

Uniform Costing and Inter Firm Comparison

8.1 Uniform Costing

Meaning

Uniform Costing is not a distinct method of costing. In fact, 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. The principles and methods of compilation, analysis, apportionment and absorption of overheads differ from one concern to the other in the same industry; but if a common or uniform pattern is adopted by all, it helps mutually in cost control and cost reduction. Therefore, it is necessary that a uniform method of costing should be adopted by the member unit of an industry.

8.1.1 Objectives of Uniform Costing: The main objectives of Uniform Costing are as follows:—

1. *Facilitates Comparison:* To facilitate the comparison of costs and performances of different units in the same industry; it provides objective basis.
2. *Eliminates Unhealthy Competition:* To eliminate unhealthy competition among the different units of an industry.
3. *Improves Efficiency:* To improve production capacity level and labour efficiency by comparing the production costs of different units with each other.
4. *Provides Relevant Data:* To provide relevant cost information/data to the Government for fixing and regulating prices of the products.
5. *Ensures Standardisation:* To bring standardisation and uniformity in the operation of participating units.
6. *Reduces Cost:* To reduce production, administration, selling and distribution costs, and to exercise control on fixed costs.

8.1.2 Essential requisites for the installation of Uniform Costing System : A successful system of uniform costing has the following requirements :—

1. The firms in the industry should be willing to share/furnish relevant data/information.

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2. A spirit of cooperation and mutual trust should prevail among the participating firms.
3. Mutual exchange of ideas, methods used, special achievements made, research and know how etc. should be frequent.
4. Bigger firms should take the lead towards sharing their experience and know-how with the smaller firms to enable the latter to improve their performance.
5. Uniformity must be established with regard to several points before the introduction of uniform costing in an industry. In fact, uniformity should be with regard to following points:
 - (a) Size of the various units covered by uniform costing.
 - (b) Production methods.
 - (c) Accounting methods, principles and procedures used.

8.1.3 Advantages of Uniform Costing: The advantages accruing from the use of uniform costing system are as follows:-

1. The management of each firm will be saved from the exercise of developing and introducing a costing system of its own.
2. A costing system devised by mutual consultation and after considering the difficulties and circumstances prevailing in different firms is readily adopted and successfully implemented.
3. It facilitates comparison of cost figures of various firms to enable the firms to identify their weak and strong points besides controlling costs.
4. Optimum achievement of efficiency is attempted by all the firms by utilising the experience of other concerns in the industry.
5. Standing in the industry of each firm will be known by making a comparison of its cost data with others.
6. Services of cost consultants or experts may be available jointly to each firm in the industry by sharing their experiences and expenses.
7. Research and development benefits of bigger firms may be made available to smaller firms.
8. It helps in the reduction of labour turnover, as a uniform wage system is the pre-condition of a uniform costing system.
9. It helps Trade Associations in negotiating with the Government for any assistance or concession in the matters of taxation, exports, subsidies, duties and prices determination etc.

10. Unhealthy competition is avoided among the firms in the same industry in framing pricing policies and submitting tenders.
11. Prices fixed on the basis of uniform costing are representative of the whole industry and thus are reliable.
12. Uniform costing provides a basis for the comparative assessment of the performance of two firms in the same industry but in different sectors.
13. It helps the Government in regulating the prices of essential commodities such as bread, sugar, cement, steel etc.

8.1.4 Limitations of Uniform Costing:

1. Sometimes it is not possible to adopt uniform standards, methods and procedures of costing in different firms due to differing circumstances in which they operate. Hence, the adoption of uniform costing becomes difficult in such firms.
2. Disclosure of cost information and other data is an essential requirement of a uniform costing system. Many firms do not wish to share such information with their competitors in the same industry.
3. Small firms in an industry believe that uniform costing system is only meant for big and medium size firms, because they cannot afford it.
4. It induces monopolistic trend in the business, due to which prices may be increased artificially and supplies withheld.

8.2 Inter-Firm Comparison

Meaning

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. Such a comparison will be possible where uniform costing is in operation.

