

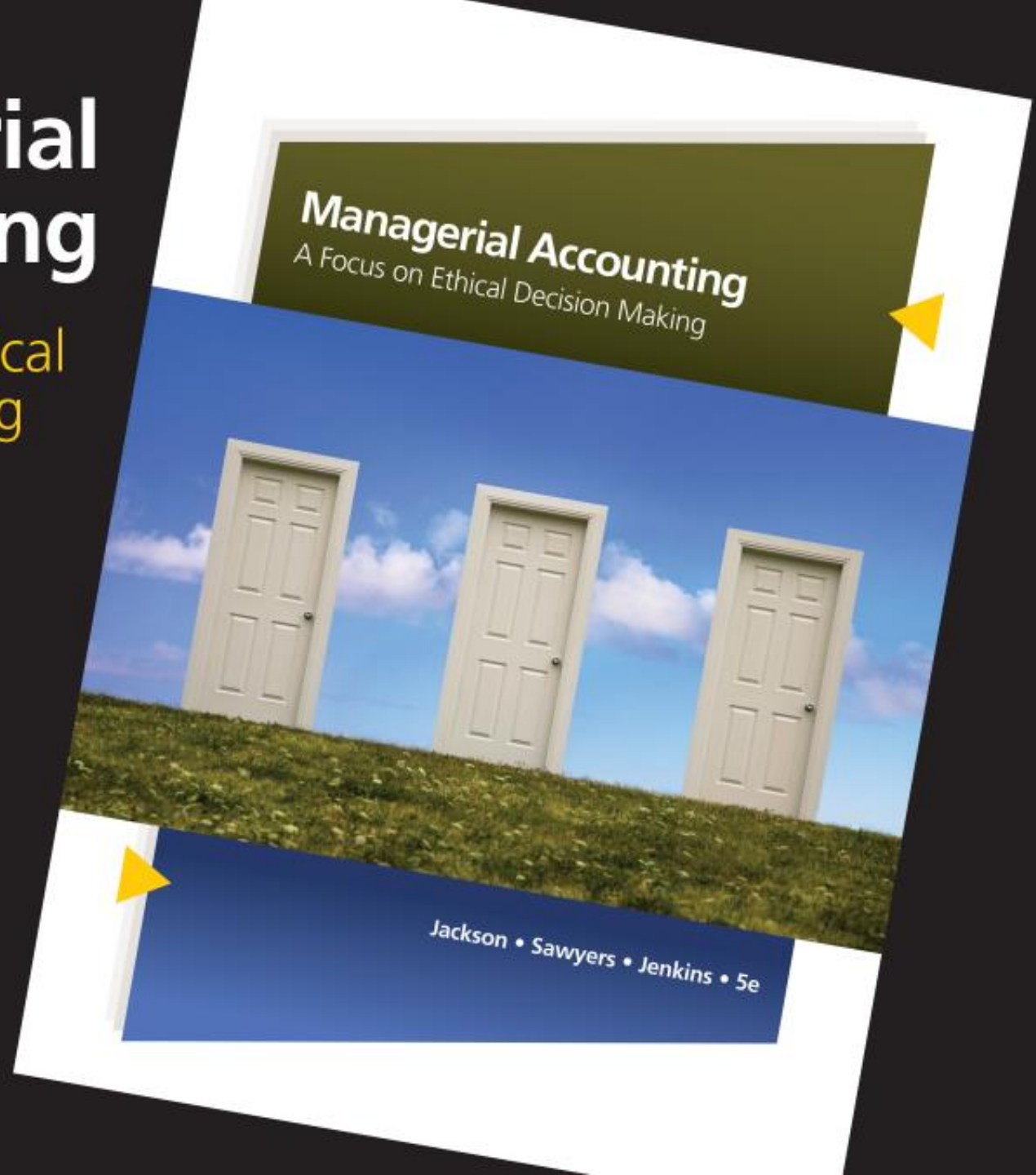
Managerial Accounting

A Focus on Ethical Decision Making

Jackson • Sawyers
Jenkins • 5e

CHAPTER 14

Performance
Evaluation Using
the Balanced
Scorecard



Measuring and Controlling Quality Costs



QUALITY

Meeting or exceeding customers' expectations

- **Product performs as it is intended**
- **Product must be reliable and durable**
- **These features are provided at a competitive price**

The Costs of Quality

- **Since providing quality can be costly, a framework is necessary to compare the benefits of providing quality with the costs that result from poor quality**
- **Four general categories of quality costs include:**
 - ❖ **Prevention costs**
 - ❖ **Appraisal (detection) costs**
 - ❖ **Internal failure costs**
 - ❖ **External failure costs**

The Costs of Quality

Prevention Costs

Costs incurred to prevent product failure from occurring.

Incurring early in the value chain and include design and engineering costs, as well as training, supervision, and the costs of quality improvement projects.

The Costs of Quality

Appraisal (detection) Costs

Incurred in inspecting, identifying, and isolating defective products and services before they reach the customer.

Include costs of inspecting raw materials, testing goods throughout the manufacturing process, and final product testing and inspection.

The Costs of Quality

Internal Failure Costs

Incurred once the product is produced and then determined to be defective, but before it is sold to customers.

Include the material, labor, and other manufacturing **costs incurred in reworking defective products and the costs of scrap and spoilage.**

The Costs of Quality

External Failure Costs

Incurred after a defective product is delivered to a customer.

Include the cost of repairs made under warranty, replacement of defective parts, product recalls, liability costs arising from legal actions against the seller, and eventually lost sales.