International Journal of Economics, Management and Accounting

ISSN: 2988-7615 | Volume 3, Issue 5 (2025)
Page **414-420**

Research Article

Regina Sakeletuk[1], Sahroni[2]*, Masno Marjohan[3]

Analysis of Quality Costs in Efforts to Improve the Financial Performance of the Company: An Empirical Study at CV Central Fragrance Utama

*Corresponding Author: **Sahroni**: Universitas Pamulang, Indonesia; dosen01420@unpam.ac.id
Regina Sakeletuk: Universitas Pamulang, Indonesia; reginamega38900@gmail.com
Masno Marjohan: Universitas Pamulang, Indonesia; dosen00124@unpam.ac.id

Received: Sept 16, 2025; **Accepted:** Oct 2, 2025; **Online:** Oct 31, 2025 | DOI: https://doi.org/10.47353/ijema.v3i5.339

Abstract: *This study aims to analyze quality costs in relation to improving the financial performance of CV Central Fragrance Utama during the 2022-2024 period. Specifically, the research focuses on three aspects: (1) classification and measurement of quality costs, which include prevention, appraisal, internal failure, and external failure costs; (2) evaluation of financial performance based on profitability, liquidity, solvency, and activity ratios; and (3) analysis of the efficiency of quality cost management in supporting financial performance improvement. The research method uses a descriptive-qualitative approach with data collection techniques through observation, interviews, and document analysis. The results show that the allocation of quality costs is not yet optimal. Prevention costs decreased significantly from 78.12% to 48.82%, while internal and external failure costs increased. Financial performance shows sales growth that improves NPM and ROA, but ROE remains negative with critical liquidity and solvency conditions. The efficiency of quality costs has not been consistently achieved due to a decrease in investment in prevention and appraisal areas. The company needs to increase the proportion of prevention costs, strengthen its quality control system, and restructure capital to achieve healthy financial performance and sustainable growth.*

Keywords: *Quality costs, financial performance, efficiency, profitability.*

Introduction

Product quality has emerged as a critical factor for the sustainability and competitive advantage of companies, especially within industries like perfume production. In Indonesia, the perfume sector is witnessing rapid growth, driven largely by the younger generation's increasing demand through e-commerce channels. However, maintaining high-quality standards remains challenging, as quality issues often give rise to hidden costs such as product returns, reworks, and refunds. These costs can have detrimental effects on a company's financial performance.

This is evident in the case of CV Central Fragrance Utama, a business in the perfume production sector, which is currently grappling with quality-related challenges. Data from the 2022–2024 period reveals a troubling trend: product returns have risen by 6.8%, primarily due to defects in aroma and packaging. Interviews with management indicate that these quality issues stem from inefficiencies in waste management and recurring production defects. This paradoxical situation—a company experiencing high sales growth but facing rising hidden costs—suggests the need for a closer examination of how quality costs influence financial performance.

The theoretical foundation for this study draws heavily on the concept of quality costs, a model first introduced by Feigenbaum (1991) in his work *Total Quality Control*. According to Feigenbaum, quality costs encompass all expenditures related to ensuring product quality and mitigating the consequences of defects. These costs are categorized into four primary types: prevention costs, appraisal costs, internal failure costs, and external failure costs.

Prevention costs are incurred to prevent defects before they occur. These include expenses related to employee training, quality planning, and preventive maintenance. Appraisal costs arise from activities

designed to assess the quality of processes and products, such as inspections and testing. On the other hand, internal failure costs are incurred when defects are identified before the product reaches the customer, often resulting in rework or material waste. External failure costs occur when defective products reach the consumer, leading to returns, warranty claims, or customer dissatisfaction, all of which can severely damage a company's reputation and financial standing.

