
Analysis of the Application of Sunk Costs and Relevant Costs in Advertising Cost Decision-Making at CV Lifan Jaya

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ABSTRACT

This study aims to analyze the application of sunk costs and relevant costs in decision-making related to advertising expenses at CV Lifan Jaya. Data were collected through interviews and documentation of the company's promotional activities. The results show that the annual replacement of the store signboard is classified as a sunk cost because it is routine, unavoidable, and does not affect future promotional decisions. Relevant costs at CV Lifan Jaya consist of expenses that may create new outlays, such as brochure printing and digital information optimization through Google Business Profile. The company does not incur costs for social media promotion, content creation, or paid digital campaigns; therefore, these components are not considered relevant costs. Based on the analysis, appropriate promotional decisions should focus on expenditures that provide direct marketing benefits and exclude previously incurred costs from consideration.

Keywords : sunk cost, relevant cost, advertising cost, decision-making, CV Lifan Jaya.

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1. INTRODUCTION

CV Lifan Jaya is a company engaged in the trading of daily necessities that utilizes advertising activities as one of its strategies to increase sales and expand market reach. In its implementation, the company regularly allocates advertising costs with the expectation of attracting consumer interest and increasing business revenue. However, not all advertising activities carried out always produce results proportional to the costs incurred.

In the decision-making process, CV Lifan Jaya is often faced with considerations regarding whether to continue or discontinue certain advertising activities. Advertising costs incurred in previous periods constitute sunk costs, namely costs that cannot be recovered and therefore should not influence future decisions. If sunk costs continue to be used as a basis for consideration, the company risks maintaining advertising activities that are no longer effective or efficient.

Therefore, an analysis focusing on relevant costs is required, namely costs that will still be incurred in the future and can affect the outcomes of decisions. The application of the sunk cost concept in advertising cost decision-making at CV Lifan Jaya is expected to assist management in determining advertising strategies that are more rational, efficient, and oriented toward improving company performance.



2. LITERATURE REVIEWS

2.1 Accounting Concept

Accounting is a systematic process that includes identifying, recording, classifying, summarizing, and reporting transactions in accordance with generally accepted accounting standards. The primary objective of accounting is to provide relevant and reliable economic information through financial statements, which can be utilized by internal parties (such as management and executives) as well as external parties (such as shareholders, creditors, and owners) in making decisions. The functions of accounting include planning and controlling organizational activities, serving as a basis for managerial decision-making, and acting as a means of accountability to stakeholders.

2.2 Management Accounting

According to Alamsyahbana et al. (2024:1), management accounting is an accounting system that provides information for internal organizational parties, such as financial, production, and marketing managers, to support decision-making within the organization. The main objective of management accounting is to provide relevant and accurate information to management to support fact-based decision-making.

2.3 Cost Accounting

According to Waty et al. (2023:2), cost accounting is a system that collects, measures, analyzes, and presents information on costs incurred in production, distribution, and service activities. Its purpose is to provide management with an understanding of how these costs influence business decisions.

2.4 Cost function

According to Iryani and Handayani (2019:4), cost accounting has several functions, including:

- a. Calculating and reporting the cost of goods manufactured for a product.
- b. Providing a detailed breakdown of a product's cost of goods.
- c. Providing information for cost and expense planning.
- d. Providing data for the preparation of budgets.
- e. Providing cost information to management for use in management control.

2.5 Cost Classification Based on Function

According to Ramadhani et al. (2020:22), manufacturing costs (production costs) are costs incurred to acquire raw materials from suppliers and to convert them into finished products ready for sale. The elements of production costs consist of direct material costs, direct labor costs, and manufacturing overhead costs. When costs are assigned, manufacturing costs form the cost of goods manufactured.

2.6 Sunk Cost Concept

According to Zainuri (2021:134), sunk cost (depreciation) is the decrease in the value of an asset caused by continuous use, leading to wear and tear, or due to technological advancements that render the old asset unusable. Since sunk costs cannot be altered by current or future decisions, they are not considered differential costs.

2.7 Depreciation Expense

According to Zainuri (2021:72), depreciation costs of buildings and equipment need to be accounted for to set aside funds equivalent to the estimated depreciation, in order to replace buildings and equipment that can no longer be used due to wear and tear from continuous use over time.

