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REPORTING THE TOTAL QUALITY MANAGEMENT COSTS IN COMPLIANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

Abstract:

Suppliers have started to focus on costs as tough competing market conditions have been triggered by globalization and leaving of national protection. Under the competitive market conditions, the measures taken firstly are cost information and reducing them. As result of these precautions, suppliers have attempted to research in reducing costs, cost accounting, and managerial accounting in this area, and also they have started to implement those techniques in their enterprises.

Quality costs are also defined as inferiority costs. A business cannot recognize any cost to increase the quality of the product as quality cost after having been established to produce any goods to meet the consumers' needs. Any incremental cost that incurred as a result of disorder of the organization cannot be accounted as quality cost. It can be considered as inferiority-cheapness cost. Eventually quality costs comprise of all the expenditures that are incurred to reduce the errors and to correct them.

Quality costs are generally classified as in 4 groups. These are prevention costs, measuring costs, internal failure costs and external failure costs. Quality costs can be measured for the entire organization and also it can be prepared on the basis of product and department. Depending on the situation, calculation period can be monthly, three-month, yearly and etc. In the report, comparison between periods, new developments in comparison to same period of the previous year, trends of quality costs' components and various graphical representations take place. Each organization must find the most appropriate reporting scheme and period according to their characteristics. Being able to compare quality costs with sector will be more useful for firms to analyze their quality costs. Having started to apply quality cost practices, feedbacks to the company must be monitored.

In general, financial statements are prepared within an accounting model based on recoverable historical cost and protection of nominal capital.

According to IFRS, Financial information -to be beneficial- must be appropriate with the requirements and it must be presented in a realistic way what it aims to explain. If financial information is comparable, verifiable, and understandable also presented in a timely manner, benefits of this mentioned information increases. In quality costs reporting which is prepared taking IFRS into accounting, first of all reporting must be done as fitting for purpose and realistically which are considered as basic qualitative characteristics.

Keywords:

Total Quality Management, Financial Reporting Standards, Cost Accounting

JEL Classification: M41, M40

1. PREAMBLE

The boundaries have removed with the supports of the technological revolutions. As the result of these changes, the producer party has changed its place from active status to passive status; on the contrary the consumer party has changed its place from passive to active. Today the consumers are stronger when compared to the past and they are the main experts in directing the demand.

Together with the globalization and assigning the protection policy, the increase in the competition has caused the exposers to deal with the cost with more concerned interest. The first practice in the competitive environment is to gather knowledge about the costs and to decrease these amounts. The exposers have entered into researches in this field and they have started to develop cost decreasing methods which are more efficient in management and cost accounting applications and have started to implement these methods.

2. DEFINITIONS OF QUALITY COSTS

The quality of cost are the costs which form as the result of the failures that occur during the conducted activities, planned quality inspections and production of the product and after the delivery to the customer for preventing the failures that may occur. (Yükçü, 1999: 90).

The quality of the costs can be identified as the cost of the unqualified. The additional costs which are caused by the defective product aroused from the irregularity in the business cannot be quality of costs; at most it can be cost of unqualified. (MPM Efficiency Commission: 8). Therefore the cost of quality are the whole costs which are made for preventing and recovering the failures in the products.

The costs of quality are generally gathered in four groups. These are; prevention costs, internal failure costs and external failure costs.

2.1 PREVENTION COSTS

There are the costs of producing defective products which are tolerated for preventing the occurrence of the failures in other words before the occurrence of the failures.

System Development, Reviewing the Designs, trainings related with work, Quality Engineering, Quality Cycles, Statistical quality control activities, inspecting and controlling the preventive actions can be considered as the examples.

2.2 . MEASUREMENT COSTS

They are the whole valuation costs which are made with the purpose of reaching the desired quality like quality control and verification of the quality in any stage of the quality control transaction. (Yükçü, 1999: 93).

For measurement costs;

The tests and inspection of incoming materials, tests and inspection of semi-finished products, tests and inspection of the products, control of test and inspection materials and activities, field test and measurement before the customer can be given as example.

2.3. INTERNAL FAILURE COSTS

The failure cost is the situation which the product is produced as defective as not to comply with the predetermined standards and qualifications. (Şimşek, 2010:211). They are the costs which are caused by the failures determined within the corporation before the acceptance of the product or service by the customer. These costs form by the accurate performance of everyone in one time at every time. According to Juran, it covers the items mentioned below.

Scrap, Re-processing, Shutdown Periods, Income losses, (Şen, Seminar Notes of Quality Costs.) net cost of the deficiency, general production costs of correcting production labour, re-testing of the corrected products, shutdowns which occur with the quality problems, the analysis of the failures in the production.