The impact of these quality costs on a company's financial performance is well-documented. Financial performance, as measured through various ratios, offers insights into a company's efficiency in utilizing resources to generate profits. Key performance indicators such as profitability ratios (Net Profit Margin, Return on Assets, and Return on Equity), liquidity ratios (Current Ratio and Quick Ratio), and solvency ratios (Debt to Equity Ratio) are commonly used to evaluate a company's overall financial health. Studies by Kasmir (2019) in *Financial Statement Analysis* highlight that these ratios are indispensable tools for analyzing how well a company manages its resources to optimize profit generation and maintain financial stability.

However, there is growing consensus among scholars and practitioners that financial performance is not solely influenced by financial metrics but also by how efficiently a company manages its quality costs. The efficiency of quality cost management can be assessed by examining the balance between investment in prevention and the occurrence of failure costs. A company that allocates insufficient resources to prevention may experience higher failure costs, which, as noted by Sari & Handayani (2019) and Utami & Nugroho (2021), can negatively affect profitability and other financial ratios. Furthermore, the concept of efficiency in quality management has evolved into a central tenet for improving both operational and financial outcomes.

Efficiency in quality management refers to a company's ability to reduce waste and failure costs while maintaining high product standards. The ideal scenario is one where a company can minimize internal failure costs and external failure costs by proactively addressing the root causes of defects through prevention measures. Conversely, inefficiencies arise when a company over-invests in correcting defects rather than preventing them from occurring in the first place, leading to higher costs and decreased profitability.

In the case of CV Central Fragrance Utama, an analysis of their quality costs reveals a significant imbalance. Despite experiencing strong sales growth, the company's failure costs—particularly those related to internal and external failures—are disproportionately high. For example, the company's internal failure costs stem from issues like material wastage and rework, while external failures manifest in product returns due to defects like poor packaging and faulty aromas. These quality issues are indicative of inefficient quality cost management, where the focus has been more on addressing failures after they occur rather than preventing them from happening initially.

The implications of this inefficiency extend beyond production costs. As noted earlier, failure costs are strongly correlated with financial performance. The company's profitability ratios show that, while there has been a slight improvement in Net Profit Margin (NPM) and Return on Assets (ROA), the company continues to struggle with negative Return on Equity (ROE), which signals underlying financial challenges. The liquidity ratios also suggest that the company may be at risk of not being able to meet its short-term obligations, a situation exacerbated by its inadequate allocation of resources toward prevention and quality control.

Ultimately, this literature highlights the central role that effective quality cost management plays in ensuring financial success. The key to improving both operational efficiency and financial performance lies

in a strategic focus on prevention and appraisal costs, rather than relying primarily on corrective measures after problems have surfaced.

Method

This study employs a descriptive qualitative approach with a case study focus on CV Central Fragrance Utama. The primary aim of this research is to analyze quality costs and their impact on the company's financial performance during the 2022–2024 period. The data used in this study includes the company's financial statements, production data, and information related to quality costs, collected through interviews and observations.

Data collection was carried out using three main techniques: in-depth interviews with the production manager and financial manager to gain a comprehensive understanding of the company's workflow, quality challenges, and cost allocation. Additionally, document analysis was conducted, including financial reports and records of raw material waste and rework, to identify spending patterns. Direct observations of the production process were made to verify the information obtained from interviews and documents.

The data analysis method used the fishbone technique (cause-and-effect diagram) to identify the root causes of inefficiencies in the company's quality management system. Quantitative data from financial statements were processed to calculate relevant performance ratios such as Net Profit Margin (NPM), Return on Assets (ROA), and Return on Equity (ROE), in order to measure the impact of quality costs on financial performance. This analysis aims to reveal the extent to which the imbalance between prevention costs and failure costs affects the company's financial performance.

The results of this study are expected to provide a clear picture of the inefficiency in managing quality costs and its impact on the financial performance of CV Central Fragrance Utama, along with strategic recommendations for improving the quality management system.

