CHAPTER - V

Comparative Study of Accounting & Reporting Practices in the Organizations of Eritrea and India
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COMPARATIVE STUDY OF ACCOUNTING & REPORTING PRACTICES IN THE ORGANIZATIONS OF ERITREA AND INDIA

In the previous Chapter, Six Eritrean organizations' financial statements analysis and their interpretation were made.

In this fifth chapter Indian Company profile, their financial statements analysis and interpretation is made. Indian organization's standards and their results were compared with Eritrean organizations’ for comparative study.

For this purpose Indian company "KREBS BIOCHEMICALS LIMITED” is selected and its financial statements of ten years from 1993 to 2002 are considered for study.

V.1 Profile of the Indian Organization:

‘KREBS BIOCHEMICALS LIMITED (KBL), named after Hans Krebs, the eminent German Biochemist. KBL was incorporated as a public limited company in 1991, with an objective to establish commercially viable Biotech processes with application in Medicine Agriculture and Industry. It became a joint stock company in 1994 and company's stock is listed in Bombay, Hyderabad and as well as on National Stock Exchanges and quoted for business.

The company's manufacturing units are situated in Nellore (about 200 KM north east of Madras) and at Vishakapatnam in Andhra Pradesh. The project came up with equity participation by
A.P. Industrial Development Corporation, India Investment Fund, Netherlands and ICICI.

The company is engaged in the manufacture and sale of Bulk Pharmaceuticals used by formulators used in the treatment of Cold, Cough, Asthma and Bronchitis and Krebs Biochemical Limited is also producing and marketing Lovastatin, Simvastatin and Vitamin ‘C’.

Right from the inception KBL has adopted global agenda for its growth by focusing on its specific area of expertise “Fermentation Technology”.

Krebs Company is professionally managed company ensuring good corporate governance with about 10,000 shareholders spread across the Country, with shares listed on Hyderabad, Bombay stock exchanges and national stock exchange.

As on 31st March 2002, KBL’s Authorized share capital is 10,000,000 (one Crore) Equity shares of Rs.10/- each amounting to Rs.100,000,000. The issued Subscribed and paid capital is 6,000,000 Equity shares of Rs.10/- each amounting to Rs.60,000,000.

Though the KBL was incorporated in the year 1991, it has commenced its commercial activity from July 1994 after obtaining drug license.

Large proportion of KBL products are exported to advanced countries like USA, Germany and to about 30 other Countries. Company’s export constitutes more than 85% of sales and is one of the highest net foreign exchange earners in the pharma industry. The company has received ISO 9002 certificate and also International Certifications services accredited by United Kingdom Accreditation Services.
The company is also having a Research & Development center at Hyderabad and is focusing on the research and development of new bio-molecules and genetically engineered products by synthetic and biological approaches.

**Significant Accounting Policies:**

The KBL accounting policies in general are as follows:

1. The financial statements have been prepared under the historical cost conventions in accordance with the Accounting Standards issued by the Institute of Chartered Accounts of India.

2. All income and expenditure having a material bearing on the financial statements are recognized on accrual basis.

3. Revenue from sale of goods is recognized with the passing of possession to the buyer.

4. Expenses are accounted on accrual basis and provision is made for all known losses and liabilities.

5. Fixed Assets are shown at cost less depreciation.

6. Depreciation has been provided on ‘Straight Line’ method at the rates specified in schedule XIV to the companies Act. 1956.

7. The Sales Tax collected on domestic sales is treated as ‘interest free sales tax loan’ from A.P.State Government in accordance with State Government incentive scheme. The amount credited to the loan account is based on the amounts collected as sales tax; Final amount of loan will be arrived at only on completion of Sales-Tax assessments.
8. Inventories (Raw material and work-in-progress) are valued at cost and finished goods are valued at lower of the cost or net realizable value.

9. The Export incentives arising out of Export Sales are accounted on the accrual basis during the year and such incentives are considered as part of sales income.

10. Export sales are initially accounted at the exchange rate prevailing on the date of documentation and the same is adjusted with difference in the rate of exchange arising on actual receipt of proceeds in foreign exchange.

