Managerial Accounting

Non-Financial Measures and Costs of Quality Information

The costs of quality are the costs specifically associated with the achievement (or failure to achieve) customer satisfaction.

These can be broken down into two broad categories:

**Costs of conformance** – costs incurred in an effort to avoid failure

**Costs of non-conformance** – costs incurred because of failure

In the effort to avoid failure, companies spend money in two conformance areas:

**Prevention** - activities directed at minimizing failure:
- Training
- Quality design
- Preventive maintenance
- Supplier certification

**Appraisal** – discovering areas of potential problems and measuring customer satisfaction and product quality:
- Sampling
- Testing
- Simulation
- Audits

When conformance efforts are non-existent, ineffective, or fail, non-conformance costs may result. Failure is either internal or external.

**Internal failure** – costs from failures discovered before the customer receives the product or service:
- Rework
- Scrap
- Machine downtime
- Re-inspection

**External failure** – costs from failures discovered by customers:
- Warranty Costs
- Customer complaints
- Product recalls
- Customer service
- Returned goods

A Total Quality Management (TQM) or Continuous Quality Improvement (CQI) program emphasizes conformance efforts in order to decrease non-conformance costs. The ultimate goal is to deliver a quality product with which every customer is completely satisfied.
Quality performance is measured by tracking financial measures, such as conformance and non-conformance costs. In addition, non-financial measures (those not involving specific dollar amounts) should be tracked.

Examples of non-financial measures:

- Customer complaints
- On-time deliveries
- Lead time (the time from order placement to shipment)
- Warranty claims
- New customers
- Lost customers
- Customer satisfaction (using surveys)