2.8 Straight-Line Method

According to Zainuri (2021:142), the straight-line method calculates depreciation or expense charged in equal amounts each year (period) of the asset's use. The basic assumption of this method is that the asset will provide equal benefits in each period throughout its useful life, and the expense allocation does not affect the asset's productivity or efficiency. The

economic life of the asset is estimated on a monthly and yearly basis. The difference between the acquisition cost of the asset and its residual value is divided by the asset's useful life, resulting in a periodic depreciation expense.

2.9 Relevant Cost Method

According to Martini et al. (2020:5), relevant costs are an analytical method that distinguishes between costs and benefits that are affected by decisions and those that are not tied to various alternatives a company may take. Relevant costs are used to identify costs and benefits that influence business decisions, while ignoring costs and benefits that are unaffected by the choices made by the company. This method aids decision-making by considering only factors that can change as a result of the decisions taken, allowing the company to select the most financially advantageous option.

2.10 Advertising Costs

According to Andhika Pramudya (2025), advertising costs are an account on the income statement that reports the total expenses for advertisements aired during the indicated period and are presented under selling expenses on the income statement. The purpose of advertising is to introduce products to the market, encourage consumers to learn more about them, and ultimately purchase the products.

2.11 Parking Tax Potential

According to Pasolong (2023:4), decision-making is essentially the process of choosing among a number of alternatives. It is crucial for leaders in bureaucratic organizations because the decision-making process plays an important role in motivation, communication, coordination, and organizational change. Therefore, decision-making is one of the most critical aspects of leadership activities and serves as the central focus of organizational operations.

3. RESEARCH METHODOLOGY

3.1. Type of Research

This study uses a descriptive qualitative approach. Qualitative research examines subjects in their natural setting, with the researcher as the main instrument. Data is collected using a combination of methods (triangulation) and analyzed inductively, focusing on meaning rather than generalization (Sugiono, 2022:9). The research aims to observe a problem based on its background and objectives. It describes events in the research object using words and numbers, with data collected from CV. Lifan Jaya Manado.

3.2 Place and Time of Research

This research was conducted at CV. Lifan Jaya Manado, located on Jalan Tingkulu, Wanea District, Manado City, North Sulawesi. The research location serves as the site for the study, and the research will be carried out from May 2025 until completion.

3.3 Type, Sources of Data, and Data Collection Methods

3.3.1 Type of Data

In this study, the researcher used qualitative data in the form of company policies regarding the replacement of operational vehicles, and Quantitative data in the form of numbers related to costs, depreciation, and the economic value of operational vehicles. According to Sugiono (2022:16), research subjects are individuals related to the study (informants or sources) who provide information about the data to be examined, serving as samples for the research. The research subject in this study is the manager of CV. Lifan Jaya.

3.3.2 Sources of Data

Data sources are everything that can provide relevant information for the research, consisting of primary and secondary data. Primary data refers to information obtained directly from the source and processed for research purposes, serving as the basis for decision-making (Sugiyono, 2022:213). Meanwhile, secondary data are obtained indirectly through

intermediary media (recorded or provided by other parties) and are used to complement primary data or previous research (Sugiyono, 2019:149).

3.3.3 Data Collection Methods

Data collection methods in this research are divided into 3, namely observation, interviews, and documentation. Observation is carried out through direct observation to understand the context of the data, interviews are conducted through question and answer to obtain information, while documentation involves collecting records of events in the form of writings, photos, or monumental works.

3.4 Method of Analysis Data and Processes

The data analysis process used in this study consists of several stages, namely:

1. The researcher collects data related to the collection, deposit, and reporting of sunk costs.
2. Conducting interviews with parties related to sunk costs and presenting the results in the form of narrative text.
3. Conducting observations to obtain supporting data within the research site.
4. Analyzing the existing data by examining the calculations related to the objects and subjects of sunk costs in decision-making.
5. Drawing conclusions that explain how the collection, deposit, and reporting of sunk costs are carried out in advertising cost decision-making.
6. Finally, providing recommendations based on the research findings obtained through interviews, documentation, and observations.

4. RESULTS AND DISCUSSIONS

4.1 Results

4.1.1 Overview Of Advertising Costs

Based on interviews with Mr. Melki Pendeleke, the manager of CV. Lifan Jaya, it was found that the company's advertising activities are still carried out in a simple and limited manner. The company has not utilized modern promotional methods such as social media, paid ads, or digital campaigns—online promotion activities usually conducted actively on platforms like Facebook, Instagram, or Google Ads to reach more consumers. CV. Lifan Jaya does not engage in these activities due to a lack of resources and a structured digital marketing strategy. The company only has a simple website that functions as a passive information medium, displaying the store's address, types of products sold, and company profile, without interactive features, product catalogs, or routine promotional activities. Therefore, the website cannot yet be considered an active form of digital marketing.

