

Uniform Costing and Inter Firm Comparison

Question 1

What is uniform costing? Why is it recommended?

(4 Marks)(June, 2009)

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 2

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

(4 Marks)(May, 2011)

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.

Question 3

Discuss the essential requisites for installation of uniform costing system.

(4 Marks)(Nov, 2012)

Answer

The following are the essential requisites for the installation of uniform costing system

- (i) Firms in the industry should be willing to share/furnish relevant data/information.
- (ii) A spirit of collaboration and mutual trust should prevail among the participating firms.
- (iii) Mutual exchange of ideas, methods, special achievements, research and knowhow should be frequent.
- (iv) Larger firms should take the lead towards sharing their experience and knowhow with smaller firms to enable the latter to improve their performance.
- (v) Uniformity must be established with regard to the following before introducing uniform costing:
 - ✓ Size of various units covered by uniform costing
 - ✓ Production method
 - ✓ Accounting principles, methods and procedures

Question 4

State the advantages available in inter-firm comparison.

(5 Marks)(May, 2013)

Answer

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

- 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.
- It helps a concern in knowing its strengths or weaknesses in relation to others so that remedial measures may be taken.
- It ensures an unbiased specialized reporting on particular problems of the concern.
- It develops cost consciousness among members of the industry.
- It helps Government in effecting price regulation.
- 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.

Question 5

What are the limitations of Uniform Costing?

(4 Marks)(Nov., 2013)

Answer

Limitations of Uniform Costing

- (i) 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.
- (ii) 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.
- (iii) Small firms in an industry believe that uniform costing system is only meant for big and medium size firms, because they cannot afford it.
- (iv) It induces monopolistic trend in the business, due to which prices may be increased artificially and supplies withheld.