



## The Concept of Costs and Expenses In Generating Investor Interest In Investing In Chemical Companies

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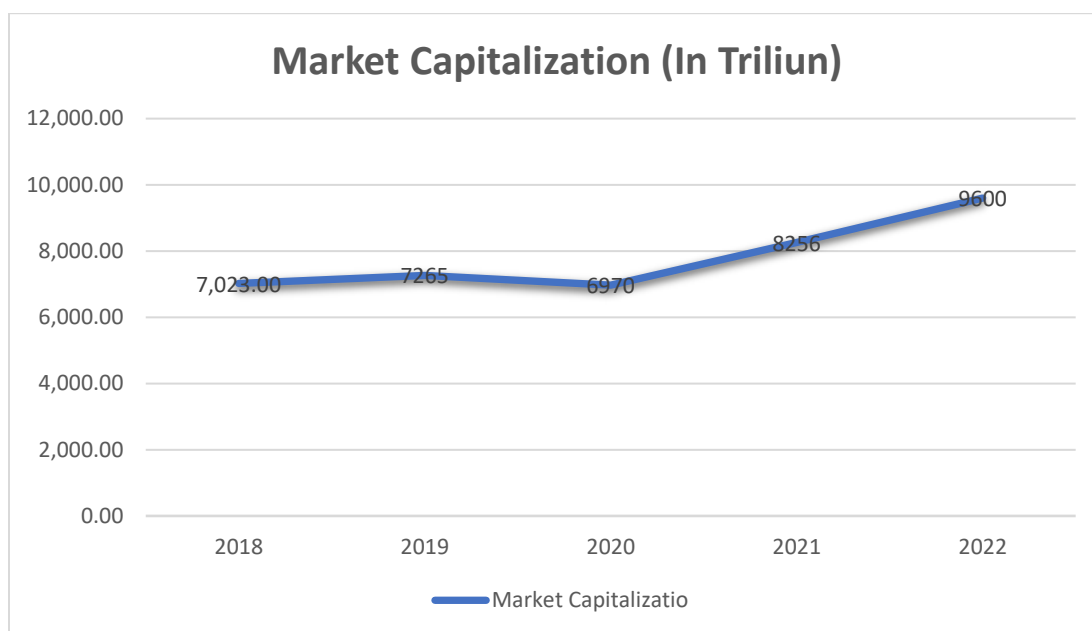
### ABSTRACT

The purpose of this study is to: (1) To observe expense and cost performance in chemical companies (2) Observing load and cost performance can affect investor interest. The population in this study are chemical companies listed on the IDX. The research method in this study is descriptive qualitative. This study found that increasing costs can increase profits. Increased profits will attract the attention of investors to invest.

**Keywords:** Expenses, Costs and Investors Interest

### Background

The soaring rate of investment in Indonesia today has become a new trend that continues to increase. The increasing interest in the investment world is driving the rapid pace of the Indonesian economy. The company's expansion and invasion to grow bigger is the trigger for increasing people's interest in the investment world. In line with the development of the economy, many companies are expanding their business. For this purpose, the company requires relatively large funds. To meet these funding needs, of course, efforts are needed to seek additional funds to be injected into the company as a replacement or as an addition to the funds being run or for the development and expansion of business fields. One aspect that is valued by the public in investment is the company's financial performance as measured by the company's financial statements. Therefore the company will always publish its financial reports so that potential investors can find out how the performance and prospects of the company going forward. Throughout 2022, the IDX Composite Stock Price Index (IHSG) managed to strengthen 4.09% (yoy) to 6,850.62. On September 13, 2022, the JCI reached an all time high at the level of 7,318.02. Market capitalization also soared and reached a record high of IDR 9,600.24 trillion on December 27 2022. Meanwhile the number of capital market investors rose 37.5% to 10.30 million. Therefore the company will always publish its financial reports so that potential investors can find out how the performance and prospects of the company going forward. Throughout 2022, the IDX Composite Stock Price Index (IHSG) managed to strengthen 4.09% (yoy) to 6,850.62. On September 13, 2022, the JCI reached an all time high at the level of 7,318.02. Market capitalization also soared and reached a record high of IDR 9,600.24 trillion on December 27 2022. Meanwhile the number of capital market investors rose 37.5% to 10.30 million. Therefore the company will always publish its financial reports so that potential investors can find out how the performance and prospects of the company going forward. Throughout 2022, the IDX Composite Stock Price Index (IHSG) managed to strengthen 4.09% (yoy) to 6,850.62. On September 13, 2022, the JCI reached an all time high at the level of 7,318.02. Market capitalization also soared and reached a record high of IDR 9,600.24 trillion on December 27 2022. Meanwhile the number of capital market investors rose 37.5% to 10.30 million.



