many buyers and sellers who trade over a range of prices rather than a single market price.
- 3) *Oligopolistic competition*. The market consists of a few sellers who are highly sensitive to each other's pricing and marketing strategies.
- 4) *Pure monopoly*. The market consists of one seller; it could be government monopoly, a private regulated monopoly, a private regulated monopoly, or a private non-regulated monopoly.

c. Consumer perception of price and value.

It is the consumer who decides whether a product's price is right. The price must be buyer oriented. The price decision requires a creative awareness of the target market and recognition of the buyer's differences.

d. Analyzing the price demand relationship.

Demand and price are inversely related; the higher the price, the lower the demand. Most demand curves slope downward in either a straight or a curved line. The prestige goods demand curve sometimes slopes upward.

e. Price elasticity of demand.

If demand hardly varies with a small change in price, we say that the demand is inelastic. Buyers are less price sensitive when the product is unique or when it is high in quality, prestige, or exclusiveness. Consumers are also less price sensitive when substitute products are hard to find. If demand is elastic, sellers will generally consider lowering their prices to produce more total revenue. The following factors affect price sensitivity:

- 1) Unique value effect. Creating the perception that your offering is different from those of your competitors avoids price competition.
- 2) Substitute awareness effect. Lack of the awareness of the existence of alternative reduces price sensitivity.
- 3) Business expenditure effect. When someone else pays the bill, the customer is less price sensitive.
- 4) End-benefit effect. Consumers are more price sensitive when the price of the products account for a large share of the total cost of the end benefit.
- 5) Total expenditure effect. The more someone spends on a product, the more sensitive he or she is to the product's price.

- 6) Shared cost effect. Purchasers are less price sensitive when they are sharing the cost of the purchase with someone else.
 - 7) Sunk investment effect. Purchasers who have an investment in products that they are currently using are less likely to change for price reasons.
 - 8) Price quality effect. Consumers tend to equate price with quality, especially when they lack any prior experience with the product
- f. Competitor's price and offers.

When a company is aware of its competitors' price and offers, it can use this information as a starting point for deciding its own pricing.

- g. Other environmental factors.

Other factors include inflation, boom, or recession, interest rates, government purchasing, and birth of new technology.

2.1.2. Activity Based Costing System

Due to the rise in global competition and use of technology, the business environment in the world underwent many changes. In their search for ways to gain competitive strength, companies found that they need accurate information relating to the consumption of resources used to produce, sell, and deliver products and service to the customers. Increasing business competition also demands the companies to improve the effectiveness of decisions concerning product and pricing.

Activity based costing provides relevant and accurate information for strategic decision concerning product pricing, customer and product profitability analysis, and process improvement. Activity based costing system offers more than just more accurate product cost information.

Activity-based costing has been developed as a solution to the problems inherent in using traditional cost accounting methods in a 1990's organizations. Because the title is relatively new and its concepts are still evolving, varied expert explanations have been offered for activity-based costing. Nevertheless, all activity based costing approach share certain fundamentals:

1. Activity based costing is a cost accounting concept based on the premise that products require an organization to perform activities and that those activity requires an organization to incur costs. In activity based costing, system are designed so that any costs that cannot be attributed directly to a product flow into the activities that make them necessary and that the cost of each activity then flows to the products that make the activities necessary based on their respective consumption of that activities. (Douglas T, Hicks. (1992-33).
2. Activity based costing is a costing method that is design to provide manager with cost information for strategic and other decisions that potentially affect capacity and therefore 'fixed cost'. Activity based costing is also use as an element of activity based management, an approach to management that focuses on activities. (Hongren, Charles T Foster, George and Srikant M Datar, 1997: 143)

3. Activity based costing system is more accurate in charging the cost, compared to conventional costing system. The analysis of activities basis are supported by the competitive business circumstances faced by the service company. Using Activity based costing system means identify all company activities, then continuing with charging the activity cost. Hence, hospital as a service company has many activities that will utilize as a calculation basis, which cause the cost driver. The cost driver is the factor that will cause the cost influence and it reflects the activity consumption.

(Cooper Robin, Robert S Kaplan. (1991-9)

2.1.2.1. Activity

Activities are actions that organizations do. Every business can be thought as a set of activities (1991:301). The principle of activity based costing is that activities consume resources and products consume activities. In the broader sense, products are merely surrogates for activities, so the relationship is that a customer's service activities consume the company's activities, as the company's activities consume employee's activities.

“The only truly effective way to cut costs is to cut out activities altogether. To try cutting back costs is rarely effective. There is little point in trying to do cheaply what should not be done at all “. Peter F. Drucker, Claremont College (1991:29)

With these few simple words, Peter Drucker sum up activity management cost are not just incurred, they are caused. Activity management controls the occurrence of activities and the efficiency of their operation. Since activities

create cost, regulating activities controls source of costs. When action is taken to reduce the causes of activities that consume the resources, then a lasting reduction in costs takes place.

In the activity based costing environment, managers strive to control the creation and operation of activities. Since a business is a bundle of activities, a company can choose which activities it cares to perform.

1. Activity Identification

The focus of activity-based costing is activity. Thus, identifying activities must be the first step in designing an activity based costing system. Activity implies action taken or worked performed. Identifying activity is as simple as asking the individual managers and workers what kind of activities actually happened in the organization. Thus activity identification entails observing and listing the work perform within an organization, work or actions taken that involve the consumption of resources. Generally, activities are what an organization does to satisfy customer needs. Activities are the building blocks for both product costing and continuous improvement. Once activities are identified, they are listed in a document called the activity inventory. Once an inventory of activities exists, then the activity attributes are used to further describe and classify the activities. Activity attributes are non-financial and financial information items that provide descriptive labels for individual activities. What attributes are used depends on the purpose being served. If the purpose is improving performance, then quality and efficiency attributes will be used. If the

purpose is products costing than attributes that reflects how product consume activities would be used.

2. *Classification of Activities*

For product-costing purposes, activity attributes are used to group related activities into sets that form the basis for homogeneous cost pools. Grouping activities reduces the number of overhead rates needed, simplifies the task of product costing, and decreases the overall complexity of the activity product-costing product costing model. There are three attributes in common; Process attribute, which share a common objective or purpose; Activity-level attribute, which are performed at the same general activity level; and driver attribute, which can use the same activity driver to assign costs to a cost object.

The first two attributes define what logically related means, and the third attribute simply means that activities must have the same consumption ratio. These three attributes define filters that are used for grouping activities into homogeneous cost pools. Essentially, activities are combined to form homogeneous sets provided they have the same process classification, the same activity-level classification, and the same activity-driver classification. To understand this classification process, the designer need to understand exactly how each attribute is used to classify activities.

a. *Process Classification*

A process is defined as a series of activities that are linked to perform a specific objective. The concept of processes, however, is much broader than manufacturing. From a general systems perspective, processes receive

inputs and produce outputs that are of value to internal and/or external customers.

b. **Activity-level Classification**

As a second step in building sets of related activities, process-classified into one of the following four general activity categories: unit-level; batch-level; and product-level; and facility level. Classifying activities into these general categories facilitates product costing because the costs of activities associated with the different levels respond to different types of cost driver (cost behavior differs by level).

1) **Unit-level activities**

Unit level activities are those that are performed each time a unit is produced. The example is machine hours, which used each time a unit based is produced. The costs of unit-level activities vary with the number of unit produced.

2) **Batch-level activities**

Batch-level activities are those that performed each time a batch of goods is produced. Setups, inspections (unless each unit is inspected), production scheduling, and material handling are examples of batch-level activities. The costs of batch-level activities vary with the number of batches but are fixed with respect to the number of units in each batch.

3) **Product-level activities**

Product level activities are those that are performed as needed to support the various products produce by a company. These activities consume inputs that develop products or allow products to be produced and sold. These activities and their costs tend to increase as the number of different products increases.

4) **Facility-level activities**

Facility level activities are those that sustain a factory general manufacturing process. These activities benefit the organization at some level, but do not provide a benefit for any specific product. The examples are; plant management, landscaping support of community programs, security, property taxes, and plant depreciation. (Hansen, Don R. & Maryanne (1995:310))

c. **Activity Driver Classification**

Of the four general levels, the first three, unit-level, batch-level, and product-level, contain product-related activities. For these three levels, it is possible to measure the demands placed on the activities by individual products. Activities within these three levels can be further subdivided on the basis of consumption ratios. Activities with the same consumption ratios can use the same activity driver to assign costs. Thus, in effect, all activities within each of the first three levels that have the same activity driver are grouped together. This final grouping creates a homogeneous set of activities at the same level and use the same activity driver.

The fourth general category, facility-level activities, poses a problem for the activity based-costing philosophy of tracing costs to products. Tracing activity costs to individual products depends on the ability to identify the amount of each activity consumed by a product. Facility-level activities and their costs are common to a variety of products, and it is not possible to identify how individual products consume these activities. A pure activity based-costing system, therefore, would not assign these costs to products. They would be treated as period costs. In effect, these costs are fixed costs; costs that are not driven by any of the drivers found in any of the first three categories.

2.1.2.2. Cost Driver

Cost drivers are factors that cause cost in subsequent activities; Cooper (1991:69). A cost driver is any factor that affects changes in cost. Examples include the number of setups and direct-labor dollars in manufacturing and the number of sales dollars in marketing; Horngren, Foster & Datar (1997:49).

Too often cost control is focused at the point of cost occurrence without adequate consideration of cost drivers. Activities highlight the area that drives cost, and indicate where action is required. This is what the traditional system does not provide inside.

The number of cost drivers principally depends on the process diversity of the company. If the factory produces only a few products, in approximately the same volume of a few cost drivers are required.

When choosing cost drivers, make sure they are relevant and easy to measure. Relevancy relates to the direct or indirect relationship it bears to the cost of doing business and ease of measurement means that one must be able to allocate to each customer the portion attributable to the activities consumed.

Table 2.2 presents examples of cost driver in each of the business function of the value chain. Some cost drivers are financial measures found in accounting systems (such as direct manufacturing labor dollars and sales dollars), while others are non-financial variables (such as the number of parts per products and the number of service calls).