V.2 Analysis & Interpretation

Detailed and full set of financial statements of Krebs Biochemical limited for ten years are made available for study. However, six years information from 1994 to 2000 is only examined for comparative study as most of the Eritrean organizations’ information is available upto 2000. Krebs Biochemical Limited Company is following the tax year as its business year i.e., 1st April to next year 31st March. The Company has commenced its commercial production on 1st July 1994; hence the Profit & Loss account for 1994-95 is only for 9 months.

A condensed Profit & Loss account for six years from 1994-95 to 1999-2000 is prepared and numbered as Table 5.1.
## Table No: '5.1'

**KREBS BIOCHEMICALS LIMITED CONDENSED PROFIT & LOSS ACCOUNT FOR SIX YEARS**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales</strong></td>
<td>38,423,749</td>
<td>141,942,754</td>
<td>256,201,545</td>
<td>347,766,963</td>
<td>281,201,602</td>
<td>413,114,040</td>
</tr>
<tr>
<td><strong>Other Income</strong></td>
<td>133,196</td>
<td>434,640</td>
<td>7,732,871</td>
<td>929,983</td>
<td>2,406,166</td>
<td>1,376,478</td>
</tr>
<tr>
<td><strong>Increase in Stock</strong></td>
<td>12,405,794</td>
<td>21,575,491</td>
<td>5,580,613</td>
<td>13,068,910</td>
<td>84,841,391</td>
<td>70,071,943</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>50,962,739</strong></td>
<td><strong>163,952,885</strong></td>
<td><strong>269,515,029</strong></td>
<td><strong>361,765,856</strong></td>
<td><strong>368,449,159</strong></td>
<td><strong>484,562,461</strong></td>
</tr>
<tr>
<td><strong>Total Expenditure</strong></td>
<td>40,663,733</td>
<td>113,677,701</td>
<td>171,660,172</td>
<td>229,328,085</td>
<td>249,604,654</td>
<td>342,513,496</td>
</tr>
<tr>
<td><strong>Previous Year adjustment</strong></td>
<td>--</td>
<td>--</td>
<td>1,173,288</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td><strong>Profit for the period</strong></td>
<td>10,299,006</td>
<td>50,275,184</td>
<td>99,028,145</td>
<td>132,437,771</td>
<td>118,844,505</td>
<td>142,048,965</td>
</tr>
<tr>
<td><strong>Profit for Taxation</strong></td>
<td>--</td>
<td>--</td>
<td>13,661,500</td>
<td>6,180,000</td>
<td>6,131,534</td>
<td>11,941,287</td>
</tr>
<tr>
<td><strong>Profit after Tax (PAT)</strong></td>
<td>--</td>
<td>50,275,184</td>
<td>85,366,645</td>
<td>126,257,771</td>
<td>112,712,971</td>
<td>130,107,678</td>
</tr>
<tr>
<td><strong>Appropriation to General Reserves</strong></td>
<td>2,000,000</td>
<td>2,000,000</td>
<td>4,000,000</td>
<td>60,000,000</td>
<td>70,000,000</td>
<td>75,000,000</td>
</tr>
</tbody>
</table>
KBL has a very good business enjoying good profits from the very first year of its commercial activity. Its profits before tax for six years are as follows: Rupees in Lakhs: 102.99; 502.75; 978.55; 1188.45 and 1420.49 respectively.

There was an increasing trend in PBT. Similarly, the company was able to pay dividends after making necessary provisions for taxation and General Reserves. Its dividends to share holders for six years respectively were as follows: 12% in 1994-95; 25% in 1995-96; 30% in 1996-97; 50% in 1997-98; in 1998-99 and 1999-2000, 60% in 2000-2001 and 75% in 2001-2002.