An inter-firm comparison indicates the efficiency of production and selling, adequacy of profits, weak spots in the organisation, etc. and thus demands from the firm's management an immediate suitable action. Inter-firm comparison may enable the management to challenge the standards which it has set for itself and to improve upon them in the light of the current information gathered from more efficient units. Such a comparison may be carried out in electrical industry, printing firms, cotton spinning firms, pharmaceuticals, cycle manufacturing, etc.

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8.2.1 Requisites of inter-firm comparison system: The following requisites should be considered while installing a system of inter-firm comparison:–

1. *Centre for Inter-Comparison:* For collection and analysing data received from member units, for doing a comparative study and for dissemination of the results of study a Central body is necessary. The functions of such a body may be :–
 - (a) Collection of data and information from its members;
 - (b) Dissemination of results to its members;
 - (c) Undertaking research and development for common and individual benefit of its members;
 - (d) Organising training programmes and publishing magazines.
2. *Membership:* Another requirement for the success of inter-firm comparison is that the firms of different sizes should become members of the Centre entrusted with the task of carrying out inter-firm comparison.
3. *Nature of information to be collected:* Although there is no limit to information, yet the following information useful to the management is in general collected by the Centre for inter-firm comparison.
 - (a) Information regarding costs and cost structures.
 - (b) Raw material consumption.
 - (c) Stock of raw material, wastage of materials, etc.
 - (d) Labour efficiency and labour utilisation.
 - (e) Machine utilisation and machine efficiency.
 - (f) Capital employed and Return on capital.
 - (g) Liquidity of the organisation.
 - (h) Reserve and appropriation of profit.
 - (i) Creditors and debtors.
 - (j) Methods of production and technical aspects.
4. *Method of Collection and presentation of information:* The Centre collects information at fixed intervals in a prescribed form from its members. Sometimes a questionnaire is sent to each member; the replies of the questionnaire received by the Centre constitute the information/data. The information supplied by firms is generally in the form of ratios and not in absolute figures. The information collected as above is stored and presented to its members in the form of a report. Such reports are not made available to non-members.

8.2.2 Advantages of Inter-firm comparison: The main advantages of inter-firm comparison are:-

1. Such a comparison gives an overall view of the industry as a whole to its members– the present position of the industry, progress made during the past and the future of the industry.
2. It helps a concern in knowing its strengths or weaknesses in relation to others so that remedial measures may be taken.
3. It ensures an unbiased specialized reporting on particular problems of the concern.
4. It develops cost consciousness among members of the industry.
5. It helps Government in effecting price regulation.
6. It helps to improve the quality of products manufactured and to reduce the cost of production. It is thus advantageous to the industry as well as to the society.

8.2.3 Limitations of inter-firm comparison

The following are the limitations in the implementation of a scheme of inter-firm comparison :

1. Top management feels that secrecy will be lost.
2. Middle management is usually not convinced with the utility of such a comparison.
3. In the absence of a suitable Cost Accounting System, the figures supplied may not be reliable for the purpose of comparison.
4. Suitable basis for comparison may not be available.

Summary

- When several undertakings start using the same costing principles and/or practices they are said to be following uniform costing.
- The main objectives of Uniform Costing are as follows :
 - ✓ *Facilitates Comparison*
 - ✓ *Eliminates Unhealthy Competition*
 - ✓ *Improves Efficiency*
 - ✓ *Provides Relevant Data*
 - ✓ *Ensures Standardisation*
 - ✓ *Reduces Cost*
- Inter-Firm comparison is technique of evaluating the performance, efficiency, costs and profits of firms in an industry

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It indicates the efficiency of production and selling, adequacy of profit, weak spots in the organisation, etc. and thus demands from the firm's management an immediate suitable action

- Requisites of inter-firm comparison system are as follows:
 - ✓ *Centre for Inter-Comparison*
 - ✓ *Membership*
 - ✓ *Nature of information to be collected*
 - ✓ *Method of Collection and presentation of information*