Table 2.2
Business Function and Cost Driver Examples

Business Function	Examples of Cost Drivers
<ul style="list-style-type: none"> - Research Development 	<ul style="list-style-type: none"> - Number of project - Personnel hours in project - Technical complexity of project
<ul style="list-style-type: none"> - Design of Products, Services, and Processes 	<ul style="list-style-type: none"> - Number of product - Number of parts per product - Number of engineering hours
<ul style="list-style-type: none"> - Production 	<ul style="list-style-type: none"> - Number of units produced - Number of setups - Number of engineering change orders
<ul style="list-style-type: none"> - Marketing 	<ul style="list-style-type: none"> - Direct manufacturing labor costs - Number of advertisement run - Number of sales personnel - Sales dollars
<ul style="list-style-type: none"> - Distribution 	<ul style="list-style-type: none"> - Number of items distributed - Number of customers

- Customer Service	- Weight of items distributed
	- Number of service calls
	- Number of products serviced
	- Hours spent receiving products
- Strategy and Administration	- Number of board directors members
	- Number of new government regulation
	- Hours legal work subcontracted

(Horngren, Foster & Datar. *Cost Accounting*. Pg 30)

The sum of cost driver needed in an analysis depends on some factors, such as:

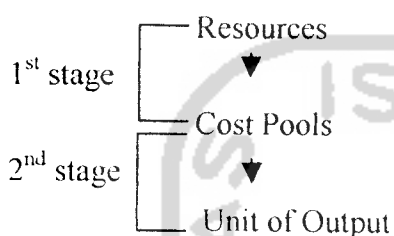
- 1) Accuracy level that is needed on the product cost calculation. The more the accuracy, the more of cost drivers.
- 2) Product diversity level, the biggest diversity level of the product, the more cost drivers.
- 3) Cost relatively level on different activities, the more significant activities, on the proportion of the product cost will need the more of costs drivers.
- 4) Volume diversity, the more the range on batch measurement, the more of cost drivers

2.1.2.3. Activity Based Costing Structure

Activity based costing system uses a simple two-stage approach: Tracing costs to activities and Tracing costs from activities to products, that is similar to but more general than the structure of traditional cost systems. Traditional cost system uses actual departments or cost centers for accumulating and redistributing cost. According to Cooper, Kaplan, Maisel, and Morrissey Action, (1996:9-11)

Traditional cost system use a two-stage procedure to assign an organization's indirect and support expenses to outputs. Operating expenses are assigned first to cost pools and second to the outputs using volume drivers such as labor and material purchases, and units produced.

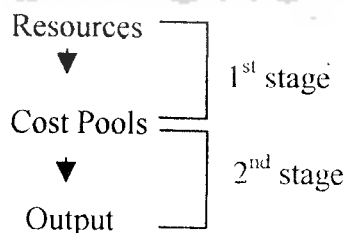
Figure 2.1
The Traditional Two Stage Approach



Because many indirect and support resources are not used in proportion to the number of output unit produced, these traditional systems provide highly inaccurate measures of the costs of support activities used by individual output.

Referring to those reason, Activity Based Costing system differs from traditional system by modeling the usage of all organizational resources on the activities performed by these resources and then linking the cost of these activities to outputs such as products, services, customers and projects.

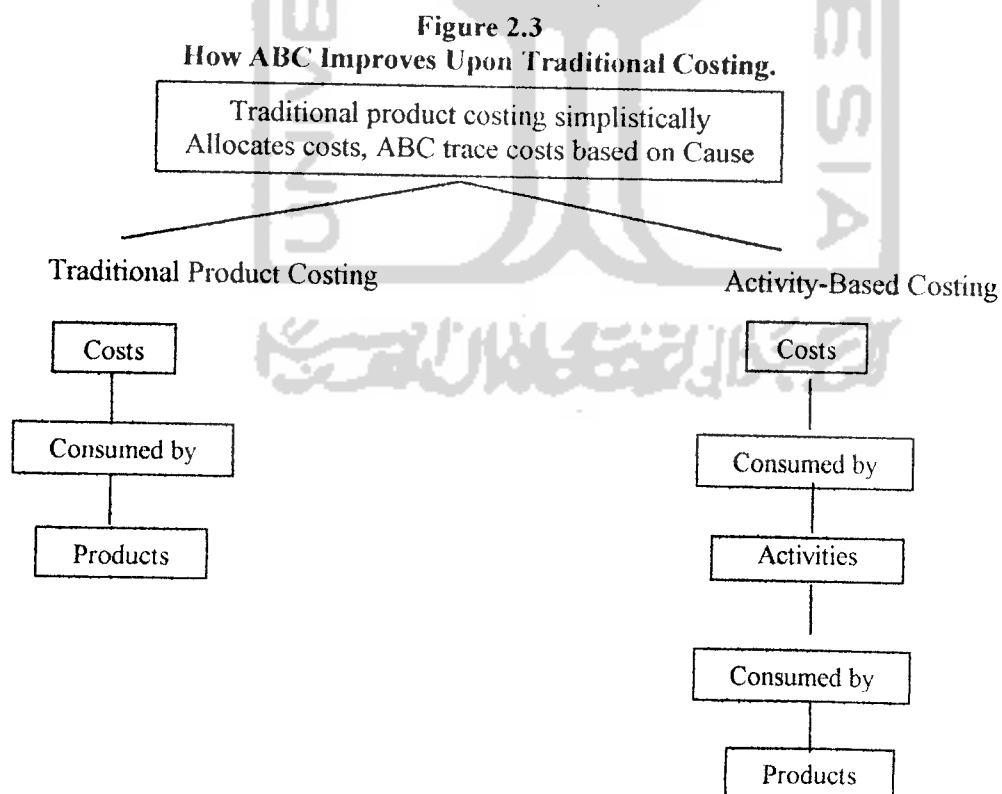
Figure 2.2
The Activity-Based Two-Stage Procedure



Thus activity based costing system differed from traditional systems in two ways:

- 1) Cost pools are defined as activities rather than as production cost centers
- 2) Cost drivers used to assign activity costs to outputs are structurally different from those used in traditional cost system.

These modifications to the two-stage procedure allow well-designed, activity-based cost systems to report more accurate costs than a traditional system because they identify clearly the cost of the different activities being performed in the organization, and they assign the costs of these activities to outputs using measures that represent the types of demand that individual outputs make on those activities.



With more accurate output costs, managers can make better decisions about their outputs and the activities that produce these outputs. Such decisions include setting prices, introducing or discontinuing products and services, and setting the level of production, distribution, and marketing support for products and customers.

Decision about activities include learning how to perform the activities more efficiently, substituting less expensive activities for expensive ones, redesigning business processes to eliminate certain activities entirely, and designing products that make fewer demands on activities.

Activities' based costing system link to management decisions represents perhaps the major difference in thinking between traditional and activity based cost systems. Traditional cost systems emphasize the allocation of past expenses to products, mainly for inventory valuation purposes.

Activities based costing systems measure directly the costs of resources used to perform organizational activities and then link the activity costs to the outputs (such as products, services, customers, and projects) that use or benefit from the activities.

2.1.2.4. Steps to Establishing an Activity Based-Costing System

Once an organization has established the need to improve the quality of its cost information system and determined that an activity-based approach is the most appropriate means of attaining the end, the company must take the necessary steps to put an effective activity based costing system into place. Due to Michael c. O'Guin (1991:82), below are the steps that can be summarized:

1. Develop a Fully "Burdened" Cost of Each department

The first step in the design is to develop the fully 'burdened' cost of each department. All of the company's costs such as salaries, wages, etc are assigned to their departments. By assigning all costs to particular departments, the design team is able to quickly organize the data into a manageable form. This approach means allows the designer to identify the company major costs.

2. Segregate Costs into Product Driven or Customer Driven

After identifying the cost, the designer comes to the next step to segregate the costs. Product-driven cost means assign the costs of designing and manufacturing costs, for example production planning, quality control, and so on. Whether the customer driven costs are those costs driven by customer, such as order entry, sales costs that created by customer

3. Split Support Departments into Major Functions

After obtaining the fully 'burdened' cost of each of the departments, the designer can begin the process of assigning support department costs to the activity centers (major function). Support department are all of the function that have their own resources indirectly consume by product. It includes tooling, maintenance, warehousing, data processing, and industrial engineering. The support department cost is then split into the major function. The major function criteria are: it must have significance cost and be driven by different activities.

4. Split Department Costs into Function Costs Pools

Every department cost with different function also has different cost pool. For example, the tooling department which has three functions: tool construction,

tool repair, and tool cleaning. Those three functions have different cost pool for each function has different activities, which are driven by different occurrences.

5. Identify activity centers (Homogeneous Processes)

The next step is identifying activity centers within the company. Activity centers are functional or economic groupings of homogeneous processes. The designer must segregate activity centers into one of two major groups, product driven and customer driven activity centers. As stated in the second step, product driven activity centers assign the costs of designing and manufacturing to product include production planning, quality control, engineering, etc. Whether the customer driven is certain costs that driven by customers, such as order entry, and delivering.

Activity centers are not support departments. Support departments perform function that cost objects indirectly consume. The support departments include Tooling, warehousing, data processing. Activity centers are processes that have their resources directly consumed by products or customers.

6. Identify First-Stage Drivers

The function's cost pools are then assigned to each of the activity centers, using first-stage drivers. First-stage cost drivers assign indirect support costs to activity centers. These support costs include utilities, maintenance, tooling, and etcetera. The first-stage cost drivers represent the resource consumption of support by the activity centers.

First-stage drivers are principally used to budget activity centers. In addition, the first stage drivers only indirectly affect product cost; their assignment scheme can be much less rigorous. Fewer rigors allow designers much more latitude in choosing these cost drivers. The activity based costing designers can use surveys or organization charts to quickly assign many support costs to activity centers.

7. *Identify Second-Stage Drivers, based on: data available, correlation with resource consumption and effect on behavior.*

The crux of an activity based costing system design is selecting second-stage cost drivers. The use of second-stage drivers is the greatest different between the traditional cost system and activity based costing. Second-stage drivers determine the system accuracy and complexity.

The total cost of each activity center is divided into cost-driver pools. Each of these cost-driver pools has its costs assigned to products using a second-stage cost driver. The second-stage cost drivers are activity measures that occur whenever resource consumption is triggered from the activity center. A cost-driver pool is distributed to products based on the number of cost-driver units it consumes. The three most important considerations when choosing cost drivers are

a. Data available

The designer should attempt to only use data that are currently collected as second-stage cost drivers. If data are currently collected, the figures tend to be more reliable, and the company avoids the additional expense of gathering new information.

b. Correlation with resource consumption

The second factor in choosing cost drivers is how well the drivers correlate with resource consumption. The number of cost-driver units accumulated by a product must be proportional to the amount of resources consumed.

c. Effect on behavior

The last consideration is refers to the influence of cost driver on behavior. Cost drivers will affect behavior as long as management considers them in evaluating performance.

8. *Identify Activity Level*

Activities have a hierarchy. Some activities are triggered by parts, some by batches, some by product lines, and still others are triggered by the existence of the business enterprise. Likewise, costs are related to these different levels of activity. Accordingly, second-stage cost drivers assign costs to different levels.

- a. Unit drivers; these drivers are assigned in proportion to the number of items processed. These drivers represent all the tasks that are performed every time a unit is produced.
- b. Batch drivers; these drivers refers to the activities triggered by groups of parts-not by individual units.

