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COST ACCOUNTING IN FUNCTION OF QUALITY MANAGEMENT

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Abstract

Costs as an economic-accounting category are present in all spheres of social order. Historical data points to the fact that they are present even in the earliest forms of human existence and working. The expenses are the most significant and dynamic element of each economy. Nowadays, no analysis of the enterprise’s work can be imagined if the results of working aren’t shown through the enterprise’s costs. Quality has always been an important part of the maxim “market’s success”, especially nowadays at the global highly competitive market where the quality and its efficient market presentation are a basis for survival and expansion, i.e. for every business subject’s success. The modern way of working has imposed the need for managing the quality and quantity of expenses, if the business want to be successful at the highly competitive market. Subject of this paper is the significance of cost accounting for the efficiency of enterprises’ working and the ways the enterprise can use in order to achieve as financially higher results as possible.

Key words: cost accounting, quality, quality control, quality management

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Introduction

Within the framework of the profit-oriented trading companies’ functionality in terms of the modern market relations, the effective direction in terms of the competitive advantage in today’s global surroundings is brought down to the product’s quality and the service they promote and offer. The achievement and improvement of efficiency quality and also of business relations are possible only if there is a management of quality. The entire quality management presents a specific concept of management which orients itself towards a continuous work promotion, teamwork, an increase in the customers’ satisfaction and cost reduction. They are implemented through activities directed towards specific qualities’ satisfaction, as well as towards corrective interventions caused by deviating from quality in those organizations which are directed towards a continuous improvement of the quality process and efficiency. Both the listed activities of achieving and improving qualities and the corrective activities cause additional costs. The process of following and controlling expenses is possible only if the organization has a completely developed cost accounting. The cost accounting is part of every profit-oriented organization’s accounting system which unlike the financial accounting, is primarily intended for internal users of accounting information. The managing of accounting costs is not a legal obligation even though it has a significant role in making business decisions given the fact that the expenses are an accounting category having an exceptional influence on the financial work results which can be managed. In fact, the cost accounting may have a considerably important role in quality management. The quality management can be

significantly effective if the management provides both detailed and precise information about the quality expenses being visible in the reports offered by the accounting system. The managing of this category of costs is attainable if the quality expenses can be determined precisely and can be connected with both the place of emerging and the bearers of expenses. In fact, this presents fundamental information for management in terms of making decisions, planning certain activities connected and directed to a quality improvement of the process of functioning and its efficiency.

1. Cost accounting system

One of the universally accepted definitions of cost accounting has been implemented by Melerovikj, emphasizing that the cost accounting covers the calculations of systemic costs and effects. It presents only one part of the enterprise's accounting, and it belongs to the field where it is calculated in all other parts of the organization's functioning. The cost accounting presents an estimation of the process of production and the internal functional activities. Its field starts from that place where the process of production and the investment of goods in the production begin whereas it ends at that point when the effects are ready for sale.

According to Melerovikj, the cost accounting encloses¹:

- *Production calculation*
 - *Calculation of costs by types*
 - *Calculation of costs by location*
 - *Calculation of costs by bearers*
- *Calculation*
- *Short-term success calculations*
- *Calculation of planned costs*
- *Functional comparison*
- *Cost statistics*
- *Analysis of costs*

This way of explaining the term of cost accounting is efficient given the fact that it has to be taken into account the historical process of its emergence as well as the development of this branch of accounting. As far as the functioning is simple, but small in size, economists can memorize more information which is needed for working successfully. However, the moment when the work becomes more extensive and complex, the memory becomes not sufficient enough, and then notes appear as a necessary supplement to the imperfect human memory. For this reason, the constant increase and perfection of these records lead to an accountancy development. In the course of its progressive development, especially in the last century, the separate parts of accounting mostly acquired significance in terms of the number of accounts referring to them, and as well as in terms of the importance of the data being at their disposal. Each of these segments has to solve specific problems by conditioning the application of specific methods and approaches in terms of their functioning.²In fact, this situation refers primarily to that segment of accounting which mostly covers the cost and certain analytical parts of that time's accounting on the whole. The accounting system's constant expansion in the double-entry bookkeeping, the application of specific methods and procedures as well as the permanent strategic planning, controlling and analyzing of the accounting data have gradually imposed the need for detaching strictly the separate activities from the bookkeeping and the need for systemizing i.e. implementing them into adequate unities such as a cost calculation, analysis, accountancy planning and analysis, and the like. The segments

¹ Sousa, R., Voss, C. A. (2002), Quality management re-visited: a reflective review and agenda for future research, *Journal of Operations Management*, 20