Source: IDX

Figure 1. Market Capitalization

The main goal of investors investing their capital is to obtain returns, without any returns enjoyed from an investment, of course investors will not invest. Investors in making investment decisions must always try to minimize the various risks that arise, both short and long term (Tambunan et al., 2018, Atmanegara et al., 2021). The level of potential loss that arises because the expected investment results are not in accordance with expectations is a risk, therefore investors must be aware that every investment made besides expecting returns, investors must also be aware of possible risks or losses.

Investors who are interested in buying and selling shares see how the traffic is from the company shares they are going to buy. The stock price itself is the stock price that occurs on the stock exchange at the time of closing (closing price) which is formed at the end of each stock trading (Dewi & Hidayat, 2014). The valuation of stock prices in the capital market is highly dependent on the fluctuations in returns that investors get. Before making an investment, investors first analyze the company's portfolio and analyze the financial statements in detail.

However, chemical companies on the IDX actually showed contradictory findings regarding the increase in the JCI. In 2020 the chemical industry fell 21.24%. The basic and chemical industry index is one of the sectoral indices that experienced the deepest decline of up to 21.24% year-to-date. From the basic and chemical industry sectors, there are shares of PT Tjiwi Kimia Tbk (TKIM) which has been corrected by 37.71% ytd and PT Semen Baturaja Tbk (SMBR) also corrected up to 37.27%. As for stocks from basic industry indexes that have the largest market capitalization, such as PT Barito Pacific Tbk (BRPT) which weakened by 35.10% ytd and PT Chandra Asri Petrochemical Tbk (TPIA) which has been corrected by 24.58% from the beginning of the year.

Expenses and costs that are not managed properly will cause big problems. Large costs that are not in accordance with the income generated will actually make the company experience big losses. Cost is an expenditure to obtain goods or services that are useful in the future, or have a use for more than one accounting period. The concept of cost is different costs for different purposes, which means that when the goals to be achieved are different, the classification of costs used will not be the

same. According to (Riwayadi, 2017) Different goals mean there will be differences in decision making. A business cannot apply just one cost classification to make every decision in the company because every decision taken has a different purpose. And expenses are costs that have provided a benefit and also include a decrease in assets or an increase in liabilities in connection with the delivery of goods and services in order to earn income. (Ahmad & Wasilah, 2009)

## **LITERATURE REVIEWS**

### **Cost and Expense Concept**

Cost is a form of sacrifice for economic resources expressed in units of money, where this has occurred or may occur in an effort by a company to obtain goods or services. (Purwaji, Wibowo, & Muslim, 2018). In this study there is no separation between the use of the terms cost and expense because empirical data shows that the use of the term in a company's income statement is actually an expense. Understanding the concept of cost is very important because it is one of the factors that determine the size of a company's profit in addition to other components, namely income. In order to provide a more focused understanding of the definition of costs below, the opinions of experts are presented (Eka et al., 2022). Cost classification is a process of grouping all cost components in a more concise and systematic manner so that the explanations given are more accurate and useful. Costs can be classified into (Mulyadi, 2018):

#### **1. Classification of Costs Based on the Expenditure Object**

This classification method uses the name of the expense object issued as the basis used to classify costs (Mustika, 2021). An example of the name of the expense object is insurance, so all expenses related to insurance are called insurance costs.

