Strategic accounting

Lecture 12
Quality Costing

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Introduction

- What is quality?
- Products quality vs. quality management systems
- (1) Technical quality, (2) functional quality, (3) mental impression on the organization.

Example:
- The technical quality of the health service means the accuracy of diagnostic and treatment procedures – are difficult to judge by the recipient of the service
- Functional quality of health service: how to provide health service for patients – this aspect of service could be understood and judged by the receivers on the quality of health service
- What are the quality costs?
Observable and hidden quality costs

1) Observable quality costs are those that are available from an organisation’s accounting record;

2) Hidden quality costs are the opportunity costs resulting from poor quality.

- Hidden costs are all in the external failure category
Dimensions of quality (1/2)

- **Performance** – how consistently and how well a product or service functions;
- **Aesthetics** – concerns the appearance of tangible products;
- **Serviceability** – measures the ease of maintaining and/or repairing the product;
- **Features** – refer to characteristics of a product that differentiate functionally similar products;
Dimensions of quality (2/2)

- Durability – the length of time a product functions;
- Quality of conformance – a measure of how a product meets its specifications;
- Fitness of use – the suitability of the product for carrying out its advertised functions.
### Examples of costs of quality (1/2)

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<th>Quality cost types</th>
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<td>Quality engineering</td>
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<td>Supplier evaluation and selection</td>
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<td>Supervising appraisal activities</td>
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<td>Product acceptance measurement (inspection and test) equipment</td>
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Examples of costs of quality (2/2)

<table>
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<th>Quality cost types</th>
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<td>Down time (due to defects)</td>
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<td>External failure costs</td>
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<td>Customer dissatisfaction</td>
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<td>Lost market share</td>
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1. Producing a quality product or service costs less because there is less waste.
2. Preventing quality problems is better than detecting and correcting them.
3. Statistical data should be used to measure quality.
4. Managers need to take leadership in improving quality.
5. Managers and employers need training in quality improvement.
6. Companies need to develop a quality management system.
Taguchi has given Eight Point to TQM (1/2)

1) Identify the main functions and their failure modes
2) Identify noise factors and their evaluation factors
3) Identify the quality characteristics to be observed and optimised
4) Identify the control factors and their alternative levels
Taguchi has given Eight Point to TQM (2/2)

5) Design the matrix experiment and define data analysis procedure
6) Conduct the matrix experiment
7) Analyse data and determine optimum levels for control factors and predict performance in different levels
8) Verify and plan for the future
Crosby has given 14 Principles of TQM (1/3)

1. Management commitment on quality
2. Quality improvement team to conduct quality improvement programme regularly
3. Quality measurement to take corrective actions
4. Well defined ingredients of the cost of quality and their monitoring
5. Raising awareness about quality among employees
6. Systematic methods for corrective actions
7. Well planned Zero Defects Planning
8. Training for supervisors
9. ZD Day, among all employees to experience the outcome of zero defects
10. Goals setting by individuals and groups for quality
Crosby has given 14 Principles of TQM (3/3)

11. Employee-management communication on the causes of errors

12. Recognition to those who participate in the TQM programme

13. Quality councils consisting of professionals working for quality improvement

14. Do it over again: repeat the above process again and again
Discussion questions

• Why is it important that quality costs are incurred as prevention and appraisal failure costs rather than internal or external failure costs?
• Critically evaluate TQM. What are some of the problems associated with the development and practices of TQM initiatives?
• Provide examples of the quality costs in Your case studies
• Is the relationship between organisation structure and TQM?
References

• D.N. Chorafas, Strategic Business Planning for Accountants. Methods, Tools and Case Studies, Elsevier, USA 2007


Thank you for your attention

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