9. *Choose Number of Cost Drivers Based on:*

- a. The Intended System Use

The objectives of the activity based costing system are very important in determining the optimal number of cost drivers. If the company intends to use the activity based costing system strictly for product costing, the number of cost drivers can be quite small.

b. Company complexity

The number of cost drivers depends on the company's complexity; the complexity of its manufacturing process for the product driven side and the complexity of its distribution system for its customer driven side. The number of cost drivers principally depends on the process diversity of the company. If the factory produces only a few products, in approximately the same volume and following similar routings, few cost drives are required.

c. Resources Available

The company's resources availability is also other factors that affect the optimal number of drivers. If the company has an unsophisticated data processing system, the number of drivers may limit by the data currently being collected. An unsophisticated system may only collect a few measures, or may not be flexible enough to process the activity based costing information.

2.1.2.5. Limitation of Activity Based Costing

Although Activity Based Costing system provides better tracing of costs to individual products than traditional system, there are some limitations, which should be aware before implement the system to calculate product cost.

1. Allocation

Even if activity data are available, some costs probably require allocations to departments and products based on arbitrary volume measures because finding a specific activity that causes incurrence of the costs might not be practical.

Examples are some of the facility-sustaining costs, such as cleaning the factory and managing the production process.

2. Omission of Costs

Activity Based Costing omits from the analysis of some costs, which identified with specific products. Activities that cause such cost include marketing, advertising, research and development, product engineering, and warranty claims. The additional costs will be traced to individual products and added to the manufacturing costs, to determine the total product costs. Traditionally, marketing and administrative costs have not been included in product costs because of the generally accepted accounting principles involved in financial reporting requirements that they be included in period costs.

3. Expense and Time

An Activity Based Costing system is very expensive to develop and implement and it is very time consuming. Like most innovative management or accounting systems, ABC usually requires more than a year for successful development and implementation. (Blocher, Edward: 113)

2.1.3. Activity Based Costing In Service Company

Although activity based costing had its origins in manufacturing companies, many service organizations today are obtaining great benefits from this approach as well. In practice, the actual construction of an activity Based costing model is virtually identical for both types of companies, Atkinson, Baker, Kaplan and Young (1995:183). This should not be surprising, since even in manufacturing

companies, the activity based costing system focuses on the “service” component of the companies, not on the direct materials and direct labor costs of manufacturing operations.

Atkinson, Banker, Kaplan, Young (1995-181) also stated that service companies in general are ideal candidates for activity based-costing, even more than manufacturing companies. First, actually all their costs are indirect and appear to be fixed. Service companies have view or no direct materials and many of their personnel provide indirect, not direct, support to product and customer. Consequently, service companies do not have direct product or customer costs to serve as convenient allocation bases.

The large component of apparently fixed costs in service organizations arises because, unlike manufacturing companies, they have virtually no material costs, the prime source of short-term variable costs. Service companies must supply virtually all their resources in advance to provide the capacity to perform work for customers during each period.

According to Robin & Cooper (1991) The principles for developing an activity based cost system are identical to those followed in manufacturing companies. Those are: *Construct the activity dictionary, assign resources expenses to activities, determine activity cost drivers, calculate activity cost driver rates, and drive activity expenses down to products and customers.*

Once the activity based costing model on product and customer profitability has been obtained, service company managers can contemplate the

same set of operational and strategic activity based management actions as their counterparts in manufacturing companies. Companies in financial services (banks, insurance companies, money managers), transportation (airlines, trucking, railroads), telecommunications, wholesale and retail, and health care, and even many government agencies are now using Activity Based-Costing analysis to understand and manage the economics of their operations.

2.1.4. Several Pitfalls in Implementing Activity Based Costing

Although activity based costing has provided valuable information about the cost of their activities, processes, products, services, and customers, not all activity based costing projects have produced successful outcomes. Companies have experienced difficulties and frustrations in building and using activity based-costing and profitability models. Regarding these conditions, according to Atkinson, Banker, Kaplan and Young (1995:184-187). There are several common pitfalls that have occurred and ways to avoid them

1. Lack of Clear Business Purposes

All activity based costing projects should be launched with a specific business purpose in mind. The purpose could be to redesign or improve processes, to influence product design decisions, to rationalize the product mix, or to better manage customer relationships. By defining the business purpose in advance, the team will identify the line manager or department whose behavior and decisions are expected to change as a consequence of the information. The decision maker could be the manufacturing or operations manager (for process improvement), the

engineering manager (for product design decisions), the sales organization (for managing customer relationships), or the marketing department (for decisions about pricing and product mix).

It is also important not to oversell what the activity based costing system is capable of performing. Activity based costing is a strategic costing system; it cannot perform the role of operational control, of providing frequent feedback on process and departmental efficiencies and improvements.

The primary purpose of the model will also influence the design of the initial model. A model intended primarily for process improvement, and process redesign (i.e., operational activity based management) can have a large number of activity cost drivers, conversely, for strategic activity based management (pricing, customer relationships, product mix), the activity based costing model should be simpler, using fewer than fifty activities, in which the data readily available for all the important activity cost drivers

2. Lack of Senior Management Commitment

The most successful activity based costing projects occur when a clear business purpose exist for building the activity based costing model, and this purpose is led or at least understood and fully supported by senior line managers in the organization. A steering committee of senior managers from various functional groups and business units can institutionalize this support, meeting monthly to review project progress, make suggestions on how to enhance the model, and prepare for the decisions that will be made once the model has been completed.

Even when the activity based costing project is initiated from the finance group, a multifunctional project team should be formed. The team should include, in addition to a management accountant or other finance group representative, members from operations, marketing, sales, engineering, and system. In this way, the expertise from diverse group can be incorporated into the model design and each team member can build support for the project within the department or group.

3. Delegating the Project to Consultants

Some projects have failed when they were out sourced to an external consulting company. Consultants may have considerable experience with activity based costing, but limited familiarity with a company's operations and business problems. Even worse, some companies think they can get an activity based costing system by buying an activity based costing software package. The software provides a template to enter, process, and report information, but it cannot provide the thinking required to build a cost-effective activity based costing model. Successful activity based costing projects require top management leadership and sponsorship and a dedicated, multifunctional internal project team. These functions cannot be bypassed just because external consultants and prepackages software have also been purchased.

4. Poor Activity Based Costing Model Design

Sometimes, even with strong management support and sponsorship, the project team gets lost in the details and develops an activity based costing model that is both too complicated to build and maintain, and too complex for managers

to understand and act upon. Under the burden of poor design, the activity based costing system soon collapses under its own weight and neglect. As it has been stated that activity based costing model design should be like any design or engineering project, with continual appropriate trade-offs to enable the essential function of the system to be accomplished at minimal additional cost. If the activity based costing project team keeps and users' clearly in mind and gets good advice from its senior management steering committee, it should make good cost-effective design decisions along the way. These decisions can help avoid the problem of having an over complex system or misidentified casual relationships between cost objects (product and customers), activities, and resources.

5. Individual and Organizational Resistance to Change

Finally, it turns out that not all managers' welcome technically superior solutions. Individuals often resist new ideas and change and organizations have great inertia. The resistance to a new activity based costing model may not be overt. Managers can politely sit through an activity based costing presentation about product and customer profitability, but continue to behave just as they have in the past.

Managers may exclaim that the company has been successful in the past with its existing cost system; but why does it need a new approach? Individual and organizational resistance arises because people feel threatened by the suggestion that their work could be improved. It might not think that a cost model could generate such resistance, but in fact, the activity based costing Model could reveal unprofitable products, unprofitable customers, inefficient activities, and process, and substantial unused capacity.

Managers responsible for these problems could be embarrassed and threatened by the revelation of apparent bad management “on their watch” rather than accept the validity of the activity based costing model and attempt to rectify the problems, which likely occurred because of inadequacies in the previous cost system. They may deny the validity of the new approach and question the motives of the people attempting to lead the change. Such defensive behavior will inhibit any effective action.

Resistance is not unique to activity based costing. It can arise from the introduction of any new measurement, or management system, or, indeed, any management change initiative. But as a relatively new costing innovation, activity based cost systems are prime candidates for triggering individual’s and organizations negative responses to change initiatives. Dealing with such responses requires skills in recognizing and overcoming defensive behavior, skills that fledgling management accountants may not have been taught in their normal academic studies, or in their early job assignments.

2.2. Conceptual Framework

Every business activities will cause the costs. The costs happened will be charged to the object of business, as cost object. The allocation of cost object should be clear in order not to create the cost distortion, for that reason, allocating the costs by tracing the cost driver, become the appropriate way. The costs allocation using cost driver will be adjusted with the characteristic of the costs appearances. The process of tracing the right cost driver can be done by closely watching the business activity because of production process or scalding services

to customer. Considering that condition, the modern costing system that can provide cost information with accuracy is Activity Based Costing System.

The Activity Based Costing system implementation can be done in both manufacturing and service companies. In this case, the researcher takes the illustration of hospital as a Service company.

Hospital made the patients as the cost object, which has high diversification, for every patient different cure services. The daily care is one of the hospital products, which provide for the patient. Daily care is made up of three activities: Occupancy, feeding and nursing. Hospitals have traditionally assigned the cost of daily care by using a daily rate. There are actually different kinds of daily care, and rates are structured to reflect these differences. For example; a higher daily rate is charged for an intensive care unit than for a maternity care unit. Within units, however, the daily rates are the same for all patients. Under traditional approach, the daily rate is computed by dividing the annual cost occupancy, feeding, and nursing of a unit by the unit's capacity expressed in patient days. A single activity driver (patient day) is used to assign cost of daily care to each patient.

Below is the illustration, assuming that the demands for nursing care vary within the maternity unit, depending on the severity of a patient's case. Specifically, demand for nursing services per day increases with severity. Assuming that within the maternity unit there are three levels of increasing severity: normal patients, and patients with complications. Now suppose that a hospital has provided the following activity and cost information:

Table 2.3
Example of Activity and Its Cost information in Hospital

Activity	Annual Cost	Activity Driver	Annual Quantity
Occupancy and Feeding	\$ 1,100,000	Patient Days	11,000
Nursing Care	\$ 1,100,000	Hours of Nursing Care	55,000

(source: Hansen, Don R. & Maryanne. *Cost Management: Accounting and Control*. P-305)

The activity pool rates are \$ 100/patient day and \$ 20/nursing hour. To see how activity costing can affect patient charges, assuming that the three types of patients have the following annual demand.