² Sousa, R., Voss, C. A. (2002), Quality management re-visited: a reflective review and agenda for future research, *Journal of Operations Management*, 25

systemized in this way are actually one modern unity of accounting. A similar direction of emergence has also appeared in the cost accounting. The initial bookkeeping development has provided certain cost records, especially data about the sum of separate types of expenses. Thus, it comes to a development of the activities which are in relation to the costs, at the same time instigating the division of all such activities in a single unity as the functional bookkeeping and the emergence of separate unities of accounting. Due to the modern economic work development, the information on costs has acquired a bigger importance, not only in relation to the costs' amount and type, but also in terms of their domain of planning, analyzing, channeling off, and controlling the statistics of costs. Depending on the intensity of needs for cost information in separate parts of accounting, there have been developed activities in terms of the costs.³ If these activities become bigger in size, then it will arise a situation where these activities sort out themselves rationally in a single unity. Hence, it emerges the cost accounting in cases when separate parts lead to an emphasis on its functioning strictly in terms of the costs. In such cases, those individual parts along with the estimation of costs and effects comprise the cost accounting. Thus, the cost accounting offers information on management, managerial and financial accounting. This function evaluates and delivers financial information referring to the costs of purchases and factors of the working process as well as to their application.

1.1. Concept and types of quality costs

The concept of quality costs is not univocal because the numerous analyzes being studied from theoretical aspects are complex. The already mentioned concept refers to all the costs which have emerged as a result of the deviation from special qualities whereas the other category of costs includes the ones having arisen from the discovery of costs of inferior quality, i.e. from the valuable expressiveness of the deviation from the enterprise's planned activities. In such a framework, the classical approach was directed towards discovering the costs of poor quality, i.e. the valuable expressiveness of the deviation from planned activities. Nowadays, the real perception of the necessary investments in terms of the realization of the overall quality management, and of their impact on reducing the costs of poor quality is emphasized more and more under modern working conditions. The concept of quality costs has appeared since the middle of the last century, emphasizing that according to it, the quality costs are divided into two main categories⁴:

- *Costs of quality control – costs of quality achievement*
- *Costs of insufficient quality control – costs of quality deviation*

The costs of quality control emerge in order to provide an effectiveness, product or service, to meet all the standards and specifications whereas the lack of control costs emerges when the efficiency does not meet the previously defined specifications. Precisely said, the quality costs present a sum of costs arisen from investing into the prevention from not adjusting the requirements, into the product or service's estimation of the requirements' adjustment and the deviation from the given conditions of fulfillment. For this reason, today's literature often implements a segmentation of the quality costs into the following several types⁵:

- ❖ *Costs of prevention*
- ❖ *Costs of examination*
- ❖ *Costs of internally observed deficiencies*
- ❖ *Costs of externally observed deficiencies*

The costs of prevention are those costs which emerge as a result of the activities which prevent the deviations from the stated specifications and qualities of the process of effectiveness. The

³ Drury, C., 2001. Management Accounting for Business Decisions, London: Thomson Learning, p.no.55-59

⁴ J. Beckford: Quality, Second edition, Routledge, London, 2004, p.no.20

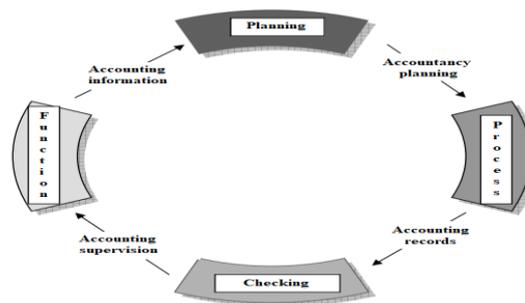
⁵ Drury, C., 2001. Management Accounting for Business Decisions, London: Thomson Learning, p.no.82

costs of examination emerge in the course of measurement, estimation, and supervision of the process in order to provide the adjustment of quality standards. This type of costs encloses the costs which emerge from testing materials, inspecting the process of production, directing and testing equipment during the process of production and the like.

The costs of internally observed deficiencies emerge from the activities which deviate from the specified qualities while their consequence is detected before the product's delivery. The costs of externally observed deficiencies are actually costs which emerge as a result of the improper product's delivery to the purchaser. By detecting its deficiencies, the purchasers advertise where the organization faces costs like the ones of additional services, product's substitutes, costs which emerge as a result of the given warranty, and other expenses of compensation of the detected deficiencies being arisen in the process of working. The previously mentioned types of costs can be segmented into two main categories of quality costs where the costs of prevention and the ones of examination are part of the costs of quality achievement whereas the costs of internally and externally observed deficiencies are numbered among the costs of quality deviation.