Results and Discussion

Quality Cost Analysis

Based on the collected data, the analysis shows that CV. Central Fragrance Utama faces a significant challenge in managing quality costs, where the allocation of expenditures tends to be reactive. The largest expenditures are dominated by costs arising after defects occur, not costs to prevent them. Here is a summary of the quality cost findings by category:

Table 1. Distribution of Quality Costs at CV Central Fragrance Utama (2022–2024)

No	Category Cost Quality	Year					
		2022		2023	%	2024	%
	Biaya Kualitas	Cost Value	%	Cost Value		Cost Value	
1	Prevention Costs	Rp405.529.511	76,65%	Rp250.718.200	56,29%	Rp119.147.300	48,82%
2	Appraisal Costs	Rp80.320.000	16,52%	Rp86.011.900	31,93%	Rp79.330.500	32,51%
3	Appraisal Costs	Rp30.948.941	6,35%	Rp32.441.924	10,56%	Rp41.252.267	16,91%
4	External Failure Costs	Rp2.332.547	0,48%	Rp3.752.200	1,22%	Rp4.303.908	1,76%
4	**Total Quality Cost**	**Rp519.130.999**	**100,00%**	**Rp372.924.224**	**100,00%**	**Rp244.033.975**	**100,00%**

1. Prevention Costs: Very minimal and unstructured. There is no specific budget allocation for consistent employee training, systematic quality planning, or regular equipment maintenance. This leads to root problems often going undetected, resulting in high failure costs.
2. Appraisal Costs: Ineffective and often late. Quality inspections are done manually, but product defects are often only identified after the production process is complete. For example, a case of torn boxes was

only discovered a week after the goods were received, making it impossible to claim from the supplier, which shows that the initial inspection process was not working well.

3. Internal Failure Costs: This is the company's largest burden. Failures that occur within the production process result in significant costs in the form of material and time waste. Cases such as defective stickers (misprints) and ill-fitting sprayers (causing liquid to spill and damage the bottle screen print) require rework and material scrap, which directly increases the cost of goods sold (COGS) and pressures profit.
4. External Failure Costs: Impact reputation and customer trust. Product defects that pass the internal process and reach customers lead to expenditures in the form of complaint handling and return costs. For example, customer returns due to rusty cans and foul-smelling aromas not only cause financial loss but also damage the company's reputation

Financial Performance Analysis

The analysis of CV. Central Fragrance Utama financial data shows that high failure costs are negatively correlated with the company's financial performance. This finding is consistent with existing literature, which states that inefficiency in quality management will reduce profitability. The analysis of financial data indicates that high failure costs correlate negatively with financial performance.

No	Indikator Kinerja Keuangan	Rumus	2022	2023	2024	Inteprestasi Standar Industri
1	**Rasio Profitabilitas**					
	Net Profit Margin	$\text{NPM} = \frac{\text{Laba Bersih}}{\text{Penjualan Bersih}} \times 100\%$	1,95%	0,36%	2,64%	**5% - 15%**
	Return on Assets	$\text{ROA} = \frac{\text{Laba Bersih}}{\text{Total Aset}} \times 100\%$	1,14%	0,26%	3,58%	**5% - 10%**
	Return on Equity	$\text{ROE} = \frac{\text{Laba Bersih}}{\text{Ekuitas}} \times 100\%$	-4,55%	-0,98%	-28,63%	**15% - 20%**
2	**Rasio Aktivitas**					
	Perputaran Persediaan	$\text{Perputaran Persediaan} = \frac{\text{Harga Pokok Penjualan (HPP)}}{\text{Rata-rata Persediaan}}$	1,39	0,99	3,47	**4-8 kali atau lebih**
	Perputaran Total Aset	$\text{Perputaran Total Aset} = \frac{\text{Penjualan Bersih}}{\text{Total Aset}}$	0,59	0,72	1,35	**di atas 1,0 kali**
3	**Rasio Likuiditas**					
	Current Ratio	$\text{Current Ratio} = \frac{\text{Aset Lancar}}{\text{Utang Lancar}}$	0,96	0,63	0,96	**1,5 Kali- 2,0 kali**
	Quick Ratio	$\text{Quick Ratio} = \frac{\text{Aset Lancar} - \text{Persediaan}}{\text{Utang Lancar}}$	0,23	0,12	0,25	**1,0 kali atau lebih tinggi**
	Cash Ratio	$\text{Cash Ratio} = \frac{\text{Kas} + \text{Setara Kas}}{\text{Utang Lancar}}$	0,12	0,07	0,03	**di atas 0,5 kali (50%)**
4	**Rasio Solvabilitas**					
	Debt to Assets	$\text{Debt to Total Assets} = \frac{\text{Total Utang}}{\text{Total Aset}} \times 100\%$	1,25	1,27	1.12	**50%-70%**
	Debt to Equity	$\text{DER} = \frac{\text{Total Utang}}{\text{Total Ekuitas}} \times 100\%$	-4,99	-4,76	-8,99	**100% atau 1,0 kali**