Thus the investors (i.e. share holders) enjoyed good returns on their investments. Its General Reserve balance as on 31st March 2000 was 26,7000,000 (i.e. 2670 lakhs) which shows the strong reserve position of the company. Starting from 12% of dividend in the year 1994-95, the investor was able to get 75% dividend in 2001-02 and it shows how profitable the company’s activity and management efficiency. When compared to Eritrean organizations, no unit in Eritrea was able to pay such dividends to its investors.

‘Earning Per Share’ in terms of dividends was attractive and the market value of the share was also strong in the Senses (stock exchange) for this company. In Eritrea such stock exchange facility is not available and the shareholders other than government do not have such facility of transferring their interest in organization.

The company’s income was classified into sales income which is the primary of source of revenue and other income which are incidental and ancillary to the business of company. In the company’s Profits and Loss account the ‘increase in stock’ was shown as income item. This item represents the difference between the closing and opening stock which was carried to the
subsequent years as it represents unsold stock for which expenditure is incurred to manufacture the same during the year under review. This was shown as income because it is certain to be realized following the conservative policy, where the policy recognizes all known expenses and losses and incase of income it is recognized only when actually realized or certain to be realized. In case on Eritrean organizations, business units have shown the closing stock value as an adjustment in the cost of Goods sold. KBL company need to hold large volume of closing stocks awaiting clearance from the Narcotics Division for export sale, as the company's export business 100 percent in 1994-95 58% in 1995-96; 69% in 1996-97; 75% in 1997-98; 63% in 1998-99 and 56% in 1999-2000 out of total turnover business. The current Ratios of the company (as per Company's reports) for six years are 1.85; 3.07; 3.59; 2.33; 1.92 and 1.99 respectively from 1994-95 to 1999-2000. When the Global norm in 2.1 the KBL company's current ratio is healthy except in the years 1995-96 and 1996-97. Similarly the Quick Ratios for six years are 1.77; 1.69; 2.59; 1.34; 0.84 and 0.91 respectively. The norm is 1.1. The ratios ups and downs in this case is due to closing stock waiting at Narcotics division for export sale clearance. On the whole the ratios can be taken as healthy.

On the other hand the Net profit / Total Turnover Percentage and ROCE (PBIT) / average capital employed percentages are indicators of good business of the company
Table No: '5.2'

**COMPARATIVE TABLE OF ERITREAN ORGANIZATION WITH INDIAN COMPANY**

(ON AVERAGE BASIS WITH ABSOLUTE FIGURES FROM 1994 TO 2000)

<table>
<thead>
<tr>
<th>Item</th>
<th>Amberbeb (Nfa)</th>
<th>Asmara Brewery (Nfa)</th>
<th>Asmara Pickling (Nfa)</th>
<th>Tabbco (Nfa)</th>
<th>Keih Bahri (Nfa)</th>
<th>Red-Sea Bottles (Nfa)</th>
<th>Indian Organization (Rupees)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>44,460,284</td>
<td>92,353,962</td>
<td>10,465,083</td>
<td>43,294,363</td>
<td>82,159,795</td>
<td>40,301,737</td>
<td>246,443,275</td>
</tr>
<tr>
<td>Total Expenditure</td>
<td>36,038,773</td>
<td>44,334,875</td>
<td>9,005,153</td>
<td>35,373,481</td>
<td>78,188,848</td>
<td>33,086,434</td>
<td>154,287,679</td>
</tr>
<tr>
<td>Profit Before Tax (PBT)</td>
<td>8,421,511</td>
<td>48,019,087</td>
<td>1,459,940</td>
<td>7,920,882</td>
<td>3,970,947</td>
<td>7,215,303</td>
<td>92,155,596</td>
</tr>
<tr>
<td>Tax</td>
<td>3,772,693</td>
<td>20,795,375</td>
<td>118,946</td>
<td>5,554,292</td>
<td>2,042,483</td>
<td>3,352,380</td>
<td>9,478,580</td>
</tr>
<tr>
<td>Profit After Tax (PAT)</td>
<td>4,648,818</td>
<td>27,223,712</td>
<td>1,340,994</td>
<td>2,366,590</td>
<td>1,928,464</td>
<td>3,862,923</td>
<td>82,677,016</td>
</tr>
</tbody>
</table>
**Table No: '5.3'**

