Obafemi Awolowo University  
Faculty of Administration  
Department of Management & Accounting  
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MAC 206- Introduction to Costing II  
Uniform Costing

**Learning Objectives**
After studying this topic, students should be able to:
1. understand the meaning of Uniform Costing;
2. study the utility and importance of Uniform Costing; and
3. explain the objectives behind implementation of Uniform Costing.

**1.1 Method and Techniques of Costing**
The methods or types of costing refer to the techniques and processes employed in the ascertainment of costs. Several methods have been designed to suit the needs of different industries. The method of costing to be applied in a particular concern depends upon the type and nature of manufacturing activity. Basically, there are two methods of costing namely: job and process costing. All other methods (such as contract costing, batch costing, operation costing, output costing and multiple costing) are variations of either job or process costing.

In addition to the methods stated above, there are certain techniques of costing which are not alternatives to the methods of costing but which may be used for special purpose of control and policy in any business irrespective of the method of costing being used. Some of these techniques are standard costing, budgetary control, marginal costing, absorption costing, and uniform costing. In essence, a cost accountant should use these methods and techniques appropriately either individually or in combination, for example, standard costing may be combined with process costing to give ‘standard process costing’.

**1.2 Meaning of Uniform Costing**
Uniform costing is not a distinct method of cost accounting, but a technique of costing and cost control that can be used by the members of the industry or trade association. It is the acceptance and adherence of identical costing principles and procedures by all or several units in the same industry by mutual agreement. CIMA London defines Uniform Costing as, “the use by several undertakings of the same costing principles and/or practices”. It can also be defined as a system of uniform application of the principles of a costing method agreed upon and adopted by the whole or majority of the manufacturer or
executives, in any specific industry, thus uniform costing simply denotes that a number of undertakings in a same industry may use same costing principles and procedures to arrive at cost, so that mutual comparison may be possible among them. The system is made operative through Trade Association or Chamber of Commerce or some other central agency. Its underlying idea is that whatever costing method is used, the same should be applied uniformly by all the members of the industry.

1.3 Objective of Uniform Costing
The important objectives of the uniform costing are to:
   a. provide a basis for cost comparison among the members.
   b. locate and eliminate inefficiencies in the firm by measuring own efficiency in terms of industry in general and in terms of close rivals in particular.
   c. stop cut-throat competition and create healthy competition.
   d. improve the productivity of men, machine production technology and methodology.
   e. provide uniform data and information to Government for different purposes like tax policy, subsidies, concessions, restrictions, etc.
   f. ensure member-companies adopt one best method of cost accounting system known to the industry. This eliminates unsound method and saves costs required in perfecting systems through expensive experimentation.

1.4 Areas of Uniform Costing
The more important areas where uniformity is to be achieved can be listed as follows:
   a. determination and adoption of the cost unit, cost centre and departments.
   b. costing method to be used and cost treatment of the items in the costs.
   c. system of costing.
   d. cost control techniques.
   e. cost and accounts classification.
   f. methods of valuation of different stocks.
   g. bases of apportionments and absorption of costs.
   h. depreciation methods and rates.
   i. treatments of waste, spoilage, defectives, scrap.
   j. costing period and reporting periods.
   k. treatment of interest on capital and on long-term loans.
   l. cost treatment of overtime, holiday pay, etc. items of labour cost.
   m. treatment of R & D costs.
   n. formats of the cost reports and statements.
   o. codification of cost accounts and reports, statements, etc.
1.5 Advantages of Uniform Costing
The benefits of the uniform costing to various interested groups can be summarized as follows:

A. To the Member Units
These are the natural claimants to the advantages of the system. Such advantages are:

- **High standards**: It ensures high standard of operation because the uniform costing system would have been designed by highly qualified experienced professionals and consultants or the experienced members in the industry.
- **Cost comparison**: A successful system of uniform costing always helps the member units to locate the points of inefficiencies in comparison with the industry standard and this result in improvement of work and establishment of benchmark for achievement.
- **Healthy competition**: Uniform costing helps to create trust among the member units and stops the price-cutting or any other cut-throat competitions measures and tactics.
- **Automation of data**: Automation of data becomes necessary in order to ensure reliability of data and information.
- **Benefits to Smaller Units**: The smaller units get benefits of R & D of large units and improve their competitiveness.