Table 2.4
Example of the Patient Annual Demands and Nursing Hour

Patient Type	Patient Days Demanded	Nursing Hours Demanded
Normal	8,000	30,000
Caesarian	2,000	13,000
Complications	1,000	12,000
Total	11,000	55,000

(source: Hansen, Don R. & Maryanne. *Cost Management: Accounting and Control*. P-305)

The traditional approach for charging daily care would produce a rate of \$ 200/patient day ($\$ 2,200,000/11,000$); the total cost of care divided by patient days. Every maternity patient-regardless of type-would pay the daily rate of \$ 200. Using the pool rates for each activity, however, produces a different daily rate for each patient-a rate that reflects the different demands for nursing services:

Table 2.5
Example of Daily Rate Calculation

Patient	Daily Rate*
Normal	\$ 175
Caesarian	\$ 230
Complications	\$ 340

(source: Hansen, Don R. & Maryanne. *Cost Management: Accounting and Control*. P-306)

$$\begin{aligned} & * [(\$ 100 \times 8,000) + (\$ 20 \times 30,000)] / 8,000 \\ & [(\$ 100 \times 2,000) + (\$ 20 \times 13,000)] / 2,000 \\ & [(\$ 100 \times 1,000) + (\$ 20 \times 12,000)] / 1,000 \end{aligned}$$

This example illustrates that Activity Based Costing can provide significant product costing improvements in the hospital as a service organizations that experience product diversity. Although Activity Based Costing has not yet had the reception in service organizations compared to manufacturing organizations it has been adopted by some. (Hansen, Don R. & Maryanne. *Cost Management: Accounting and Control*. P-306)

CHAPTER III

RESEARCH METHOD

3.1 Research Method

This research is conducted using the descriptive comparative method. Emory (1980: 88) stated that the research with descriptive comparative method is a research which concerned about finding out who, what where, when, or how much. Umar (1992:29) divides a descriptive method into several studies, such as: case study, survey and development research, follow up study, content analysis, trend analysis, and correlation analysis. The description method is a research method that presents an overview of a certain condition and situation. A case study is a kind of descriptive method that systematically explains about an object in a specific time and condition.

This research will use both qualitative and quantitative approach data in analyzing the problem. The data are collected through observation, including in depth interview and literature review.

3.2 Research Subject

The research subject is Indramayu General Regional Hospital, a general regional hospital that generally gives health services for all people, especially for the society in Indramayu region. The subject is focused on the service company, for the writer intention to know more about the room rent pricing system implemented by the company, and evaluates the system by comparing with pricing based on the cost calculation result using Activity Based Costing system.

3.3 Research Setting

The research will take place at Rumah Sakit Umum Daerah Indramayu, located on Jl Murah Nara 4, Indramayu, West Java.

3.4 Research Instrument

The writer uses four techniques of data collection:

1. Observation

The researcher applied direct observation to collect the data, in which the researcher inspects directly to the research subject, including record analysis, and physical condition analysis. The researcher should not give subjective responses during the observation, for it will affect the nature of the subject activities.

2. Interview

In carrying out the interview, the researcher has done the interview to the secretary management, staff and other people related to the company that the writer observed. The writer did the interview by giving questionnaires, oral or written. The competent data that the writer wants to gather is a company qualitative data, such as the background, company development, company product, the mechanism of pricing product, and other data related to the observation.

3. Documentation

Documentation is one way to sum up the data from such report, or company written sources. The data that the writer collects is the company data that related with the company activities in the current period.

4. Literature Review

For the additional reference to enrich the knowledge, the writer also used the data taken from the literary review.

3.5 Research Variables

There are two research variables; the dependent variable is pricing decision method, which is implemented by the company, whether the independent variable is the activity based costing system used as the comparison in evaluating the pricing product decision.

3.6 Technique of Data Analysis

1. Describing the steps of room rent pricing decision implemented by Rumah Sakit Umum Daerah Indramayu.
 - a. Showing the explanation of pricing process of Indramayu General regional Hospital.
 - b. Showing the costs component of room rent service of Indramayu General Regional Hospital.
 - c. Showing the classification of customers, and its price variation

CHAPTER IV

RESEARCH FINDINGS, ANALYSIS, AND IMPLICATIONS

4.1 Research Description and Findings

4.1.1. Company Profile

Indramayu hospital has been established since the Second World War. Previously, the name of the hospital was “Rumah Pengobatan”, which was located in Karang Turi district, and led by a Dutch. As a small house of medical, “Rumah Pengobatan” only had ten beds and assisted by few nurses called “Leer Ling”. In 1950 “Rumah Pengobatan” was moved to Sindang district, and has changed its name to Indramayu General Regional Hospital. In 1964 Indonesian people started to lead it. Next, in 1980, Indramayu General Regional Hospital was totally rebuilt and enlarged, so that it had nineteen beds. In 1983 Indramayu General Regional Hospital was formally used.

According to SK Menkes No. 303/Menkes/SK/IV/1987, commended in 1996 until now, Indramayu General Regional Hospital is categorized as C type, which had 27.071,25 m² land areas, with 7.719, 59m² building areas.

Along with the effectiveness of regional autonomy, in 2003 Indramayu General Regional Hospital had improved its performance to be better to serve the need of society health by developing more building, to add the hospital infrastructure, and human resources.

As Indramayu general hospital owned by Indramayu regional government, which is based on PERDA No: 27, year 2001, Indramayu General Regional Hospital applied planning and strategies, in which described the vision, mission, motto, and program that functioned as a working measurement in giving services to the society.

4.1.1.1. Rule and Regulation

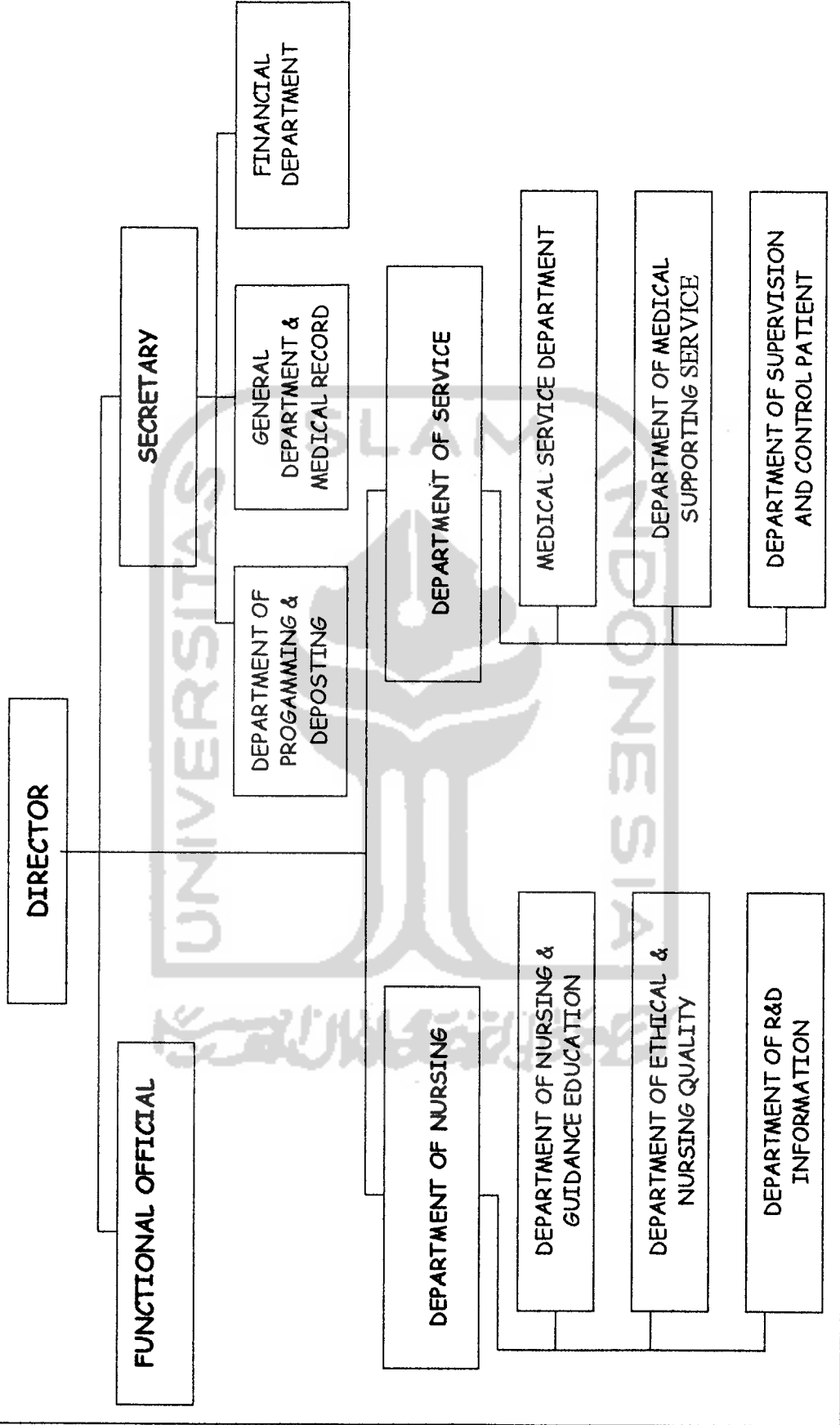
Indramayu General Regional Hospital is a regional institution that implements health service to the society, and functioned as one of regional government supporting elements in the health sector.

The existence of Indramayu General Regional Hospital is regulated in the section nine, Indramayu Regional Regulation Number 37 Year 2001 about Indramayu General Regional Hospital, so in giving the health service to the society, Indramayu General Regional Hospital should be based on the regulation and the regent decree about organization and working manners. As a local institution, Indramayu General Regional Hospital is led by the board of directors who are responsible to the regent. In implementing working activities, the internal control structures give direct responsibility to the board of directors.

4.1.1.2. Organizational Structure and Job Description

4.1.1.2.1 Organizational Structure

ORGANIZATION STRUCTURE OF RSUD KABUPATEN INDRAMAYU



4.1.1.2.2. Job Description

1. Director

Indramayu General Regional Hospital is led by a director who is responsible for controlling and applying the coordination, integration, synchronization, and simplification principal vertically or horizontally.

2. Secretary

In implementing the jobs, the secretary is helped by three subordinates and should be responsible for coordinating three subordinates; those are, program arrangement and report, medical report and general, and finance department. The job descriptions of a secretary are:

- a. Prepare the material of operational policy
- b. Prepare and arrange the working program planning
- c. Organize the correspondence, inventory, documentation, and employee administration
- d. Financial executor
- e. Medical record executor
- f. Coordinate marketing and social activity, information, and publication.

3. Nursery Department

The nursery department is helped by three subordinates departments, those are nursery guidance and education department, ethical education and nursing quality department, and research development and information department. The head of nursery department should be responsible for coordinating the three subordinates department. The job descriptions of the nursery department are:

- a. Arrange the nursing working planning.
- b. Prepare the coordination material for deciding the general policy and operational.
- c. Coordinate the arrangement of the labor (nurse) placement and nursing infrastructure.
- d. Coordinate and arrange the nursing standard.
- e. Executor of nursing education, guidance and services.
- f. Coordinate research and development and health information.

4. Service Department

In implementing the jobs, service department is also helped by three subordinates. It is also responsible for coordinating three subordinates department; those are, medical service department, medical supporting service, and supervision and patient control department. The job descriptions of the service department are:

- a. Arrange the working program
- b. Arrange the direction of medical facility use
- c. Coordinate the need of medical facility service
- d. Coordinate medical service development
- e. Maintain and control medical facility installation, such as, radiology pharmacist, pathology, nutrition, laboratory, and interment treatment

5. Functional Official

Functional official is responsible to the board director. It is divided into subordinates such as medic committee, medic functional, and paramedic group. All of the functional officials support the hospital activities in giving service to the society related with their competence.