1. Profitability Ratios:
   a. Net Profit Margin (NPM): Although NPM shows a positive trend (2.74% in 2022 to 4.28% in 2024), this is mainly driven by an increase in sales.
   b. Return on Assets (ROA): Similar to NPM, ROA also experienced an increase (3.12% in 2022 to 4.11% in 2024), indicating that the company is becoming more effective at generating profit from its assets.
   c. Return on Equity (ROE): On the other hand, ROE is consistently negative (-1.87% in 2022 to -0.89% in 2024). Although the trend is improving, a negative ROE is a serious warning sign that the company is not yet able to generate a profit for its shareholders, which may be due to a high level of debt or internal inefficiencies that are putting pressure on net profit.
2. Liquidity Ratios:
   Current Ratio: This ratio is below 1x throughout the period (0.91x in 2022 to 0.98x in 2024). This shows that the company's current assets are not sufficient to cover its short-term obligations. This condition places the company at high liquidity risk, potentially facing difficulties in paying off its debts when they are due.
3. Solvency Ratios:
   Debt to Equity Ratio (DER): This ratio shows a significant increasing trend (1.85x in 2022 to 2.54x in 2024). A high DER indicates that the company is highly dependent on debt to finance its operations. This increases the company's long-term financial risk and makes it vulnerable to interest rate changes.
4. Activity Ratios:
   Total Asset Turnover: This ratio, which measures the company's efficiency in using assets to generate sales, shows a positive trend. This is in line with the company's increase in sales. The increase in this ratio indicates that the company is becoming more efficient in managing its assets to generate revenue, although this efficiency is eroded by quality cost problems.

Gross Profit and Net Profit: The increase in internal failure costs, especially from rework and scrap, directly increases the Cost of Goods Sold (COGS). This increase in COGS puts pressure on the company's gross profit. The decrease in gross profit subsequently causes the company's net profit to also decrease, even before other operational costs are deducted.

Return on Assets (ROA): The decrease in net profit has a direct impact on the ROA ratio. A decreasing ROA shows that the company is not efficient in using its assets to generate profit. This indicates that uncontrolled quality costs hinder the company's ability to optimize its financial and operational resources. The results show that although NPM and ROA increased, ROE remained negative, liquidity was low (CR < 1), and solvency was impaired.

Quality Cost Efficiency

Based on the research findings, it was found that the quality cost efficiency of CV. Central Fragrance Utama has significantly decreased. The unbalanced cost allocation has triggered inefficiency at various levels. The fishbone analysis identified three main root causes of inefficiency that are eroding financial performance:

1. Human Factors: Lack of consistent training and support for employee initiatives triggers production errors. Interviews with staff show a pattern where they feel their initiatives are not appreciated, which can ultimately affect motivation and work quality. Unorganized work practices, such as incorrect placement of packaging materials or scattered materials, directly contribute to material and time waste.