2.4. COSTS OF EXTERNAL FAILURE

The external failure costs are the failure costs which occur during the design and production stage of the product or service, but being realized after the delivery to the customer and the failures which are informed to the customer. These are;

Service and complaint solving costs, warranty repairs and replacement costs, repairs and replacements after the warranty period, product recall, liabilities which occur with the reason of defective products, returns and compensations which occur with the quality problems and the sales costs which are lost with the reason of low quality.

For decreasing the total quality costs, the followings shall be made as basis: The expenses, types of expenses and cost forms related with the high total quality costs. The objects shall be determined for constant development. Programs shall be made related with the total quality costs within TQM activities. An organization shall be established that shall carry out the programs and total quality cost system. The total quality costs shall be analyzed and reported by being measured. (Ertuğrul, 2006:136).

3. REPORTING THE QUALITY COSTS

Establishing a system for calculating the quality costs and reporting to the management regularly provides these benefits in a corporation;:

1. The quality problems are measured in terms of money.
2. The quality problems are listed according to importance and priority.
3. It can be determined where the quality problems occur.
4. It can be monitored whether the trends in quality cost components develops in the direction of increasing the trends.
5. The performance of quality development studies are measured.
6. The quality between the various departments is expressed in a common language.

The quality costs can be calculated for the whole establishment as well as product basis and department basis. The accounting period can be prepared both monthly, 3 months and annually according to the situation. The comparisons between the periods, developments according to the same period of the previous year, trends of the quality costs components etc. take part in the reports with graphically presentations. Each establishment shall find the most appropriate reporting order and interim for their own specifications. (Akın,yy:7)

The reporting of the Quality costs shows difference according to the company and the sector. Both vertical and horizontal analysis can be used. With this method, the rate of the expense amount to any account can be followed within the year. Generally this account is Net Sales Account. In a reporting which is made with this method, prevention, calculation, internal failure and external failure costs are compared to the Net Sales Account both as group and in detail. Thus, it is determined which cost unit is represented by which rate. To implement the same application to other years decision makers for taking decisions. Then the decisions makers shall have data which can be compared.

The quality cost elements can be compared as period basis in vertical form. Therefore the increases and decreases of the cost elements when compared to the previous periods can be followed, the reasons can be searched and these led the result of the occurrence of the most qualified products.

To compare the quality costs with the sector shall be more useful for the companies in analysing their own quality costs. Besides after starting the quality cost application, its return to the company shall be followed. It is expected that a more qualified product brings more profit to the company. For sure, it is required to have knowledge about the demand flexibility of the product because reporting the quality costs shall provide more returns in a higher product according to a product which has a lower demand flexibility.

3.1. REPORTING THE QUALITY COSTS BY CONSIDERING IFRS

The financial tables are prepared and issued for the users out of the establishment by many establishments in world-wide. The said tables show similarities among countries. On the other hand, to take consideration of the requirements of the users of different financial tables have some differences with some social, economic and legal reasons.

The said differences caused the usage of different definitions for financial table elements, for examples; the assets, debts, equities, incomes and expenses are defined in different method. Besides the said differences caused the usage of the different criteria in recognition of the items in the financial tables and adaptation of the different measurement principles for these items and the explanations in these tables have affected from these differences.

International Accounting Standards Board aims to decrease the rules related with the said differences, issuance and submission of the financial tables by harmonizing the accounting standards and implementation procedures. The board believes that this harmonization can be proceeded by taking these financial tables as the basis which are issue for covering the information helping the decision on the economical decisions.

International Accounting Standards Board thinks that these financial reports which are issued for this reasons, shall meet the common objects of many users. The reason of it; almost all the users take economic resolutions for:

(a) deciding to purchase, sell and keep the investments representing the share in capital,
(b) evaluating the competence and liability of the management,
(c) evaluating the capacity of the establishment in providing the fees and other benefits of the employees,
(d) determining the security of the funds which are given to the establishment as loan,
(e) determining the tax policies,
(f) determining the distributable profit and dividend amounts,
(g) Using and issuing the national income statistics or
(h) regulating the activities of the establishment in terms of legal issues

Generally the financial tables are issued within frame of an accounting model which takes the concept of recoverable historical cost and preservation of the nominal cost as a basis.

For the using the benefits of the financial information, the issue which shall be explained shall be convenient to the need and shall be submitted in accurate form. If the financial information is comparable, verifiable and comprehensible and is submitted on time, the benefit of the said information is increased. Basic qualitative specifications are the presentation as convenient to the need and truth.