4.1.1.3. Vision, Mission, Motto

1. Vision

As one of regional institution that serves the need of health, Indramayu General Regional Hospital has a vision. The vision is 'Indramayu General Regional Hospital will become the outstanding health institution of all Indramayu society'.

2. Mission

As one of regional institution that serves the need of health, Indramayu General regional Hospital has four missions, those are:

- a. As a general extension hospital.
- b. As a general hospital "Trauma Center" in the North-coast.
- c. Giving a quick, reachable, satisfying and qualified medical services for the whole society.
- d. Increasing the quality of Indramayu General Regional Hospital human resources

3. Motto

As a regional institution that serves the need of health, Indramayu General Regional Hospital has a motto that may support the health service activity, and may create a good image to the society. The motto is that Indramayu General Regional Hospital is a clean, healthy, well organized, and comfortable medical services institution.

4.1.1.4. Medical and Non-Medical Means and Infrastructure

Indramayu General regional Hospital has many infrastructures that support the society health service activity. In this case, the means and infrastructures are generalized as building, transportation, medical equipment, and office equipment. The details of hospital means and infrastructure are presented in the appendices.

4.1.1.5. Indramayu General Regional Hospital Employees

The amount of employees until the end of December 2001 in Indramayu General Regional Hospital who are directly or indirectly giving health service to the society is 302. It consists of Medic Staff, Nursing/Paramedic Staff, and Paramedic Non Nursing Staff. The detail information present in the appendices.

4.2 Analysis

4.2.1. Pricing Implemented By Indramayu General Regional Hospital

1. Pricing Rule and Regulation

In deciding the price of room rent, Indramayu General Regional Hospital is refer to some regulation, such as Health minister declaration Number: 582/Men.Kes/ SK/VI/1997 about government hospital tariff pattern, Indramayu Regional Regulation Number 3 Year 1999 about health service retribution, and Indramayu Regent Declaration Letter Number 85 Year 2000 about the effective of Indramayu Regional Rule Number 3 Year 1999 about health service retribution.

The statements of Regional Rule Number 3 Year 1999 about health service retribution are:

- a. Hospital tariff which consists of two costs component:
 - 1) Infrastructure service
 - 2) Treatment Service
- b. Infrastructure service is a payment received by the hospital for providing hospital facility, material, medicine, chemical substance, health equipment, which is directly use for the observation, diagnose, treatment, and medical rehabilitation.
- c. Treatment service is payments received by all hospital employee who give service to the patients for the observation, diagnose, treatment, consultation, visit, medical rehabilitation, and other service.
- d. The Payment for IIIA room type is including treatment service, whether for IIIB room type is free from treatment service payment.
- e. The amount of tariff for the patient that guaranteed by the third party is determined by the hospital director, based on the writing agreement with the guarantor.

2. Hospital Management Pricing Process

In determining the room rent tariff, hospital management applies traditional method, in which using the unit cost, where the total cost that directly charged to the room rent price divided by the output of service volume, Henceforth, the hospital management determines the room rent pricing by considering some condition below:

- a. *Competitor tariff* is the main consideration in setting the room rent tariff, for that reason, they use tariff comparison with the other standard hospital. In doing comparison, Indramayu General Regional Hospital compares the room rent price with some hospital in Cirebon region as the close region from Indramayu, and Bumi Patra Pertamina Hospital, as the only private hospital owned by Pertamina that located in Indramayu.
- b. *Market Segmentation*. The other consideration done by the management is estimating society ability to obtain health service. Almost all of Indramayu General regional Hospital customers are lower-class society. This condition influences the management in setting the health service price.
- c. *Subsidy*. Based on market reality, the management tries to help the society by funding the health service through the subsidy. The example is when the management determines the price for the VIP room type. The management charges the cost for VIP room type higher than the other. This subsidy could create the appearance that one of the products which are profitable can also subsidize the other product.
- d. *Room Facility*, is also an important consideration. The room, which has better facilities, will be more expensive than the less expensive one. Classification based on this criterion will determine the degree of the class.

3. Cost Component

For determining the room rent tariff, the hospital management only charge the food cost and room rent.

Table 4.1
Tariff Component

Component	VIP	I	II	III
Food Cost	12,500	8,500	6,000	3,000
Room Rent Cost	27,500	16,500	9,000	3,000

Source: Financial Department

Based on the consideration above, the management charged the list of the hospital room tariff as:

Table 4.2
Indramayu General Hospital Room Tariff Year 2002

Room Type	Tariff
VIP	40,000.00
1st CLASS	25,000.00
2nd CLASS	15,000.00
3rd CLASS	6,000.00

Source: Financial Department

4.2.2. Implemented ABC System

Every organization has many kinds of activities, likewise a service company with many activities that support the service product. The activities will cause a cost, that latter will influence the product pricing decision making.

Activity based costing system is a costing system based on activities that links organizational spending on resources to the products and services produced that latter delivered to customers. Identifying the activities that causing the cost starts the steps of using activity based costing system for determining the price. In

In a service company, the principles for developing activity based costing system are identical to those followed in Manufacture Company.

It is common for the hospital management to use the unit service given during the amount of hospitalized day as a basic for determining the room rent price. Its cost systems do not accurately cost the product and usually misdirect the pricing. That kind of system only gives management reports showing where costs are spent, and no indication of what is creating the costs. However, Activity Based Costing system, by identifying the activities that create cost and the triggers that create activities, allows a company to take control of its cost. Generally, the steps of using Activity Based Costing system for supporting the pricing decision-making are:

- a. Identify the activities and its cost driver
- b. Determine the activity classification and its consumption
- c. Determine the consumption ratio for each activity.
- d. Calculate the cost driver tariff for each activity.
- e. Calculate the unit cost

4.2.2.1. Steps in Activity Based Costing System Design

1. Identify the Activities and Its Cost Driver

The first step is identifying the activities happened in a patient room. Thus, refer to some activities performed inside the room rent service. Some expenses can be formed into one kind of activity, if they have same cost driver. Based on the interview with the nursing department, the activities happened in the room are:

a. Medical Report

Medical report refers to the patient medical data recording. Medical report cost driven by the number of patient. Every patient have the same service of medical report, the different of the report is depend on the patient treatment, whether they hospitalized, or not, or when they received other kind of health services. Medical report activity is including into batch level activity.

The costs which are included into medical report are shown below:

Table 4.3
Monthly Average Medical Report Cost

Cost	Amount in (Rp)
Printed material	6,061,666.67
Post material	300,000.00
Miscellaneous	166,666.67
Total	6,528,333.34

Source: Financial department

b. Patient food consumption

Patient food consumption cost refers to the food providing for hospitalized patient. Patient food consumption activity is included into unit level activity. The cost driven by the patient total hospitalized day in every room type.

Table 4.4
Monthly Average Patient Food Consumption Cost

Room Type	Monthly Average Total Hospitalized Day	Food Cost (Rp)	Amount (Rp)
VIP	131.33	12,500.00	1,641,625.00
1 st CLASS	228.92	8,500.00	1,945,820.00

2 nd CLASS	338.40	6,000.00	2,030,400.00
3 rd CLASS	426.99	3,000.00	1,280,970.00
Total Amount			6,898,815.00

Source: Medical Supporting Service Department

c. Supplies

The cost of supplies refers to hospital cleaning supplies, such as fragrant spray, floor cleaner, soap, camphor. The cost driver for this activity is the patient hospitalized day. The providing supplies activity is included into unit level activity.

d. Electricity and Water Costs

1) Electricity consumption

The electricity cost in Indramayu General regional Hospital driven by the use of electricity in KWH for each room type during hospitalized day. The electricity consumption activity is including into unit level activity.

2) Water consumption

The water cost driven by the use of water, which based on m³ report during hospitalized day. The water consumption activity is including into unit level activity

e. Hospital security

The security activity, performed in the hospital is carried out by the security officer to all of the hospital buildings, and driven by the length of building. The security activity is including into facility level activity.

f. Maintenance

The maintenance cost refers to the facility maintenance and cleaning service activity, which driven by the length of building. The maintenance activity is including into facility level activity

g. Equipment Depreciation

The equipment depreciation is referred to the depreciation expense of the equipments, for example beds, chairs, tables, and so on. The equipment depreciation is included into facility level activity. The hospital management does not have any specific and clear calculation regarding the equipment depreciation so the researcher assumes the amount of equipment depreciation through the calculation below.

Table 4.5
Room Equipment Depreciation

Room type	Monthly equipment depreciation
VIP	163,020.83
1 st CLASS	123,750.00
2 nd CLASS	135,770.83
3 rd CLASS	188,500.00
Total	611,041.00

Table 4.6
Equipment Depreciation Year 2002

Room type	Equipment	Value	Equipment depreciation	Depreciation in (Rp)
VIP	10 Fan	@150,000.00	12,5%	187,500.00
	20 Wooden chairs	@ 45,000.00	20%	180,000.00
	10 Wooden table	@ 50,000.00	20%	100,000.00
	10 Iron desk	@275,000.00	12.5%	343,750.00
	10 Iron bed	@500,000.00	12.5%	625,000.00
	10 Mattress	@225,000.00	20%	450,000.00
	10 Food equipment sets	@ 35,000.00	20%	70,000.00
Total				1,956,250.00
VIP Monthly equipment depreciation				163,020.83
1st Class	18 Fan	@100,000.00	12,5%	225,000.00
	36 Iron chairs	@ 14,000.00	12,5%	63,000.00
	18 Iron desk	@200,000.00	12.5%	450,000.00
	18 Iron bed	@180,000.00	12.5%	405,000.00
	18 Mattress	@ 70,000.00	20%	252,000.00
	18 Food equipment sets	@ 25,000.00	20%	90,000.00
Total				1,485,000.00
1 st CLASS Monthly equipment depreciation				123,750.00
2nd Class	6 Ceiling fan	@110,000.00	12,5%	82,500.00
	23 Iron chairs	@ 14,000.00	12,5%	40,250.00
	23 Iron desk	@200,000.00	12.5%	575,000.00
	23 Iron bed	@180,000.00	12.5%	517,500.00
	23 Mattress	@ 70,000.00	20%	322,000.00
	23 Food equipment sets	@ 20,000.00	20%	92,000.00
Total				1,629,250.00
2 nd CLASS Monthly equipment depreciation monthly				135,770.83

3rd Class	8 Ceiling fan	@110,000.00	12,5%	110,000.00
	32 Iron chairs	@ 14,000.00	12,5%	56,000.00
	32 Iron desk	@200,000.00	12.5%	800,000.00
	32 Iron bed	@180,000.00	12.5%	720,000.00
	32 Mattress	@ 70,000.00	20%	448,000.00
	32 Food equipment sets	@ 20,000.00	20%	128,000.00
Total				2,262,000.00
3rd CLASS				188,500.00
Monthly equipment depreciation				

h. Building Depreciation

The cost driver for building depreciation expense is referring to the use of hospital building. It is driven by the square meter of the building. The building depreciation is included into facility level activity. The hospital management does not have any specific calculation regarding the building depreciation, so the researcher assumes the amount of building depreciation through the calculation below.