#### **2. Classification of Costs Based on the Company's Main Functions**

In businesses that process raw materials into finished goods, there are 3 main functions which are divided into 3 groups, namely: (a) Production Costs, production costs are the costs used in the process of processing raw materials into finished products. Based on the object of expenditure, these costs are divided into 3 parts, namely Raw Material Costs, raw material costs are materials that are processed into finished product parts and their use can be identified or traced or something that is attached to a product. Raw material costs are costs for raw materials that are directly used in the production process, direct labor costs are workers who are directly involved in working on finished goods with payroll according to the number of product units produced or according to working hours. Direct labor costs are labor costs that can be easily and accurately traced to products, in this case, wages paid to direct labor, factory overhead costs all production costs except direct material costs and direct labor costs, so factory overhead costs in the form of cost components, such as indirect raw material costs, indirect labor costs, and other indirect production costs. Raw material costs and direct labor costs are the main costs (prime costs), while factory overhead costs are referred to as conversion costs, costs that are useful for converting raw materials into finished products. (b) Marketing costs, namely costs used to realize the activities of product marketing.

#### **3. Classification of Costs Based on the Relationship between Costs and Something to be Funded.**

Costs can be classified into 2 groups, namely: (a) Direct Costs are costs incurred as a result of objects that must be borne. If the object that is the dependent does not exist, then the direct cost does not arise, so that the direct cost will be easy to trace with the object that is the dependent of the cost.

Direct production costs are in the form of raw material costs and direct labor costs. Departmental direct costs are all costs incurred in a department. (b) Indirect costs (indirect costs) are costs that arise not only from the object that is the responsibility of the cost. Indirect costs associated with products are called indirect manufacturing costs or factory overhead costs. In relation to departments, indirect costs are costs incurred in a department, but the benefits are felt by more than one department.

4. Classification of Costs Based on Behavior in Relation to Changes in Activity Volume 6. Classification of Costs Based on Benefit Period.

### **Capital markets**

The Capital Market is a meeting between parties who have excess funds and those who need funds by trading securities (Tandelilin, 2017:25). According to Harjito and Martono (2014) the capital market is a market where long-term funds, both debt and equity, are traded. Capital market instruments are principally securities (securities) that are generally traded through the capital market. According to the Decree of the Minister of Finance No. 1548/KMK.013/1990 dated December 4, 1990, the meaning of securities is any debt acknowledgment, commercial paper, stocks, bonds, credit securities, proof of debt, rights, warrants, options or any derivative of securities or any documents which has been determined by Bapepam as securities.

### **Stock Price**

The stock price is the price that occurs in the stock market at a particular point in time and is the easiest to determine because it is the price of a stock in a fluctuating market (Darmadji and Fakhrudin 2012: 102). Then Jogiant (2016: 67) argues that the stock price is the price agreed upon by the members of the exchange and consists of the bid price (the lowest bid to sell) and the bid price (the highest bid to buy). On the other hand, according to Suganda (2018:111) For stock prices

## **RESEARCH METHODS**

This study uses a qualitative descriptive approach where previous literature on the concept of costs and expenses is collected and analyzed (Atmanegara et al., 2021). Data sources were obtained from various journals, analysis reports carried out by accounting firms, and directly from cost accounting books. This study will provide an overview of how the chemical industry applies the concept of expense and cost. Therefore, the methodology used is pure literature analysis, evaluation, and conclusions are drawn from the theoretical analysis and discussion results, adding deeper insights to achieve a better understanding.

## **RESULTS AND DISCUSSION**

### **Production cost**

Based on the results of observations, it is known that the net profit of chemical companies is decreasing. If the high cost of production will have an impact on the level of sales in quantity, the company has limited its production results by adjusting the production costs that must be incurred. When product yields are reduced in quantity, of course it also has an impact on the company's profits obtained. The better the company uses its funds to save on production costs, the more the company's ability to earn net profit increases. Production costs are costs incurred by a company in

managing raw materials into finished products. These production costs determine the selling price of a product or service which will affect the amount of profit earned. For this reason, the company reduces expenses,(Agustin, 2016). This is in line with research (Rupaida & Deden, 2016), where the results of the research show that the effect of production costs and promotion costs on sales.