1.2. Implementation of the system for pursuing quality costs

The quality costs can have a significant share in the total costs' structure of a single organization where they have to be pursued and controlled the way they exist. Given the fact that the information on costs is of great significance when making decisions in terms of all fields of management, the pursuit of quality costs is in favor of improving the business process control, i.e. it is within the framework of achieving a long-term, productive and positive result in terms of the enterprise's work. The main objective of pursuing and managing the quality costs is emphasized in the Deming cycle.⁶ Actually, the mentioned cycle encloses some key activities leading to a quality promotion by planning the promotion, implementing the plan, checking the implemented plan, and acting in the direction of achieving a quality or improving it if the results being in the checking stage are satisfactory.⁷ The position of the accounting of quality costs in the Deming cycle is given on the implemented scheme shown below in picture no.2:



Picture no.1. Position of the accounting in the continuous quality promotion (Deming Cycle)⁸

According to the above-implemented picture no.1, the accounting of quality costs has an important role in the continuous quality promotion in terms of the business processes and their

⁶Malmi, T., Järvinen, P., Lillrank, P. (2004), A Collaborative Approach for Managing Project Cost of Poor Quality, European Accounting Review, Vol. 13

⁷Malinić, S., 2009, Domains of the Accounting Information System in the Enterprises' Crisis Management, Collection of papers – XIII4

⁸Source - S. K. M. Ho: Operations and Quality Management, International Thomson Business Press, London, 1999

production. In fact, the planning of accountancy should enable the pursuit of all initiatives of improving the organization's quality. After using the programme for quality improvement, it follows the accounting records which can be implemented in two fundamental ways: a record in the general ledger or a special record formed as accountancy of quality costs, alternatively as a record in the managerial accounting. The accounting supervision of the implemented activities assists in pursuing the checking stage being followed by the process of acting upon the detected failures and quality deviations.⁹ The Deming cycle ends up with a notice about the quality costs which gives important information on management decisions, generating ideas for a further action. The effective communication, the interpretation of measurement, and also the quality costs' analyzes enable a better estimation and control of the position management rather than the actual activity of quality promotion, planning some current initiatives. The reports on quality costs provide a place and information for the bearers in terms of the quality costs' emergence, i.e. in terms of the activities which have caused a lack of processing and production. The report of such a kind presents a good basis for making decisions on further activities of quality achievement and improvement.

2. The process of functionality in the Macedonian companies and their accounting practice in the interest of quality management

In order to make a complete empirical analysis referring to the functionality of the Macedonian enterprises in terms of implementing their accounting practice directed towards quality control and achievement, it has been implemented a qualitative-quantitative method of analysis by using a questionnaire covering the medium-sized and smaller enterprises in the Republic of Macedonia. It is crucial for these Macedonian enterprises to meet the main quality standards, to maintain and improve the quality implemented by the internationally recognized standard ISO 9001:2001 referring particularly to the quality management and at the same time increasing the satisfaction of the Macedonian purchasers at the market. In 2017 it was carried out a survey on a total of 30 enterprises on the territory of the Republic of Macedonia. Therefore, in order to prove that the accounting reports implemented by the companies, and especially the information about the additional quality costs have a significant influence on the decrease in the production and the process of production with deficiencies, the Macedonian companies were asked if they had records of the quality costs. Thus, the given answers are used in the chart no.1:

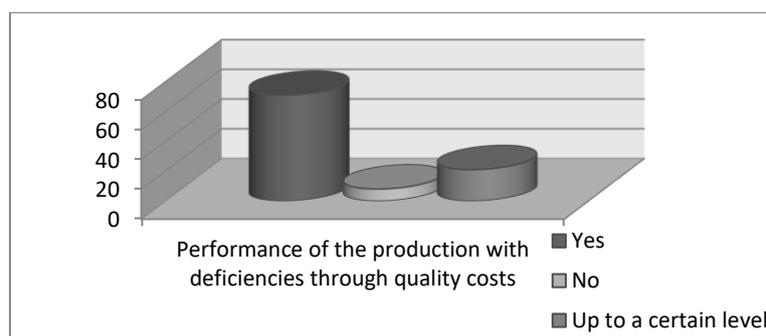


Chart no.1. Existence of records of quality costs and their ratio by achieving a lower effectiveness of deficiencies

Taking into account the above-mentioned chart no.1, even 71% of the Macedonian enterprises have confirmed that it exists and it is implemented a record of quality costs. In fact, this percent declares that their accounting records of quality costs have a significant influence on their ratio

⁹Malmi, T., Järvinen, P., Lillrank, P. (2004), A Collaborative Approach for Managing Project Cost of Poor Quality, European Accounting Review, Vol. 13

in the course of achieving a lower effectiveness of deficiencies. However, only 8% of the Macedonian enterprises have declared themselves negatively that there is no record of quality costs, and there is no performance of a lower process of production with deficiencies. Moreover, 21% of the Macedonian enterprises have answered and declared that accounting records of the quality costs have just started to be implemented without tracking down any major changes in terms of reducing the effectiveness of deficiencies.