Table 4.7
Building Depreciation

Year	Beginning Value	Percentage depreciation	Value	Book value ending year
1983	100,000,000.00	9/12 x 5%	3,750,000.00	96,250,000.00
1986	100,000,000.00	5%	5,000,000.00	95,000,000.00
1987	100,000,000.00	5%	5,000,000.00	90,000,000.00
1988	100,000,000.00	5%	5,000,000.00	85,000,000.00
1989	100,000,000.00	5%	5,000,000.00	80,000,000.00
1990	100,000,000.00	5%	5,000,000.00	75,000,000.00
1991	100,000,000.00	5%	5,000,000.00	70,000,000.00
1992	100,000,000.00	5%	5,000,000.00	65,000,000.00
1993	100,000,000.00	5%	5,000,000.00	60,000,000.00
1994	100,000,000.00	5%	5,000,000.00	55,000,000.00
1995	100,000,000.00	5%	5,000,000.00	50,000,000.00
1996	100,000,000.00	5%	5,000,000.00	45,000,000.00

1997	100,000,000.00	5%	5,000,000.00	40,000,000.00
1998	100,000,000.00	5%	5,000,000.00	35,000,000.00
1999	100,000,000.00	5%	5,000,000.00	30,000,000.00
2000	100,000,000.00	5%	5,000,000.00	25,000,000.00
2001	100,000,000.00	5%	5,000,000.00	20,000,000.00
2002	100,000,000.00	5%	5,000,000.00	15,000,000.00

Table 4.8
Monthly Average Activity Costs Driver

Activity Center	Activity Expense	Amount	Cost Driver
Medical record	Medical record expense	6,528,333.34	Number of patient
Patient food	Food consumption	6,898,815.00	Total hospitalized day
Supplies	Supplies expense	3,272,577.00	Total hospitalized day
Subscriber	Electricity Expense	2,030,900.00	1900 KWH
	Water expense	1,239,883.00	550 m ³
Hospital security	Securing	766,666.67	2703.4 m ² (square meter)
Maintenance	Facility maintenance	2,041,666.00	2703.4 m ² (square meter)
Equipment Depreciation	Depreciation expense	611,041.00	Number of room type equipments
Building Depreciation	Depreciation expense	145,916.65	2703.4 m ² (square meter)

2. Determine the Activity Classification and Its Consumption

In this step, the activities in the patient room are classified into one of four general categories of activity: Unit level-activities; Batch level-activities; and Facility level-activities.

The activity cost based on the activities classification in hospitalized installation of RSUD Indramayu is classified as follows:

- a. Unit level-activities; it includes all activities done in a unit service. Activities based on unit level in the hospitalized installation are patient food consumption, the use of supplies, electricity, and water.
- b. Batch level-activities; it refers to the amount of batch product given. Activity based on batch level in the hospitalized installation is medical report activity.
- c. Facility level-activities; it refers to the activity that supports the product. Facility level activities in hospitalized installation are Maintenance, equipment depreciation, hospital security, and building depreciation.
- After categorizing the costs based on the activity, the chart below shows the activities costs and its cost driver.

Table 4.9
Activity Level and Consumption

Level	Activity Centre	Consumption		Amount (Rp)
		Type	Amount	
Unit	Patient Food			
	VIP	Food serve	3x/day	1,641,625.00
	1 st CLASS	Food serve	3x/day	1,945,820.00
	2 nd CLASS	Food serve	3x/day	2,030,400.00
	3 rd CLASS	Food serve	3x/day	1,280,970.00
	Electricity	Use	Monthly	2,030,900.00
	Water	Use	Monthly	1,239,883.00
	Supplies	Use	2x/day	3,272,577.00
Batch	Medical record	Record	1x/act	6,528,333.34
Facility	Maintenance	Maintaining	1x/day	2,041,666.00
	Hospital security	Securing	1x/day	766,666.67

	Equipment depreciation			
	VIP	Depreciation	Monthly	163,020.83
	1 st CLASS	Depreciation	Monthly	123,750.00
	2 nd CLASS	Depreciation	Monthly	135,770.83
	3 rd CLASS	Depreciation	Monthly	188,500.00
	Building depreciation	Depreciation	Monthly	145,916.64

3. Determine the Consumption Ratio for Each Activity

The next step, after identifying all of the activity level and its cost driver, the consumption ratio is identified for each of the activities. It is represented as follows:

Table 4.10
Activities Consumption Ratio

Level	Activity	Cost Driver Capacity
Unit	Patient Food	
	VIP	131.33 Total Hospitalized day
	1 st CLASS	228.92 Total Hospitalized day
	2 nd CLASS	338.40 Total Hospitalized day
	3 rd CLASS	426.99 Total Hospitalized day
	Electricity	
	VIP	205 KWH
	1 st CLASS	132 KWH
	2 nd CLASS	143 KWH
	3 rd CLASS	138 KWH
	Water	
	VIP	113.6 m ³

	1 st CLASS	68.4 m ³
	2 nd CLASS	54.5 m ³
	3 rd CLASS	51.8 m ³
	Supplies	1125.64 Total Hospitalized day
Batch	Medical record	
	VIP	21 Number of patient
	1 st CLASS	47 Number of patient
	2 nd CLASS	69 Number of patient
	3 rd CLASS	80 Number of patient
Facility	Maintenance	2,703.4 m ²
	Hospital security	2,703.4 m ²
	Equipment depreciation	
	VIP	(80) Number of Room Type Equipments
	1 st CLASS	(126) Number of Room Type Equipments
	2 nd CLASS	(121) Number of Room Type Equipments
	3 rd CLASS	(168) Number of Room Type Equipments
	Building depreciation	2,703.4 m ²

4. Calculating the Cost Driver Tariff

After determining the consumption ratio, the next step is determining the cost driver. The cost driver tariff is calculated by dividing the total cost with the consumption ratio for each activity.

Table 4.11
Cost Driver Tariff

ACTIVITY	TOTAL COSTS	COST DRIVER CAPACITY	COST DRIVER (Rp)
VIP Food serve	1,641,625.00	131.33 Total Hospitalized day	12,500.00
1 st CLASS Food serve	1,945,820.00	228.92 Total Hospitalized day	8,500.00
2 nd CLASS Food serve	2,030,400.00	338.40 Total Hospitalized day	6,000.00
3 rd CLASS Food serve	1,280,970.00	426.99 Total Hospitalized day	3,000.00
Electricity supply	2,030,900.00	2100 KWH	967
Water supply	1,239,883.00	550 m ³	2254
Supplies	3,272,577.00	1125.64	2,907.30
Medical record	6,528,333.34	2880 Number of patient	2,266.78
Hospital security	766,666.67	2,703.4 m ²	283.59
Maintenance	2,041,666.00	2,703.4 m ²	755.22
Equipment depreciation	163,020.83	(80) Number of Room Type Equipments	2037.76
1 st CLASS Equipment depreciation	123,750.00	(126) Number of Room Type Equipments	982.14
2 nd CLASS Equipment depreciation	135,770.83	(121) Number of Room Type Equipments	1,122.07
3 rd CLASS Equipment depreciation	188,500.00	(168) Number of Room Type Equipments	1,122.02
Building depreciation	145,916.65	2,703.4 m ²	53.97

5. Unit Cost Calculation

The last step is determining the unit cost for each room type by multiplying cost driver tariff with cost driver consumed by each class, and divides the total with the relevant cost driver.

Table 4.12
Unit Cost

ACTIVITY	COST DRIVER TARIFF (Rp)	VIP COST DRIVER	TOTAL (Rp)
VIP Food serve	12,500	131.33 Total Hospitalized day	1,641,625.00
VIP Electricity supply	967	205 KWH	198,235.00
VIP Water supply	2254	113.6 m ³	256,054.4
Supplies	2,907.30	131.33 Total Hospitalized day	381,815.71
Medical record	2,266.78	21 Number of Patient	47,602.38
Hospital security	283.59	710 m ²	201,348.9
Maintenance	755.22	710 m ²	536,206.2
VIP Equipment depreciation	2037.76	(80) Number of Room Type Equipments	163,020.83
Building depreciation	53.97	710 m ²	38,318.7
Total			3,464,227.12
Patient Total Hospitalized Day			131.33 Total Hospitalized day
Cost per Day			26,378.03

ACTIVITY	COST DRIVER TARIFF (Rp)	1 st CLASS COST DRIVER	TOTAL (Rp)
1 st CLASS Food serve	8,500.00	228,92 Total Hospitalized day	1,945,820.00

1 st CLASS Water supply	2254	68.4 m ³	154,173.60
Supplies	2,907.30	228,92 Total Hospitalized day	665,539.15
Medical record	2,266.78	47 Number of Patient	106,538.66
Hospital security	283.59	671.4 m ²	190,402.32
Maintenance	755.22	671.4 m ²	507,054.71
1 st CLASS Equipment depreciation	982.14	(126) Number of Room Type Equipments	123,749.64
Building depreciation	53.97	671.4 m ²	36,235.46
Total			3,857,157.54
Patient Total Hospitalized Day			228,92 Total Hospitalized day
Cost per Day			16,849.37

ACTIVITY	COST DRIVER TARIFF (Rp)	2 nd CLASS COST DRIVER	TOTAL (Rp)
2 nd CLASS Food serve	6,000.00	338.40 Total Hospitalized day	2,030,400.00
2 nd CLASS Electricity supply	967	143 KWH	138,281.00
2 nd CLASS Water supply	2254	54.5 m ³	122,843.00
Supplies	2,907.30	338.40 Total Hospitalized day	983,830.32
Medical record	2,266.78	69 Number of Patient	156,407.82
Hospital security	283.59	661 m ²	187,452.99
Maintenance	755.22	661 m ²	499,200.42
2nd CLASS Equipment depreciation	1,122.07	(121) Number of Room Type Equipments	135,770.47

Building depreciation	53.97	661 m ²	35,674.17
Total			4,289,860.19
Patient Total Hospitalized Day			338.40 Total Hospitalized day
Cost per Day			12,676.89