The main form of advertising used to date is a store banner placed at the front of the building. The current banner was provided by suppliers as promotional support for the products they distribute. The suppliers fully cover all printing and provision costs, so CV. Lifan Jaya incurs no expenses when obtaining the banner. However, the banner has been in place for over a year, resulting in reduced quality, such as color fading and minor damage from weather exposure. This condition does not generate additional costs at the time of the study, but it indicates that the company's physical promotional media is no longer in optimal condition.

In addition, the company previously incurred a small expense related to banner installation, consisting of the purchase of nails and rope totaling around IDR 20,000. This expense was very minor, occurred in the past, and was non-recurring, so it is classified as a sunk cost. This expenditure is not included in the advertising cost table because it is not part of the relevant advertising cost components and does not affect current promotion decisions.

Overall, the advertising cost picture at CV. Lifan Jaya shows that the company's promotional activities are still simple and low-cost. The company has not leveraged digital media as an active marketing tool, and most physical promotions are provided by suppliers.

The only advertising cost that may become relevant in the future is the cost of replacing the store banner if the company decides to update the promotional media independently each year.

4.1.2 Identifying Sunk Costs in Advertising Costs

Sunk Cost refers to costs that have already been incurred in the past and cannot be recovered, regardless of their amount. These costs are unavoidable and remain even if the company makes different decisions in the present. Because of this nature, sunk costs are categorized as irrelevant costs in managerial decision-making, as they do not affect future choices. In identifying sunk costs, CV. Lifan Jaya needs to trace when these costs occurred, assess whether they can no longer be changed or recovered, and ensure that the costs remain even if the company alters or stops certain activities. If a cost persists despite the company no longer continuing the related activity, it is considered a sunk cost.

Common examples include research expenses already spent, purchases of assets whose useful life has already begun, and prepaid expenses whose benefits have already been received. Understanding the characteristics of sunk costs is essential so the company can separate relevant from irrelevant costs. This ensures that business decisions focus on benefits and costs that can still be influenced in the future, rather than past expenditures that cannot be changed. Companies that consider sunk costs risk making inefficient decisions because they base choices on historical costs that should be ignored.

4.1.3 Identify Relevant Costs in Advertising Costs

Based on data obtained from CV. Lifan Jaya, advertising costs that can be categorized as relevant in promotional activities primarily come from physical promotion activities that generate direct and recurring expenditures for the company. In practice, the company does not conduct promotions through social media or other digital campaigns, so there are no costs for content creation, digital ad placement, or online marketing services. The CV. Lifan Jaya website, which appears in Google search results, is passive and only contains basic information about the store's location and types of products sold; thus, it does not require costs for active or paid digital promotion campaigns. The most significant relevant costs come from the annual replacement of store signs or banners. This banner replacement is the main form of physical promotion undertaken by the company to maintain the store's visibility in the surrounding area.

In addition, the company has occasionally printed and distributed brochures as a form of promotion, although the frequency was low and the distribution limited. Both types of costs—annual banner replacement and brochure printing—actually generate cash outflows and are directly related to promotional activities. Therefore, in the context of this study, these two costs are categorized as relevant costs, whereas digital promotion costs are not included because they have never been part of the company's routine promotional activities.

4.13 Pengambilan Keputusan Terkait Biaya Iklan CV Livan Jaya

Based on the identification and analysis of advertising costs at CV. Lifan Jaya, it can be concluded that most of the advertising costs incurred in 2004 were sunk costs—costs that have already occurred and cannot be avoided. These costs include the remanufacturing of store signs, payment for billboard display periods, and the printing of pamphlets for certain promotional activities. Due to their nature as past expenditures that do not affect future economic benefits, these costs are not relevant for decision-making regarding promotions in the following year. In decision-making, CV. Lifan Jaya only needs to consider relevant costs, which are costs that can still be changed if the company decides to carry out or cancel a promotional activity.