### **Operating costs**

Based on the results of observations made and looking at existing theories, an increase in operational costs can increase company profits. In accordance with what is explained in the signal theory, the profit reported by the company increases, so the information can be categorized as a signal because the company's condition is good. To generate company profits or income, of course, the company must incur costs related to the company's operating activities, where income and expenses cannot be separated, where income is the result obtained from operating activities carried out in the company while expenses are costs incurred or used for obtain the expected income by the company. Operational Costs associated with the sale or marketing of goods or services and the performance of the general administrative and functional functions of the related business. Operational costs are costs that are directly related to the formation of working capital. Operational costs themselves are all costs that support the provision of a service or all costs that can be defined as having a direct relationship with the provision of a service (Jumingan, 2017).

### **Promotion Fees**

Optimal promotion costs will increase company profits. Based on the results of observations it was concluded that promotion costs can increase company profits. This shows that the promotion costs of the majority of chemical companies on the IDX are well-directed. This means that the company can use promotion costs effectively and efficiently. If this activity continues, the company will continue to experience an increase in sales. With sales that continue to increase, the profit will be maximized. Promotional costs incurred by companies include advertising costs, public relations costs, sales promotion costs, personal selling costs. Determination of promotional costs incurred by the company must be able to sufficiently carry out promotional activities and also be able to seek to sell the company's products in order to earn income. The company was founded with the aim of obtaining and increasing profits and maintaining the survival of the company, basically the greater the promotion costs incurred by the company, the greater the achievement of the company's goals in communicating its products to the public. Thus every company will always try to increase its profitability, because the higher the level of profitability of a company, the survival of a company will be more guaranteed. basically the greater the promotion costs incurred by the company, the greater the achievement of company goals in communicating its products to the public. Thus every company will always try to increase its profitability, because the higher the level of profitability of a company, the survival of a company will be more guaranteed. basically the greater the promotion costs incurred by the company, the greater the achievement of company goals in communicating its products to the public. Thus every company will always try to increase its profitability, because the higher the level of profitability of a company, the survival of a company will be more guaranteed.

### **Distribution Fees**

Distribution costs managed to increase profits. The results of observations made with an increase in production costs indicate an increase in production and raises the possibility of increasing profits because there is sufficient stock available if consumers make repeat purchases. This states that the

promotion costs are directed. This means that companies can use distribution effectively and efficiently. If this activity continues, the company will continue to experience an increase in sales. With sales that continue to increase, the profit will be maximized. The distribution channel acts as a path through which goods flow from producers to intermediaries and finally reaches consumers as users of the products produced. Other conditions that should not be ignored by manufacturers are the availability of products, so that at any time required by the consumer concerned can be obtained easily and quickly. The mistake of a company to be able to provide its product whenever it is needed by consumers, will have the consequence that consumer loyalty to the product brand decreases, which is caused by the number of perfect substitute products that have quality and prices that compete with the company's products. The existence of such a fact, then how important it is to choose the right distribution channel problem used by a company. therefore the distribution channels are carried out properly and regularly, so it is hoped that the products produced can be sold as much as possible and increase the company's profits.

### **Cost Performance and Investor Interest**

Observations found that the load and cost performance of the chemical companies on the IDX was going well. Increased costs for the company's expansion and product innovation have proven successful in increasing the company's profits. Even though there are still some companies that have not made a profit even though they have increased their costs. With good company traffic, it will generate investor interest to invest in the company. Especially investors will see the amount of profit, either increasing or decreasing. The extra return that investors can theoretically expect from stocks is referred to as the "risk premium." Historically, the risk premium runs at around five percent. This means that if the risk-free rate (the Treasury note rate) is four percent, then investors would demand a return of nine percent from a stock. Therefore, the total return on a stock is the sum of two parts: the risk-free rate and the risk premium.

## **CONCLUSIONS AND RECOMMENDATIONS**

### **Conclusions**

1. Increased Costs can trigger increased profits in chemical companies.
2. Expenses increased in line with increased profits in chemical companies

### **Recommendations**

1. The increase in expenses and costs should be more controlled so that overload does not occur, because in some chemical companies there is an imbalance.
2. Prioritize increasing profits because investors see increased profits.

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