ACTIVITY	COST DRIVER TARIFF (Rp)	3 rd CLASS COST DRIVER	TOTAL (Rp)
3 rd CLASS Food serve	3,000.00	426.99 Total Hospitalized day	1,280,970.00
3 rd CLASS Electricity supply	967	138 KWH	133,446.00
3 rd CLASS Water supply	2254	51.8 m ³	116,757.20
Supplies	2,907.30	426.99 Total Hospitalized day	1,241,388.00
Medical record	2,266.78	80 Number of Patient	181,342.40
Hospital security	283.59	661 m ²	187,452.99
Maintenance	755.22	661 m ²	499,200.42
3 rd CLASS Equipment depreciation	1,122.07	(168) Number of Room Type Equipments	188,507.76
Building depreciation	53.97	661 m ²	35,674.17
Total			3,864,738.94
Patient Total Hospitalized Day			426.99 Total Hospitalized day
Cost per Day			9,051.12

4.2.3. The Comparison between Hospital Method with the Activity Based Costing System

After calculating the room rent cost for daily patient treatment using Activity Based Costing system, the calculation result using Activity Based Costing is compared using the appropriate tariff with (ROI) Return on Investment. As there is no clear explanation towards the expected (ROI) from the hospital management, the researcher uses 12% of Indonesia Bank interest rate as the standard assumption. To determine the appropriate tariff, the formula is

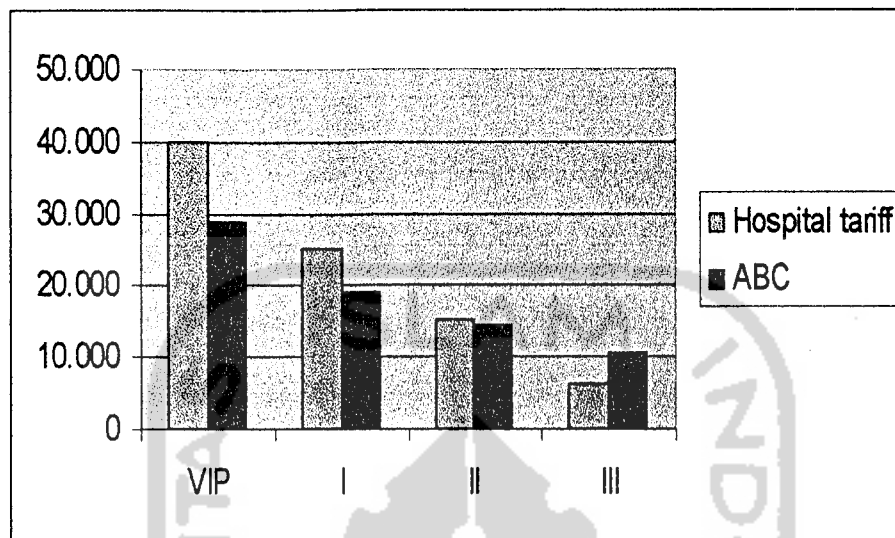
$$(\text{Cost with ABC} \times 12\% (\text{ROI})) + \text{Cost with ABC}$$

The table below will show the result.

Table 4.13
Comparison Result between Two Method

ROOM TYPE	HOSPITAL TARIFF (Rp)	COST WITH ABC	APPROPRIATE TARIFF WITH ROI (12%)
VIP	40,000	26,378.03	29,543.40
I	25,000	16,849.37	18,871.30
II	15,000	12,676.89	14,198.12
III	6,000	9,051.12	10,137.25

Figure 4.1
Graphic Comparison



From the appropriate tariff with (ROI) of 12%, the results are described below.

1. VIP room with room cost Rp 26,378.03 can be sold with minimum tariff Rp 29,543.40. In year 2002, the management charged Rp 40,000.00 for VIP room, so that the management gets Rp 13,621.97 or 51.64% of profit from each day patient treatment in VIP room type.
2. 1st classroom with room cost Rp 16,849.37 can be sold with minimum tariff Rp 18,871.30. In year 2002, the management charged Rp 25,000.00 for 1st room type, so that the management gets Rp 8,150.63 or 48.37% of profit from each day patient treatment in 1st classroom type.
3. 2nd classroom with room cost Rp 12,676.89 can be sold with minimum tariff Rp 14,198.12. In year 2002, the management charged Rp 15,000.00 for 2nd

3. 2nd classroom with room cost Rp 12,676.89 can be sold with minimum tariff Rp 14,198.12. In year 2002, the management charged Rp 15,000.00 for 2nd room type, so that the management gets Rp 2,323.11 or 18.32 % of profit from each day patient treatment in 2nd classroom type.
4. 3rd classroom with room cost Rp 9,051.12 can be sold with minimum tariff Rp 10,137.25. In year 2002, the management charged Rp 6,000.00 for 3rd room type, so that the management loss for Rp 3,051.12 or 33.70% need to be subsidized.

4.2.4. The Evaluation of Activity Based Costing System Approach in Determining Tariff and Hospital Management Tariff

The hospital tariff is still appropriate to use. It can be showed from the result in table 4.12, that the tariff for VIP, 1st and 2nd classroom type are still over the cost of good sold (COGS). Hence, for the 3rd class room type, the hospital tariff is under the cost of good sold (COGS). From the calculation result, the management loss for Rp 3,051.12 for the 3rd classroom type. It means that the 3rd room type should be subsidized for 33.70%. In this case, this condition is proper, considering the 3rd class room type is still receiving the cross subsidize from other room type.

CHAPTER V

CONCLUSIONS AND RECOMMENDATIONS

Since the researcher wants to evaluate the room rent pricing decision implemented by Indramayu General Regional Hospital by using Activity Based Costing system as a comparison, the result of evaluation should reflect whether or not the system of pricing implemented by Indramayu General Regional Hospital still appropriate to be applied. In this chapter, the researcher would like to present two main points, which consist of the conclusion research, and the recommendation. Below is the discussion of each point.

5.1 Conclusion

The conclusion of this research is drawn based on the field research, data calculation, and discussion of data analysis. Based on those results, the researcher comes to the following conclusions:

1. Based on the calculation result using Activity Based Costing system, the room rent pricing decision which is determined by the hospital management is still proper to be applied since it is higher than the cost of good sold, as well as for the 3rd room type, as it still receive the subsidize.
2. The costing system in determining the room rent price which is implemented by Indramayu General Regional Hospital is traditional costing system. The system is still conventional. Moreover, in determining the room rent tariff, the management only uses the estimation method of pursuant to room facilities, and comparison

towards the tariff of the competitor's room. The system does not give clear description of the use of cost, especially the separation of the cost elements.

3. The use of traditional costing system by the hospital management uniting the cost element for the room rent cost, excluding the food cost. This condition will cause the cost distortion, for there is not any clear separation of the cost elements.

The cost distortion provide inaccurate calculation, not only for determine the tariff of room, but also the other hospital service. Hence, it can inflict a financial loss.

4. The differences of room rent tariff based on the traditional costing system use by hospital management with the activity based costing using 12% expected (ROI) are:

Table 5.1
Tariff Comparison

ROOM TYPE	HOSPITAL TARIFF (Rp)	APPROPRIATE TARIFF WITH ROI (12%)
VIP	40,000	29,543.40
I	25,000	18,871.30
II	15,000	14,198.12
III	6,000	10,137.25

5. Using Activity Based Costing method to determine the room rent tariff will give more facilities to the management, because all expenses will be easier to trace. From the calculation with Activity Based Costing results, it is found that the appropriate tariff (with 12% ROI) of VIP, 1st and 3rd Class Room are under the hospital tariff. In this case, it is proper, since the hospital management has to set the tariff of the room, which is higher than the cost with (ROI). Besides, the 3rd class room appropriate tariff with 12% (ROI) is over than the hospital tariff. In this case, the 3rd class room type has to be subsidizing for 33.70%, or Rp 3,051.12.

5.2 Recommendations

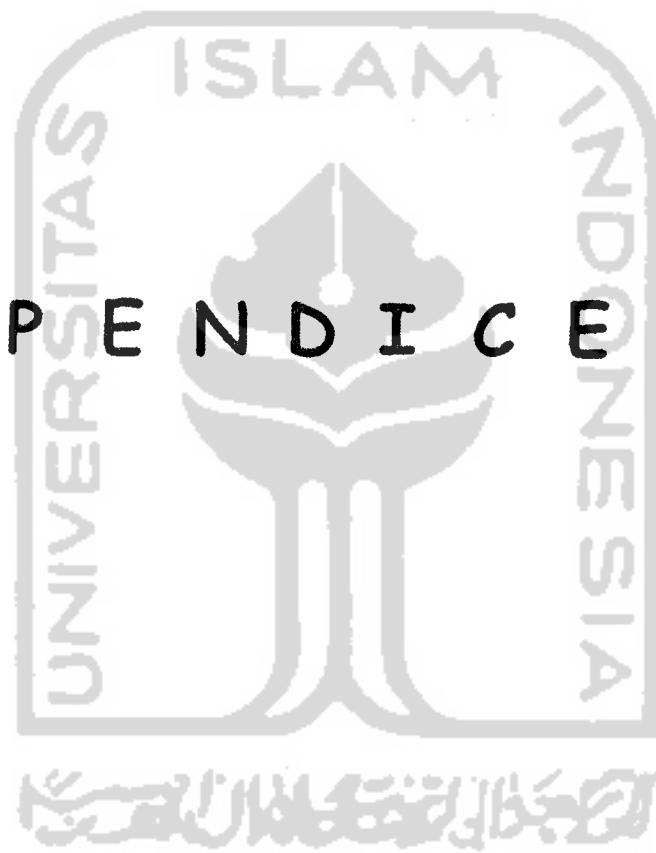
At the end of this part, some recommendation, which will be the great beneficial to the hospital management, especially in determining the room rent tariff will be represented bellow:

1. The management of Indramayu General Regional Hospital can try to apply Activity Based Costing system in their accounting system. The benefit of Activity based costing system is that it can give clear information regarding the use of costs compares to the way of the hospital management in determining the room rent price. The use of Activity Based Costing system can reduce the cost distortion, for there will be a clear explanation regarding the cost drivers, cost sources, both input and output. Moreover, in the era of regional autonomy, whereas any regional institution need to be more independent in all-funding aspects.
2. For implementing Activity Based Costing method, the hospital management needs a clear cost information system. Before implementing the Activity Based Costing method, the hospital management needs to improve their cost information system for they will not find any significance difficulties in apply the Activity Based Costing System.
3. From the profit received. The hospital management may enlarge the hospital services, moreover developing or funding the other things, such as administrative cost, and employee welfare.