3.1.1. Conformance to the need

The financial information which is in conformity with the need, has the power to affect the decisions taken by the user. Even in the case where some users do not prefer to benefit from the information or provide the information from other sources, the information has the power to affect the decisions.

Financial information has the power to affect the decisions if it has the specification of being used in predictions or verification or both specifications.

If the financial information is being used as a data by the users in predicting the results in future, it also has the specification to being used in the predictions . Besides if it provides feedbacks for the previous evaluations, it has the specification of verification.

The specification being used in the predictions and verification specification are in relation with each other. The information which has the specification of being used in prediction also has the specification to verify. For example; the information related with the current year revenue can be both used in predicting the revenue amounts related with the future years and can be compared with the predictions which is made for the current year revenue amount in the previous years. The results of these comparisons help the users in recovering and recruitment of the process which are implemented in making the previous predictions.

If not giving an information or giving a false information can affect the decisions of the users which are given by depending upon the financial information related with the establishment that has regular reporting system, this information is important. The importance is the form of the conformance to the need which is specific for the establishment. The evaluation for determining the importance of the information is made by depending upon the size and qualification of the items related with the information by considering the financial report of an individual establishment. For this reason no standard numeric threshold or the importance of the knowledge in a special condition are not determined.

3.1.2. Presentation in Realistic Form

In financial reports the economical cases are expressed with the words and numbers. It is not sufficient for a financial information to submit the relevant cases for being beneficial for the users. It has to submit the economical cases which it aims to explain in an accurate form. For providing a realistic presentation, it needs to have three specifications. Accordingly the presentation must be complete, objective and free of faults. Of course the faultlessness can be reached as rarely. It is aimed to have the Financial Reporting Standards and these specifications to the possible highest level.

A complete presentation includes all the information including the explanations and definitions for an economical case for being understood by a use. For example; A complete presentation related with an asset group shall cover the definitions of the qualitative of the assets in group and representation of all the assets in the group as numeric and the address of the numeric explanations. A complete presentation for some items may need the explanation related with process which is used in determining the numeric explanation and cases and elements that may affect the specification and the qualification of the said items and important information related with the specification and qualification of the items.

The objective presentation is not directive for increasing the possibility of the negative or positive evaluation of the financial information by the users. Objective information does not have the meaning of information which does not have a specific purpose or no effects on the decisions. On the contrary, as mentioned in the definition, the financial information with conformance to the need has the power to affect the decisions of the users.

The realistic submission of the information does not mean that it is true in all aspects. The presentation without any failure means; there are no failures or omission in defining the economical case, the process which is used in obtaining the reported information is free of faults. Concordantly, the presentation without faults does not have a specific accuracy. For example, it cannot be said that a prediction related with a price or value which is not monitored, is true or not. However in case, the accurate and net definition of the estimated amount is made, no faults are made in the selection and the implementation of the process which is convenient for defining and explaining the structures and limitations related with the process used in estimation, the presentation of this estimation can be realistic.

Only the accurate presentation cannot provide beneficial information. For example; a reporting establishment can obtained a real asset with the government promotion. The costless reporting of the obtained assets shows the costs in an accurate form. However this information shall not be possibly beneficial. The prediction of the amount related with the correction which is needed to be made in the book value for reflecting the depredation of the asset, can be given as a detailed example. In case the reporting establishment implements the process in true form and explains the uncertainties which affect the said prediction, this prediction is presented in realistic form. However if the level of the uncertainty related with such prediction is high, the said prediction shall not be beneficial. In another words, the conformance of the need of an establishment which is presented in realistic form, can be questioned. If there is no alternative presentation which reflects a better truth, the prediction provides the best current information.

For the becoming beneficial, an information shall be submitted in true form and shall be convenient to the need. The accurate presentation of a non-relevant economical case and the presentation of a relevant in non-accurate form, is not beneficial for the users in taking true decisions.

The most efficient and active process related with the implementation of the basic qualitative specifications, actualize in the form mentioned below. Firstly the economical case which has the possibility to be beneficial to the users using the financial information of the reporting establishment, is determined. Secondly, the information type is determined which is most convenient to the need when submitted as accurate and realistic. Thirdly, the existence of this information and true and accurate submission is determined. If it is determined that the information exists and can be submitted in accurate and realistic form, the process related with the meeting of the basic qualitative specifications, is completed. Otherwise, the process is repeated by determining the information type which is most convenient to the next need.

