

Uniform Costing and Inter Firm Comparison

BASIC CONCEPTS AND FORMULA

Basic Concepts

1. Uniform Costing

When several undertakings start using the same costing principles and/or practices they are said to be following uniform costing. The basic idea behind uniform costing is that the different concerns in an industry should adopt a common method of costing and apply uniformly the same principles and techniques for better cost comparison and common good.

2. Objectives of Uniform Costing

- i. Facilitates Comparison
- ii. Eliminates Unhealthy Competition
- iii. Improves Efficiency
- iv. Provides Relevant Data
- v. Ensures Standardisation
- vi. Reduces Cost

3. Inter-Firm Comparison

It is technique of evaluating the performance, efficiency, costs and profits of firms in an industry. It consists of voluntary exchange of information/data concerning costs, prices, profits, productivity and overall efficiency among firms engaged in similar type of operations for the purpose of bringing improvement in efficiency and indicating the weaknesses.

4. Requisites of inter-firm comparison system

- i. Centre for Inter-Comparison
- ii. Membership
- iii. Nature of information to be collected
- iv. Method of Collection and presentation of information

9.2 Advanced Management Accounting

Question 1

What are the requisites for the installation of a uniform costing system ?

Answer

Requisites for the installation of uniform costing: Essential requisites for the installation of uniform costing are as under:

- (i) The firm's in the industry should be willing to share / furnish relevant data or information.
- (ii) A spirit of cooperation and mutual trust should prevail among the participating firms.
- (iii) Mutual exchange of ideas, methods used, special achievement made, research and know how etc. should be frequent.
- (iv) Bigger firms should take the lead towards sharing their experience and know how with the smaller firm to enable the latter to improve their performance.
- (v) In case of accounting methods, principles, procedure and production method uniformity must be established.

Question 2

What is uniform costing? Why is it recommended?

Answer

Uniform Costing: It is not a distinct method of costing when several undertakings start using the same costing principles or practices, they are said to be following uniform costing. Different concerns in an industry should adopt a common method of costing and apply uniformly the same principles and techniques for better cost comparison and common good and helps in mutual cost control and cost reduction. Hence, it is recommended that a uniform method of costing should be adopted by the member units of an industry.

Question 3

What is uniform costing? Why is it recommended?

Answer

Uniform Costing: It is not a distinct method of costing when several undertakings start using the same costing principles or practices, they are said to be following uniform costing. Different concerns in an industry should adopt a common method of costing and apply uniformly the same principles and techniques for better cost comparison and common good and helps in mutual cost control and cost reduction. Hence, it is recommended that a uniform method of costing should be adopted by the member units of an industry.

Question 4

What are the essential requisites for the installation of Uniform costing system?

Answer

Essential Requisites for Installation of Uniform Costing System:

- A. Firms should be willing to share or furnish relevant data /information.
- B. Spirit of mutual trust and co-operation should prevail among participating firms.
- C. Mutual exchange of ideas, methods used, special achievements made, research and know – how should be frequent.
- D. Bigger firms should lead in sharing their experience to enable smaller firms to improve their performance.
- E. Uniformity should be established with regard to the size of units, production methods, accounting methods, procedures and principles used.

EXERCISE

Question 1

What is inter-firm comparison and requisites of inter-firm comparison system?

Answer

Refer Chapter: 9 Paragraph: 9.2

Question 2

State the limitations of uniform costing.

Answer

Refer Chapter: 9 Paragraph: 9.1.4

Question 3

What are the advantages of inter firm comparison.

Answer

Refer Chapter: 9 Paragraph: 9.2.2