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A P P E N D I C E S





SURAT - KETERANGAN

Nomor : 800 / 590 - TU/RSUD/IX/2003

Yang bertanda tangan di bawah ini Kepala Rumah Sakit Umum Daerah Kabupaten Indramayu, menerangkan kepada :

N a m a : LUCKY PURNAMASARI
No. Mahasiswa : 98312266
Allamat : Jl. Jenderal Sudirman No. 152 Indramayu

Benar nama tersebut diatas telah melaksanakan Riset Penelitian Karya Ilmiah dengan judul Skripsi " THE EVALUATION OF ROOM RENT PRICING "

Demikian surat keterangan ini untuk dipergunakan seperlunya

Indramayu, 24 September 2003

Kepala Rumah Sakit Umum Daerah
Kabupaten Indramayu,



Dr. H. Swardi Astradipura MARS
NIP. 140 188 897



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Hal : PERMOHONAN IJIN PENELITIAN

24 Maret 2003

Kepada Yth.
Pimpinan Rumah Sakit Umum Daerah
di Indramayu

Assalamu'alaikum Wr. Wb

Diberitahukan dengan hormat, bahwa mahasiswa sebelum mengakhiri pendidikan di Fakultas Ekonomi UII Yogyakarta diwajibkan membuat karya ilmiah berupa Riset penelitian. Sehubungan dengan hal itu mahasiswa kami :

Nama : Lucky Purnamasari
No. Mahasiswa : 98312286
Alamat : Jl. Jendral Sudirman 152 Indramayu Jabar

Bermaksud mohon keterangan/data instansi yang saudara pimpin untuk keperluan menyusun skripsi dengan judul : THE EVALUATION OF ROOM RENT PRICING DECISION

Dosen Pembimbing : Dra. Yuni Nustini, MAFIS, Ak

Hasil karya ilmiah tersebut semata - mata bersifat dan bertujuan keilmuan dan tidak disajikan kepada pihak luar. Oleh karena itu kami mohon perkenan Saudara untuk dapat memberikan data/keterangan yang diperlukan oleh mahasiswa tersebut.

Atas perkenan dan bantuan Saudara, kami ucapkan terima kasih.

Wassalamu'alaikum Wr. Wb

D e k a

DRS. SUWARSONO, MA

**SARANA DAN PRASARANA/INVENTARIS BARANG
RUMAH SAKIT UMUM DAERAH KABUPATEN INDRAMAYU
2002**

A. Sarana Bangunan / Gedung

Gedung Rawat Jalan I	Luas = 288 m ²
Gedung Rawat Jalan II	Luas = 136 m ²
Gedung Rawat Penyakit Dalam	Luas = 300 m ²
Gedung Rawat Bedah	Luas = 300 m ²
Gedung Rawat Kebidanan, Kandungan dan Perinatologi	Luas = 360 m ²
Gedung Rawat Isolasi	Luas = 190 m ²
Gedung Rawat Inap	Luas = 240 m ²
Halaman Taman dan Jalan	Luas = 20.789,85 m ²
Selasar	Luas = 1.322,4 m ²
Gedung Radiologi	Luas = 176 m ²
Gedung Laboratorium	Luas = 360 m ²
Gedung Darurat Medik	Luas = 210 m ²
Gedung Instalasi Gizi/Dapur	Luas = 630 m ²
Gedung Laundry, Asrama, dan Gudang	Luas = 1.130 m ²
Gedung Bedah Umum	Luas = 412,5 m ²
Gedung Farmasi	Luas = 96 m ²
Gedung Tata Usaha	Luas = 264 m ²

Gedung Aula	Luas = 165 m ²
Gedung Kamar Mayat	Luas = 72 m ²
Gedung/Ruang IPSRS	Luas = 35 m ²
Gedung Catatan Medik	Luas = 37,5 m ²
Gedung Ruang Anak I dan II	Luas = 181 m ²
Gedung ICU	Luas = 283,5 m ²

B. Sarana Angkutan

Sarana angkutan yang ada di Rumah Sakit Umum Daerah Kabupaten Indramayu digunakan untuk menunjang kelancaran pelayanan kesehatan kepada masyarakat RSUD Indramayu mempunyai sarana angkutan sebagai berikut:

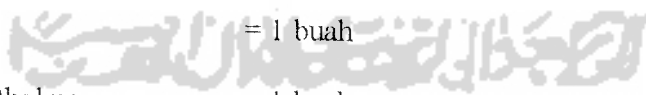
Kendaraan Ambulan	= 4 buah
Kendaraan Dinas Direktur	= 1 buah

C. Inventaris Barang

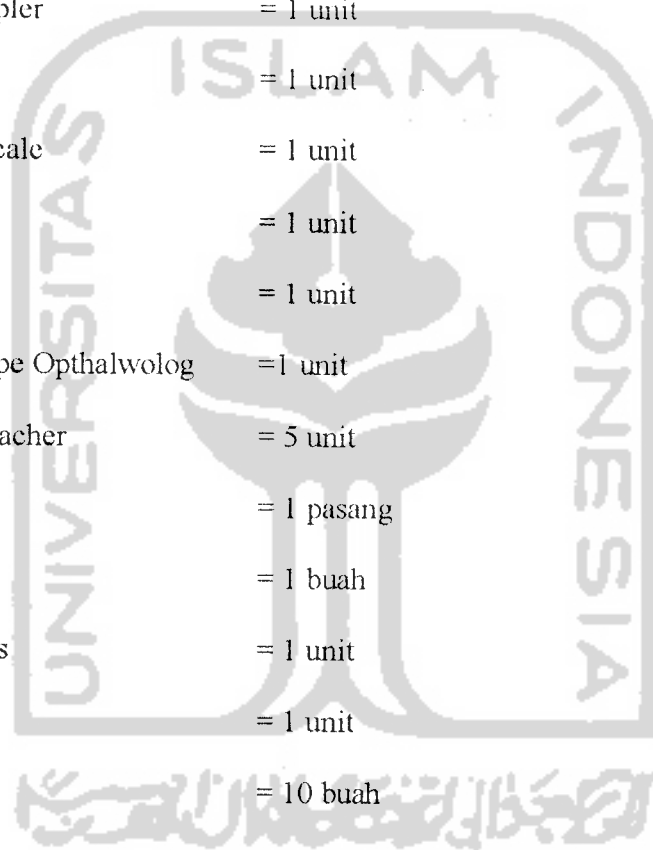
C.1. Peralatan Medis

Apron	= 4 buah
KKG	= 4 buah
Incenerator	= 1 buah
Central Suction Pump	= 1 buah
USG	= 2 buah
Central Oxygen	= 1 unit
Autoclave Kering Portable	= 3 buah

Laparascoop	= 1 buah
Microscope Binocular	= 3 buah
Blood Bank	= 2 buah
Centrifuga	= 2 buah
Diagnostik Set	= -
Microhaematocrit Centrifuga	= -
Neraca Listrik	= 1 buah
Meja Operasi	= 5 buah
Lampu Operasi	= 2 buah
KMD Aparatae	= 2 buah
Ressucitator Kil	= 2 unit
Dynation	= 1 buah
Microlizer	= 1 buah
Impratted Ap	= 1 buah
Sepeda Statis	= 1 buah
Dental Unit	= 1 unit
Ophthalmoscope	= 1 unit
Tenometer Schiote	= 1 buah
Indirec/Binocular Ophthalmoscope	= 1 buah
Katarak Set	= 1 set
Lensa dan Kacamata Coba Tes	= 1 set
Generator Set	= 1 set
Kitchen Set	= 1 set



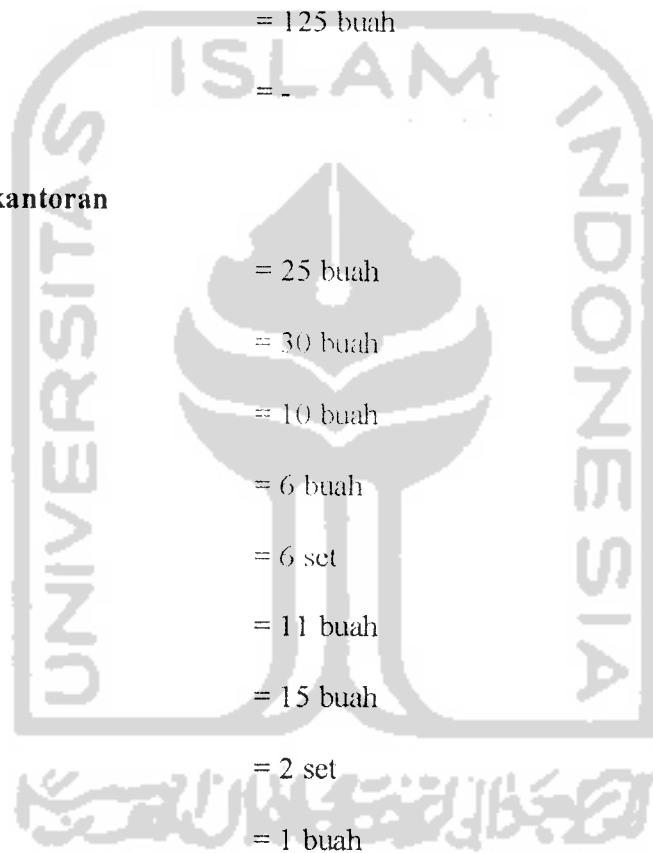
Defribilator	= 1 buah
Vacum Set Obsgyn	= 1 buah
Laparatomy Set	= 1 buah
Meja Obsgyn	= 3 buah
Baby Incubator	= 6 unit
Blue Light	= 1 unit
Fetal Detector/ Doppler	= 1 unit
Vacuum Extasaxtor	= 1 unit
Baby Waigghling Scale	= 1 unit
Anaetatio Machine	= 1 unit
Slit Lamp	= 1 unit
Operating Microscope Opthalwolog	= 1 unit
Blankar / Patient Stracher	= 5 unit
Tongkat Ketiak	= 1 pasang
Matras	= 1 buah
Micriwave Diatermis	= 1 unit
Ultraviolet	= 1 unit
Lemari Alat	= 10 buah
Tensi Trollev	= 2 buah
Pemotong Gip (manual)	= 2 buah
X-Ray Unit	= 2 unit
Automatic X-Ray Unit	= 1 unit
Water Defilator	= 1 buah



Digital Balance	= 2 buah
Dryben/Incubator Microbiologi	= 2 unit
Magnetic Stirter	= 1 unit
Photometer	= 1 unit
Rongue Dental Instrument Set	= 1 set
Tempat Tidur Pasien	= 125 buah
Kasur Pasien	= 125 buah
U.V. Sterilisasi	= 1 unit

C.2. Peralatan Perkantoran

Meja Tulis	= 25 buah
Kursi Rapat	= 30 buah
Mesin Tik	= 10 buah
Komputer	= 6 buah
Kursi Tamu	= 6 set
AC	= 11 buah
Kipas Angin	= 15 buah
Sound System	= 2 set
Oper Head	= 1 buah
Jam Dinding	= 12 buah
Kulkas	= 8 buah
Glodog Sampah	= 2 buah
Mesin Rumput	= 2 buah
Lemari Arsip	= 20 buah



Mesin cuci	= 2 buah
TV Berwarna 14 inc	= 10 buah
TV Berwarna 17 inc	= 2 buah
TV Berwarna 20 inc	= 2 buah
Telepon	= 2 buah
Microphone	= 16 buah
Bangku Panjang	= 4 buah
Bangku Panjang Fiber	= 4 buah
Peralatan Ruang Rekam Medis	= 1 set
Kursi Pasien	= 48 buah

