Quadrant II – Notes

Programme	: Bachelor of Commerce (Third Year)
Subject	: Commerce
Paper Code	: COD 126
Paper Title	: Advanced Cost Accounting - II
Unit	: Unit IV – Uniform Costing, Inter firm Comparison and Responsibility Accounting
Module Name	: Inter Firm Comparison
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Notes:

INTER FIRM COMPARISON

Inter firm comparison is the technique which studies the performance, efficiency, cost and profit of various concern in an industry with the help of exchange of information in order to have a relative comparison.

NEED FOR INTER FIRM COMPARISON

1. To know one's weak points in comparison with other firms and to improve the efficiency in future.
2. To locate the spots of in-economics so that actions may be taken to effect economy by eliminating such sources of in-economics.
3. To enable the member units to standardise various function so that wastage can be minimized.

4. To know whether the profits of the firm are adequate and further to improve profitability position by comparing its profits with the member.

REQUIREMENTS OF INTER FIRM COMPARISON

1. Adaptation of uniform costing

There must be a sound system of uniform costing in the firm where inter firm comparison scheme is to be implemented. A uniform manual should always be prepared and distributed among the member units to enable efficient functioning of the system.

2. Responsible Organisations

An organisation must be established to run the system efficiently and for better results firms of different sizes in an industry should become the members of the organisation.

3. Information to be collected

The nature of information to be collected from the participating firms depends upon the needs of the management, comparative importance of the information and the efficiency of the central body responsible for the collection of the information. The information collected must be of relevant information only.

4.Method of collection and presentation of information

The time and the form in which the information is to be submitted by the member units must be decided in advance. The various statistical tools for the purpose of collection of data, its editing, classification, presentation etc. can be used.

SCHEME OF INTER FIRM COMPARISON

1. **Comparison of Management ratios.**

Management ratios are those which are linked to sales, profits and assets of a business. These ratios are meant to provide management in a nutshell, a comparative picture of its operating performances, financial result, growth, liquidity etc. compared with those of other firms in the industry.

2. Comparison of cost ratios.

Management may not be satisfied with the ratios calculated in comparison of Management ratios. They would like to go a step further to make inter firm comparison more meaningful and to find out how they are doing in relation to others as regards to cost of production.

3. Comparison of technical data.

This type of comparison will be of special interest to industries working in highly competitive economics. Such comparison will gradually lead to rationalisation of industry. The Technical comparison will be in the areas of quality of materials used, their utilization, process involved, machines used and certain other technical aspects of production

BENEFITS OF INTER FIRM COMPARISON

1. It helps the member firms in cost reduction.
2. It increases the productivity by locating the weaknesses and in economics.
3. It ensures standardisation of production process.
4. The benefit of research is passed on to member units by the central organization.

LIMITATIONS OF INTER FIRM COMPARISON

1. In certain cases, a suitable base of comparison may not be available.
2. Firms may not disclose information as they think it to be confidential.
3. Information supplied by member firms may not be reliable.
4. Cost of implementing the uniform costing system may be heavy.