## Basic Concepts

### 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.

### Objectives of Uniform Costing

Objectives of Uniform Costing are:
1. Facilitates Comparison
2. Eliminates Unhealthy Competition
3. Improves Efficiency
4. Provides Relevant Data
5. Ensures Standardisation
6. Reduces Cost

### Requisites of Inter-firm Comparison System

Requisites of Inter-firm comparison system are:
1. Centre for Inter-Comparison
2. Membership
3. Nature of information to be collected
4. Method of Collection and presentation of information

### 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.
Uniform Costing System

Question-1

*What are the requisites for the installation of a Uniform Costing system?*

Answer

Essential requisites for the installation of Uniform Costing are as under:

(i) The firm in the industry should be willing to share or furnish relevant data or information.

(ii) A spirit of co-operation 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 later 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

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

*State the limitations of Uniform Costing.*
Limitations of Uniform Costing are:

(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.

Question-4

What are the advantages of Uniform Costing?

The advantages accruing from the use of Uniform Costing System are as follows:

(i) The management of each firm will be saved from the exercise of developing and introducing a costing system of its own.

(ii) A costing system devised by mutual consultation and after considering the difficulties and circumstances prevailing in different firms is readily adopted and successfully implemented.

(iii) It facilitates comparison of cost figures of various firms to enable the firms to identify their weak and strong points besides controlling costs.

(iv) Optimum achievement of efficiency is attempted by all the firms by utilising the experience of other concerns in the industry.

(v) Standing in the industry of each firm will be known by making a comparison of its cost data with others.

(vi) Services of cost consultants or experts may be available jointly to each firm in the industry by sharing their experiences and expenses.

(vii) Research and development benefits of bigger firms may be made available to smaller firms.
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(viii) It helps in the reduction of labour turnover, as a uniform wage system is the pre-
condition of a uniform costing system.

(ix) 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.

(x) Unhealthy competition is avoided among the firms in the same industry in framing
pricing policies and submitting tenders.

(xi) Prices fixed on the basis of uniform costing are representative of the whole industry and
thus are reliable.

(xii) Uniform costing provides a basis for the comparative assessment of the performance of
two firms in the same industry but in different sectors.

(xiii) It helps the Government in regulating the prices of essential commodities such as
bread, sugar, cement, steel etc.

Question-5

Enumerate the objectives of Uniform Costing.

Answer

The main objectives of Uniform Costing are as follows:

(i) **Facilitates Comparison:** To facilitate the comparison of costs and performances of
different units in the same industry; it provides objective basis.

(ii) **Eliminates Unhealthy Competition:** To eliminate unhealthy competition among the
different units of an industry.

(iii) **Improves Efficiency:** To improve production capacity level and labour efficiency by
comparing the production costs of different units with each other.

(iv) **Provides Relevant Data:** To provide relevant cost information/data to the Government
for fixing and regulating prices of the products.

(v) **Ensures Standardisation:** To bring standardisation and uniformity in the operation of
participating units.

(vi) **Reduces Cost:** To reduce production, administration, selling and distribution costs, and
to exercise control on fixed costs.

Inter-firm Comparison

Question-6

*What are the advantages of Inter-firm Comparison?*
Answer

The main advantages of Inter-firm Comparison are:

(i) 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.

(ii) It helps a concern in knowing its strengths or weaknesses in relation to others so that remedial measures may be taken.

(iii) It ensures an unbiased specialized reporting on particular problems of the concern.

(iv) It develops cost consciousness among members of the industry.

(v) It helps Government in effecting price regulation.

(vi) 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-7

What are the limitations of Inter-firm Comparison?

Answer

The following are the limitations in the implementation of a scheme of Inter-firm Comparison:

(i) There is a fear of losing secrecy of the production method or some peculiar process or method among the top management.

(ii) Middle management is usually not convinced with the utility of such a comparison.

(iii) In the absence of a suitable cost accounting system, the figures supplied may not be reliable for the purpose of comparison.

(iv) Suitable basis for comparison may not be available.