**COMPARATIVE TABLE OF ERITREAN ORGANIZATION WITH INDIAN COMPANY**
(ON AVERAGE BASIS ON PERCENTAGE BASIS)

<table>
<thead>
<tr>
<th>Item</th>
<th>Amberbeb (Nfa)</th>
<th>Asmara Brewery (Nfa)</th>
<th>Asmara Pickling (Nfa)</th>
<th>Tabbco (Nfa)</th>
<th>Keih Bahri (Nfa)</th>
<th>Red-Sea Bottles (Nfa)</th>
<th>Indian Organization (Rupees)</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of Total Expr. to Sales</td>
<td>81.06%</td>
<td>48.01%</td>
<td>86.05%</td>
<td>81.70%</td>
<td>95.17%</td>
<td>82.10%</td>
<td>62.61%</td>
</tr>
<tr>
<td>% of PBT to Sales</td>
<td>18.94%</td>
<td>51.99%</td>
<td>13.95%</td>
<td>18.30%</td>
<td>4.83%</td>
<td>17.90%</td>
<td>37.39%</td>
</tr>
<tr>
<td>% of Tax to Sales</td>
<td>8.49%</td>
<td>22.52%</td>
<td>1.14%</td>
<td>12.83%</td>
<td>2.49%</td>
<td>8.32%</td>
<td>3.85%</td>
</tr>
<tr>
<td>% of PAT to Sales</td>
<td>10.46%</td>
<td>29.48%</td>
<td>12.81%</td>
<td>5.47%</td>
<td>2.35%</td>
<td>9.59%</td>
<td>33.55%</td>
</tr>
</tbody>
</table>

**Table No: '5.4'**

**COMPARATIVE TABLE AT A GLANCE**
(ON AVERAGE BASIS WITH PERCENTAGES)

<table>
<thead>
<tr>
<th>Item</th>
<th>ERITREAN ORGANIZATIONS</th>
<th>INDIAN ORGANIZATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of Total Expr. to Sales</td>
<td>77.86%</td>
<td>62.60%</td>
</tr>
<tr>
<td>% of PBT to Sales</td>
<td>22.14%</td>
<td>37.40%</td>
</tr>
<tr>
<td>% of Tax to Sales</td>
<td>10.89%</td>
<td>3.85%</td>
</tr>
<tr>
<td>% of PAT to Sales</td>
<td>11.25%</td>
<td>33.55%</td>
</tr>
</tbody>
</table>
Comparative Table of Eritrean Organization with Indian Company (on Average Percentage Basis)

<table>
<thead>
<tr>
<th>Organization</th>
<th>% of Expenses to Sales</th>
<th>% of PBT to Sales</th>
<th>% of Tax to Sales</th>
<th>% of PAT to Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amberbelema</td>
<td>90%</td>
<td>80%</td>
<td>70%</td>
<td>60%</td>
</tr>
<tr>
<td>Breyara</td>
<td>80%</td>
<td>70%</td>
<td>60%</td>
<td>50%</td>
</tr>
<tr>
<td>Pickling Tobaco</td>
<td>70%</td>
<td>60%</td>
<td>50%</td>
<td>40%</td>
</tr>
<tr>
<td>Keih Bah Red-Sea</td>
<td>60%</td>
<td>50%</td>
<td>40%</td>
<td>30%</td>
</tr>
<tr>
<td>Bredtellan Company</td>
<td>50%</td>
<td>40%</td>
<td>30%</td>
<td>20%</td>
</tr>
</tbody>
</table>

Graph showing percentage comparison.
Comparative Table of Eritrean Organizations with Indian Company (on Average Percentage Basis)

- Anberbeb
- Asmara Brewery
- Asmara Pickling Tannery
- Tobacco Company
- Keih Bahri
- Red Sea Bottlers
- Krebs Biochemicals

Graph showing percentage of total expense, expenses to sales, PAT to sales, and other financial metrics for the mentioned organizations.