3.1.3 Supportive Qualitative Specifications

Comparability, verifiability, timely delivery and intelligibility are the qualitative specifications which increase the benefit of the information in case both methods are presented in true and realistic form in the presentation of an economical case. Besides the supportive qualitative specifications can be beneficial in determining the methods in cases where the true and realistic presentation is made.

3.1.3.1. Comparability

The users give decisions that require the choice between the alternatives like selling or keeping an investment or the selection of an establishment which the investment shall be made. In this respect if the information related with the reporting establishment can be compared with the similar information related with other establishments and similar information of the same establishment related with other period and date, it is more beneficial.

The comparability is a qualitative specification that provides the determination of the similarities and differences between the items by the user. As different from other qualitative specifications, the comparability is not related with a single item. At least two items are needed for making a comparison.

The consistency is related with the comparability but does not have the same meaning. The consistency means that using same methods for the same items in a single period between the establishments or between periods of the reporting establishment The comparability is an object; the consistency helps to actualize this object.

The comparability is not uniformity. For an information becoming comparability, similar things shall be seen similar and different things shall be seen as different. The comparability of the financial information cannot be increased by the different presentation of the same things and cannot be increased with the similar presentation of the different things.

It is possible to reach the comparability in a specific level together with providing the basic qualitative specifications. The realistic presentation of a relevant economical case can be compared with a realistic presentation made by another reporting establishment

It can be provided that a single economical case can be presented with more than one method. Besides, giving permission to the alternative accounting methods for the same economical case, decreases the comparability.

3.1.3.2. Verifiability

The verifiability helps the users to ensure the realistic presentation of an economical case which the information aims to explain. The verifiability means that the observant who are independent and have different knowledge level have the agreement related with the realistic presentation of the specific information. (no complete agreement is needed). For verifying a numeric information, there is no need to predict a single point. A set of possible amounts and relevant possibilities are in the verifiability qualification.

The verification can be direct or indirect. The direct verification means the verification of another presentation or amount with the direct observation like calculating the amount of the money. The direct verification means the control of the data used in a model, formula or in another method and re-calculation of the results by using the same method. The recalculation of the end period stock by using the cost flow assumption (first in first out) and verification of the book values of the stocks buy controlling the data (cost and amount.)

It may not be possible to verify some explanation and financial information till the future period. Basic assumptions, complication methods related with the information and other factors and status are needed to be explained for helping the users in determining the usage of these kinds of information.

3.1.3.3. Timely Presentation

Timely presentation means that the information is available in a time where it can affect the decisions of the decisions makers. Generally, when information gets older, its affect decreases. However, some information can continue to be beneficial for a long time after the ending of the reporting period for the evaluation and determining the disposition of some users.

3.1.3.4. Understandability

The net and self-classification, definition and submission of the information make the information understandable. Some economical cases are complex and cannot be simplified. To excluding the information related with these cases from the financial reports, can provide the better understanding of these information. However in such case, these reports can be deceptive due to being missing.

The financial reports are issued for the users who analyse and review the information and those who have reasonable knowledge about the activities of the establishment and economical activities. Sometimes an careful and wise users can have the need of consulting a consultant for understanding the information related with the complex economical cases.

3.1.3.5. Appling the supportive Qualitative Specifications

The supportive qualitative specifications shall be taken to the highest possible level. However, if the information is not convenient to the need or not presented in realistic form, shall no beneficial for information.

The implementation of the supportive qualitative specification is a repeated process which does not follow a regular order. Sometimes for taking the qualitative specification to the maximum level, a supportive qualitative specification can be decreased. For example, a temporary decrease that may occur in comparability as the result of the long term implementation of a new financial reporting standard can be beneficial for developing a realistic presentation. Appropriate explanation may compensate the decrease in the comparability. (Conceptual Frame related with the financial reporting 2011:8-9)

In the Quality Cost Reporting which shall be issued by considering IFRS, firstly the reporting is made according to the presentation principles in a realistic and convenient to need form.

Then to make reporting according to the supportive qualitative specifications which are comparability, verification, timely presentation and understandability principles shall show direction to the decision makers for the solution and better understanding of the quality costs

RESULT

The determination of the quality costs has major importance for the companies in sector for their consistency. The better data shall provide advantages in providing competition superiority in the market to the management.

The establishments shall implement the reporting format which is most convenient to their own stuctures. Therefore there are no stabile forms in the reporting. IFRS provides advantages to the decision makers in implementation of these reporting. When it is considered that the main purpose of IFRS is the accurate reporting the quality cost reports which are issued as convenient to the Conceptual Frame Related with the Financial Reporting shall provide more accurate data to the users. More efficient decisions are taken with more accurate data As the result, positive contributions shall be provided to the consistency of the establishment

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