

# UNIFORM COSTING AND INTER FIRM COMPARISON

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## 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

**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.

**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