B. To the Workers

- Uniform, just and fair wage structure in the industry.
- Reduced labour turnover.
- Higher productivity ensures higher wages and bonus.

C. Consumers

- Cost reduction results into price reduction.
- Fair prices.
- Improved product and services.
- Improved quality and assurance of after-sales services.

D. To industry

- Reliable data and information can be supplied to the government and fair government policies can be adopted.
- Introducing improved methodologies and technologies can eliminate all types of wastages.
- Industrial activities can be planned and directed in most meaningful way.

1.6 Disadvantages of Uniform Costing
Some of the limitations of the technique are as follows:

- It may creates monopoly at the end because the large units may manipulate the available data for their benefit and small units have to surrender to them.
b. The difference in the size of member units generally may not allow adopting all rules and forms of the uniform costing, because many times such data is not available or is not affordable to make it available to some weak units.
c. Implementation and execution of this system needs utmost good faith among all members. So lethargy or unrealistic or ambiguous data supply by any one or more units creates confusion and defeats the objects of the system.
d. Many times it is observed that members are eager to receive the information of other units but hardly gives their own information clearly, so it creates operational hindrances in the system.

1.7 Requisites for Successful Installation of a Uniform Costing System
The success of the uniform costing is based on the following requisites - 

a. **Mutual belief and understanding** – The success or failure of the uniform costing system depend entirely on mutual trust and confidence among the all participants members in the system.
b. **Accounting policies and principles** – The details of the method of the costing, various treatments of the cost items, the terminologies to be accepted, principles to be implemented, etc. are to be agreed and accepted by all members in the industry.
c. **Classification and codification** – The bases of classification of accounts to be used for recording and reporting, the codification of the accounts used should be based on the need of all member firms. It should be acceptable to large and small units alike and should take care of operational difficulties of all members accounting traditions and customs.
d. **Bases of allocation and apportionment** – The difference in cost calculation among different concerns is basically due to two things – classification of the cost items into direct and indirect costs and thereafter application of the different bases for allocation and apportionment of the overheads. The uniform costing is the good answer for such problem. So, equitable bases should be carefully selected and be applied in cost treatment of the members.
e. **Information & Experience sharing** – The bigger units should be prepared to share their experience with smaller units so that the latter may improve their know-how and performance. There should be free exchange of ideas and methods.
f. **Zero Tolerance for Rivalry** – There should be no rivalry or jealousy among the participating members

1.8 Uniform Cost Manual
Uniform cost manual is a document that spells out the instructions to be followed in cost ascertainment and cost control and it is the evidence of existence of the uniform cost plan among the member unit. The uniform cost
manual describes the nature and scope of the cost plan and also lays down the procedure for implementing and operating such plan. It is an operating guide to the participants who have to adhere strictly with the costing principles and procedures in accordance with the statement of the objectives. The prime objectives of such manual is as follows –

1. It presents in an interesting way the compelling reasons for the desirability of making use of uniform methods.
2. It serves as a comprehensive reference book on accounting procedures.
3. It is useful to the executives and accountants in solving problems of installation of the recommended uniform methods.

Contents of the cost manual –
A typical uniform cost manual may include the following contents:

A. Introduction –This part discusses the statement of objectives and scope of the system. It also highlights the advantages accruing to the members and the limitations.

B. Accounting systems and procedures –In this part, the areas covered under the system are clearly mentioned. In addition general principles of accounting, conventions to be followed, nature of classification and codification, terminology to be used etc. are discussed at length. The method of costing, treatment of different items of cost etc. are discussed in detail to clear all doubt of the users.

C. Presentation of Information-The cost manual gives detailed instructions about the presentation of data and information. It also prescribes the use of uniform forms for various statements to be prepared and reports to be made. The periodicity of reports is also mentioned to the extent possible. The ratios to be calculated: obligatory and mandatory, the graphs and diagrams to be prepared, etc. are also given in the manual.

D. Other information –In this section, different aspects such as tax impact, interest on capital, depreciation, wastage, by-product costing, etc. are discussed. This part is usually prepared in the form of bulletin and may be published by periodically.

Practice Questions

1. What is meant by ‘Uniform Costing?’ What advantages would you expect to accrue to an industry from its adoption?
2. Explain the objectives and value of uniform costing. State the main factors in which uniformity should be aimed at.
3. Discuss the essential requisites for the installation of a uniform costing system.
References
Thomson Learning.