Legend:
- Blue: Anberbeb
- Green: Asmara Brewery
- Yellow: Asmara Pickling Tannery
- Red: Tobacco Company
- Pink: Keih Bahri
- Brown: Red Sea Bottlers
- Purple: Krebs Biochemicals

Y-axis: Percentage
X-axis: % of Total Expense, % of Sales, % of EBIT to Sales, % of Tax to Sales, % of PAT to Sales
Comparative Table at a Glance on Average Percentage Basis

Eritrean Organizations
Indian Organization

% of Expenses to Sales  % of PBT to Sales  % of Tax to Sales  % of PAT to Sales
Percentage

0  10  20  30  40  50  60  70  80  90  100
V.3 Comparative study of Eritrean Organizations with Indian Organization

For the purpose of comparative study about the performance standards of Eritrean organizations and Indian organizations tables 5.3 and 5.4 were prepared and supported by pictorial representations through linear plots and bar graphs.

Table 5.2 was prepared in absolute average figures and table 5.3 in percentages to show the Eritrean Organizations average sales, total expenditures, Profit Before Tax, tax paid and profit after tax and similar relevant information of Indian Organization for seven years i.e. from 1994 to 2000. Table 5.4 shows the average percentages of six Eritrean Organization and Indian Organization at a glance in percentages of total expenditure to sales, percentage of tax to sales and percentage of PAT to Sales.

It was observed that percentage of total expenditure to sales was below 50% in case of Asmara Brewery's factory (forty eight percent) and thus the percentage of profit to sales was moderate with 29.48%. In case of all other Eritrean organizations percentage of expenditure to sales was very high ranging from 74 to 95 of sales and as a result the profit was in between 2.35% and 10.46% of sales.

In case of Indian Organization the percentage of total expenditure to sales was 62.60 which show better management
control over expenditure and the same was reflected in better 
profit position with 33.55 percent to sales.

From table 5.4 also it can be observed that the average 
percentage of expenditure to sales in case of Eritrean organizations 
was 77.86 and the average percentage of PBT to sales was 
22.14. Comparatively the Indian Organization was having better 
percentage of PBT to sales with 37.40.

Average Taxes paid by Eritrean Organization was 10.89 
percent to sales whereas in case of Indian Organizations it was 
3.85 percent to sales. This is due to more tax benefits offered by 
Indian Government to its industries for development of industries 
to improve economic growth. In case of Eritrean Organizations 
such tax holiday benefits were not offered to industries and this 
causes low economic growth.

Better profit after tax (PAT) ensures good returns to investors 
and this was better in case of Indian Organization than Eritrean 
Organizations.

V.4 Comparisons of Indian company with Eritrean 
organizations’ Accounting and Reporting 
systems

A. As far as Accounting conventions are concerned both Indian 
and Eritrean organizations followed all-important conventions 
like (1) Consistency; (2) Disclosure; (3) Materiality and (4) 
Conservatism, in preparation and Presentation of financial 
statements.
B. Similarly 'Accounting Concepts' like
   i. Business-Entity
   ii. Going-Concern
   iii. Dual-aspect
   iv. Periodicity
   v. Monetary Unit
   vi. Historical cost
   vii. Objectivity
   viii. Revenue-Realization and
   ix. Matching concepts and followed by both Indian and Eritrean organizations.

C. The financial statements of Indian company are prepared and presented (Particularly Balance Sheet) in the form prescribed in the Schedule VI to the companies Act 1956 and also in compliance with the Accounting standards issued by the Institute of Chartered Accounts of India. Whereas in Eritrea such legislation is not available and “Eritrean Institute of Certified Public Accountants” recently has come into existence and preparing directions to follow the International Accounting Standards. But till today they could not finalize the draft proclamation

D. In case of Indian company, the assets and liabilities at a particular date are shown as “the sources” and “the application of funds”. The sources are mainly classified into two parts as (1) Shareholders’ funds (consisting money invested by shareholders directly as share capital and other reserves and surplus which are belonging to share holders accumulated over a period of time) and (2) Banowed funds (consisting the funds borrowed by the company with or without securities). Both
funds put together is the Capital employed in the business which is represented by way of Fixed Assets, Current Assets and intangible items.