According to the above-implemented data, it can be surely confirmed that it is considerably high the percent of the Macedonian enterprises of the above-questioned, i.e. up to 90% which follow the quality costs occasionally. Therefore, it is apparent that a considerably high percent and number of Macedonian organizations have perceived a significant reduction of the products with deficiencies with the purpose of increasing the satisfaction of the customers at the Macedonian market. The result of the survey refers to the fulfillment of some of the main objectives of the quality management as it is the act of reaching a minimal level of deficiencies in relation to the products, the process of production and the service being implemented by the enterprise itself at the Macedonian market.

Therefore, within the framework of the chart no.2, it can be seen that even 81% of the Macedonian enterprises manage by implementing a standard programme of the quality management to have accounting records of the quality costs which show a significant reduction of the deficiencies in terms of their functioning.

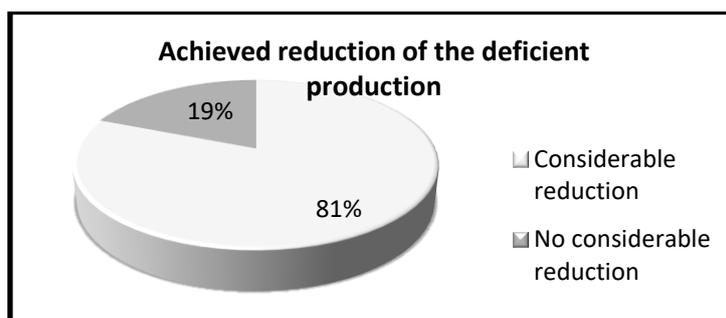


Chart no.2 - Chart of the achieved reduction of quality deficiencies in the process of production and services

Actually, this confirms for certain the fact that the implementation of the effectively standardized quality management conducted by the accounting records of quality costs decreases the level of quality deficiencies considerably in the process of production and its effective work. However, it has to be mentioned the fact that the Macedonian enterprises should implement an effective programme of quality management which has to be necessarily followed by effective accounting records of costs if their main objectives are to reduce the quality deficiencies both in their processes of production and performance, and also to lower their costs. Therefore, it is of great importance to see how big the share of costs of quality deviation is in terms of the total costs of functioning both at the beginning and the end of the observation period of the Macedonian enterprises' working. Thus, it can be seen in the chart no.3 that in the course of time, it comes to a reduction of these types of costs in the Macedonian quality managing enterprises.

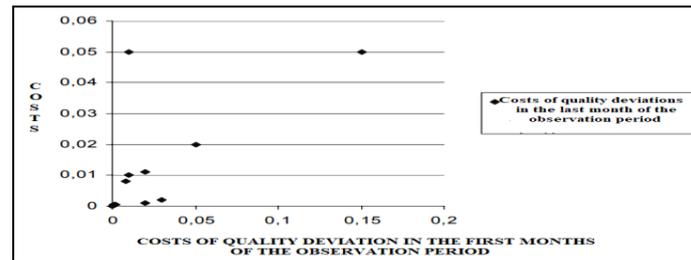


Chart no.3. Ratio of reducing the costs of quality deviation in a period of one-year observation in a Macedonian company

According to the above-implemented survey, it can be seen for sure the assumption that the Macedonian enterprises which effectively use a qualitative programme of quality management along with productive and efficient accounting records of quality costs can increase their income considerably and at the same time reduce the growth of the costs of quality maintenance. Therefore, it can be surely seen the significant influence of the accounting records of quality costs' observation. By implementing the accounting of quality costs effectively, there is offered precise and accurate information being necessary for the internal users and leading to an increase in the enterprises' economic benefits which enable the business income's realization and thus, they increase the enterprise's business performance.

Conclusion

Under today's modern conditions of business acting, the effectiveness of managing costs plays an immensely important role in the functioning of every enterprise at the Macedonian market regardless of its size, and the production or services which they implement there. The effective way of making management decisions, the increase of the organizations' performances and business earnings depend largely on the qualitative decisions made in the field of managing costs, especially the ones referring to quality maintenance. Furthermore, as a result of the development and the more frequent application of managing quality in the organizations, it arises the need for getting detailed and updated data about the management effectiveness. This support can provide a more effectively organized cost accounting, and thus essentially include the function of quality improvement in all the segments of the companies and organizations' acting. Thus, by seeing the above-implemented empirical review of the presented problems within the framework of this paper's research, it can be concluded for sure that the effective implementation of the programme of quality into the enterprises results in decreasing the number of production deficiencies.

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