4.2. Discussions

4.2.1 Identifying Relevant Costs in Advertising Costs

Relevant costs are costs that will arise as a result of decisions made in the current period or in the future. At CV. Lifan Jaya, advertising costs classified as relevant primarily include

the annual replacement of store signs/banners and the printing of brochures, even though the latter is done infrequently. According to the latest information, CV. Lifan Jaya consistently replaces store banners or signs once a year. This replacement represents a form of physical promotion that directly generates expenditures and affects the store's image in the eyes of customers, making it a relevant cost. This is in line with Mohammad Mamonto (2018), who stated that irrelevant costs are costs that have already occurred in the past and therefore cannot be considered in decision-making.

Furthermore, although brochure distribution is not carried out routinely and the quantity is limited, the cost of printing brochures is still considered relevant because it may occur in the future if the company decides to use it again as a promotional medium. On the other hand, CV. Lifan Jaya does not incur promotional costs through social media or digital marketing services. Although the company has basic store information displayed on Google, such as the address and a brief description, this presence is passive and does not require any special campaign costs. Therefore, these costs are not considered relevant because they do not generate new expenditures. This identification confirms that relevant advertising costs at CV. Lifan Jaya primarily consist of the annual store sign replacement and potential brochure printing costs if used again as part of the promotional strategy.

4.2.2 Identifying Sunk Costs in Advertising Costs

Based on the research findings, the costs categorized as sunk costs at CV. Lifan Jaya are advertising expenses that have been incurred in previous periods and cannot be recovered, regardless of whether the company continues promotional activities or not. In theory, sunk costs are historical costs that cannot be altered by future decisions and therefore should not be used as a basis for decision-making. At CV. Lifan Jaya, sunk costs primarily arise from the printing of store banners or signs, the creation of permanent banners, or store identification boards placed at the front of the store. These costs are one-time, non-recurring, and their benefits remain even if the company does not conduct additional advertising activities.

The brochure printing costs are considered sunk costs because brochure distribution is no longer carried out routinely, and the expenses occurred in the past, so they do not influence current advertising cost decisions. Similarly, the costs for creating store name boards in previous years cannot be recovered and are not relevant to the current year's advertising cost decisions, as the company only bears the cost of replacing store signs in the current year, not past creation costs. Therefore, this identification ensures that CV. Lifan Jaya can clearly distinguish costs that no longer affect current advertising decisions.

4.2.3 Analysis of Decision Making Related to CV Lifan Jaya Advertising Costs

Based on the identification of sunk costs, relevant costs, and the analysis of advertising expenses, the most appropriate decision for CV. Lifan Jaya is to maintain a physical promotion strategy, primarily through the annual replacement of store signs as the main form of advertising. This cost has been proven to provide direct benefits for store visibility and creates an easily recognizable identity for customers. Additionally, since brochures are no longer an effective medium and their distribution is limited, the company can evaluate the need for brochures only for specific activities rather than as a routine promotion. Meanwhile, digital promotion is not yet necessary for the company, considering the target market is mostly local and customers rely more on direct visits to the store. Therefore, the company's decision not to allocate a budget for social media or digital marketing remains appropriate given the current business context. Overall, CV. Lifan Jaya's decisions regarding advertising costs are rational and align with operational needs, customer characteristics, and the company's financial capacity.

5. CONCLUSION AND RECOMENDATIONS

5.1 Conclusion

Based on the analysis of advertising costs at CV. Lifan Jaya, the following conclusions

can be drawn: Sunk Costs:

1. The annual replacement of store signs or banners is a sunk cost because it occurs regularly and cannot be changed by future decisions. Other potential costs, such as social media or digital campaigns, are not considered since the company does not carry out these activities.
2. Relevant Costs: Relevant costs are costs that may arise if the company chooses to conduct additional promotions, such as printing brochures or maintaining digital store information on platforms like Google Business Profile.
3. Decision-Making: CV. Lifan Jaya should focus on relevant costs for future promotional decisions while recognizing that sunk costs, like annual sign replacement, do not affect new decisions. This distinction helps the company make efficient, benefit-oriented promotional choices.

5.2 Recommendations

Based on the research findings, the following recommendations are suggested:

1. For CV. Lifan Jaya: It is recommended to record advertising costs more systematically, evaluate annual sign replacement according to actual needs, and consider using simple social media promotions to improve marketing effectiveness.
2. For Management: Management should understand the difference between relevant costs and sunk costs to make more efficient promotional decisions, focusing on costs that truly affect future choices and conducting regular evaluations of relevant costs.
3. For Future Researchers: Future studies could expand the research scope by analyzing the effectiveness of other promotional media or examining the impact of advertising on sales, providing a more comprehensive view of optimal retail promotion strategies.

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