Application of funds is classified into Fixed Assets, Capital work in progress, Net Current Assets, (current Assets minus current liabilities) and miscellaneous expenditure to be written off not represented by any tangible property but incurred for obtaining an enduring benefit.

In Indian company’s Balance Sheet “Source of Funds” are shown first followed by “Application of Funds”.

Where as in case of Eritrean organizations “Asset Employed” i.e., Fixed Assets, Net Current Assets are shown first followed by share capital, Retained Earnings / Accumulated Deficits etc., under heading as – ‘Financed By’; ‘Represented By’ – etc.,

E. In all organizations, depreciation was charged on ‘Straight Line’ basis at the same rates like on building @5%, furniture @10%, tools @25%, machinery @16% etc., similarly stock valuation also was on average method in all Eritrean organizations.

F. International Accounting Standards Committee 1989, The Accounting Standards Committee 1975, Financial Accounting Standards Board 1978 etc., have given the objectives and characteristics of Accounting information generally the financial statements are supposed to posses. These were discussed in chapter-II. Now from those points of view the following are the observations made from Indian and Eritrean organizations’ financial statements’ preparation and presentation.
1. **Understandable:** The financial statements of Indian Company and Eritrean organizations' are prepared with detailed schedules attached as part of the statements. The Indian company's financial statements are very much understandable than the Eritrean organizations' statements.

2. **Objective:** Indian Company's financial statements are audited as per law and very objective, clear and unbiased. Whereas is case of Eritrean organizations though they were not biased so not clear as in most of the cases they were not audited.

3. **Comparable:** In both financial statements of Indian and Eritrean organizations the financial statements are prepared and presented with information of previous years and the results of the particular year are able to compare with previous year's results.

4. **Realistic:** In case of Indian Company the financial statements' information in terms of both legal and economic positions in realistic as they are audited as per law. Whereas in case of Eritrean organization they are more realistic in terms of economic position but not from the point of legal as in most of the cases they were not audited.

5. **Relevant:** If the financial statements are meant for taking better and informed decisions by the stakeholders, it appears that Indian company's statements are more relevant than Eritrean organizations' statements.

6. **Reliable:** The Indian company's financial statements are audited as per provisions and guidelines of the law, they are more reliable whereas though not doubted the reliability of the Eritrean organizations' statements, the degree of reliability reduces as they were not audited as per provisions of law.
7. **Consistent:** In case of Indian Company's financial statement consistency is available for comparison, the information from other sources like stock exchange, legal and tax consultants. Whereas in case of Eritrean organizations' such chances are remote.

8. **Timely:** Publication of financial statements and distribution to shareholders and to other interested parties is very much regular and on time in case of Indian company and incase of Eritrean organizations it is not so timely in most of the cases.

9. **Prudent:** Indian Company's financial statements and information are very prudent whereas in some of the Eritrean organizations it was not much prudent as they were not audited and timely not presented.

10. **Economy in presentation:** Incase of Indian company the presentation of information appears very costly and the management of company is very much interested and particular in supplying all relevant and necessary information to shareholders. The company has prepared and presented more than the legally required, whereas in case of most of the Eritrean organizations are not able to effort to increase such cost in publication of annual financial reports.

11. **Materiality:** The information given by Indian Company's financial statements is very balanced and all types of transactions' information is carefully given, whereas in case of Eritrean organizations' the volume of business is not as large as Indian company, however the information presented is balanced and transactions are aggregated in a useful manner.
12. **Usefulness**: The information presented in Indian Company's financial statements is very effective and useful not only to investors, but also to general public and prospective investor. Whereas in case of Eritrean organizations, the information not so much effective as the society at large is not so particular about the information of organization as private participation is not so opened.

13. **Accounting Policies**: Followed by Indian company are in accordance with legal, National and International standards, whereas in case of Eritrean organizations' they are mostly in accordance with national customs and practices.