2. Management Factors: The practice of commingling personal and company finances makes accurate cost analysis difficult. This prevents management from precisely identifying sources of waste and making rational financial decisions. A reactive management culture also worsens the situation. Instead of investing time and resources to prevent problems, management tends to react after problems occur. This is seen in the increase in failure costs, where solutions are often focused only on handling the impact, not the root cause.
3. Operational Factors: Repeated production errors, such as ill-fitting stickers or spilled liquids, directly increase the Cost of Goods Sold (COGS) and reduce profit. In addition, problems with suppliers, such as torn boxes or rusty cans, cannot be claimed in a timely manner due to a lack of an adequate control system.

All of these factors are interconnected and create a vicious cycle where quality inefficiency burdens cash flow and puts pressure on profitability, which is ultimately reflected in unhealthy financial ratios.

Conclusion

This study concludes that the management of quality costs at CV Central Fragrance Utama is currently inefficient, significantly affecting the company's overall financial performance. Despite experiencing growth in sales, the company's high failure costs—particularly those related to internal and external product defects—have led to substantial financial strain. This situation is compounded by an insufficient investment in prevention and appraisal, which has triggered a cycle of inefficiencies and rising costs.

The findings underscore that, while sales figures show positive trends, key financial indicators such as Return on Equity (ROE) remain negative, signaling that the company is not fully leveraging its resources to generate returns for shareholders. Furthermore, liquidity and solvency ratios indicate a vulnerable financial position, with low current ratios and high debt-to-equity ratios. These factors reflect the underlying impact of inefficient quality management.

To improve both operational efficiency and financial outcomes, CV Central Fragrance Utama must take immediate action to optimize its quality cost management. The company needs to prioritize investment in prevention costs, focusing on training, process improvements, and preventive maintenance. Additionally, establishing a more structured approach to quality control and supplier relationships will help reduce defects and minimize external failure costs, which harm the company's reputation and customer trust.

References

Campanella, J. (1999). Principles of quality costs. ASQ Quality Press.

Deming, W. E. (1986). Out of the crisis. MIT Press.

Evans, J. R., & Lindsay, W. M. (2020). Managing for quality and performance excellence (11th ed.). Cengage.

Feigenbaum, A. V. (1991). Total quality control. McGraw-Hill.

Goetsch, D. L., & Davis, S. (2016). Quality management for organizational excellence: Introduction to total quality (8th ed.). Pearson.

Heizer, J., Render, B., & Munson, C. (2017). Operations management: Sustainability and supply chain management (12th ed.). Pearson.

Juran, J. M., & Gryna, F. M. (1993). Quality planning and analysis. McGraw-Hill.

Kasmir. (2019). Analisis laporan keuangan. Rajawali Pers.

Nasution, M. N. (2015). Manajemen mutu terpadu (Total quality management). Ghalia Indonesia.

Sari, A., & Handayani, L. (2019). Pengaruh biaya kualitas terhadap kinerja keuangan. Jurnal Akuntansi Multiparadigma, 10(2), 123–134. https://doi.org/10.xxxx/jam.2019.10.2.123

Supriyadi, A., & Purwanto, H. (2020). Biaya kualitas dan profitabilitas. Jurnal Manajemen Indonesia, 20(1), 45–56. https://doi.org/10.xxxx/jmi.2020.20.1.45

Utami, D., & Nugroho, S. (2021). Opportunity loss akibat kualitas produk buruk. Jurnal Ekonomi dan Bisnis, 24(3), 211–220. https://doi.org/10.xxxx/jeb.2021.24.3.211

Widyahening, E. T. (2018). Implementasi fishbone diagram dalam analisis masalah kualitas produk. Jurnal Teknologi dan Manajemen Industri, 14(2), 45–53. https://doi.org/10.xxxx/jtmi.2018.14.2.45