CHAPTER I

Introduction
CHAPTER-I

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1.1 BACKGROUND OF ERITREA

Eritrea is a small country on the North – East coast of Africa. It stretches along the Red sea between Sudan and Djibouti; Ethiopia lies to the South with geographic coordination of 15 degree North and 39 degree North – East with altitude of 8 meters to 2370 meters. Its average annual temperature varies from 28 degree centigrade to 16 degree centigrade.

From 1952 until early 1990’s Eritrea was part of Ethiopia. In 1961, civil war broke out between the rebels and the ruling party. Finally Eritrea was liberated on May 24th 1991 and Eritrean population confirmed its support for independence in a referendum held in April 1993.

Asmara city is the capital of Eritrea. As per 1996 United Nations population report, the population of the country is about 3.6 million with crude density of 28.6.

The people elect the National Assembly and National Assembly in turn elects its leaders called President who leads the government. The President is head of the state of Eritrea and National Assembly.

Eritrea’s educational system was shaped under colonial rule by the Italian’s and later by British. Eritrea has one University in capital city of Asmara, which is giving degree level of Education in various faculties and for further studies very few selected students go to other African countries particularly to South Africa.
Farming and Agriculture are the main economic activities of the country. Most of the factories were damaged and shutdown during the prolonged war of about 10 years. As per the Information of Industry’s department of Eritrea as of September 1993 there were only 932 industrial enterprises out of which 42 public and the rest private. But still only 580 private enterprises are only operational. Majority of public enterprises are located in and around of Asmara city only.

The manufacturing industries in Eritrea primarily produce consumer goods like textiles, food processing, metal, wood, footwear and leather, beverages and tobacco.

According to IMF 1998 report the GDP during 1994 – 96 growth averaged about seven percent annually and inflation averaged seven percent per year. Though the recovery continued till 1997 (with 8 percent GD) the same was set back due to border war in May 1998 between Eritrea and Ethiopia which was continued till May 2000 and finally the ‘peace agreement” was made with interference of ‘United Nations Organization’.

Now the government of Eritrea is making continuous efforts to strengthen the economy on principles of “free market economy”

1.2 REASONS FOR SELECTING THE PRESENT STUDY

Accounting practices will keep changing in the economic and political environment and hence there is a need of research activity to assess the present day of accounting practices and standards of financial reporting. Accounting is not a closed system or a fixed set of rules and it is constantly evolving body of knowledge.
Functioning of organizations, evolving and updating of their policies and programs to a large extent depends on sound and transparent accounting and reporting practices. These organizations are expected to observe and follow the national and international standards in maintaining the accounting records and publication of periodical and annual reports.

An informal survey revealed that no research study has been made so far to assess the effectiveness of accounting and reporting practices of organizations in Eritrea. Hence the study has been taken up on “Accounting and Reporting Practices” of some selected organizations in Eritrea and with a brief comparative study of relevant organizations in India.

1.3 GENERAL INTRODUCTION OF ACCOUNTING

Accounting is a function of every commercial and non-commercial organization in the society. It is the recording, reporting and interpretation of all financial transactions and resources of business enterprises and also other formal organizations.

Accounting, as a science, has existed through the history of the world. Due to growing of internalization’s of business activity, accounting is gaining more importance throughout the world. In all societies and at all stages of history accounting systems, in one form or other, have been used for planning, controlling and decision making of economic activities.

In modern economic organization, the “Owners of resources employed” (investors, share stock holders) do not have a direct control over day-to-day economic activities of the organization where investments are made. They depend on the records of the organization and presentation of the information through periodical and annual published reports.
1.4 OBJECTIVES OF THE STUDY

The overall objective of the study is to examine the accounting and reporting practices in Eritrea. Specific Objectives of the study are as follows:

(1) To provide a detailed theoretical framework on the basis of accounting standards of international level.

(2) To evaluate reporting practices and analyze annual published financial statements.

(3) To study and examine the accounting practices of some selected organizations in Eritrea.

(4) To present an overview of the accounting and financial reporting standards of selected organizations in Eritrea.

(5) To compare accounting and reporting practices of organizations in India with organizations of Eritrea.

(6) To offer suggestions for further strengthening the accounting and reporting systems.

1.5 PERIOD AND SCOPE OF STUDY

Eritrea was liberated in 1991 and attained full independence in 1993. 1991 has been taken as starting year of the study with an aim of covering 10 years i.e., up to 2000. The primary focus of the study is on the accounting and reporting practices of selected organizations in Eritrea. In general, this requires a wide range of investigation. But the present study does not aim to extend its gamut so widely as it may lose its importance and become inter actable. Therefore, the study is limited to give a
glimpse on Eritrea, overview on accounting and reporting of financial statements as per standards of global perspective and financial regulations of the State of Eritrea, with comparison of some Indian organizations. It is aimed to analyze the published annual financial statements of organizations from external users point of view.

I.6 SOURCES OF DATA

For the purpose of the study, the required information is collected through both primary and secondary sources.

In primary data collection, the executives and personnel were interviewed and information was collected even through my observations.

The secondary data is collected through published annual financial statements and reports. More importance is given to the published reports and statements.

I.7 RESEARCH METHODOLOGY

This aspect is discussed in two parts viz., (i) Conceptual and theoretical frame and (ii) Analytical frame

(i) In the conceptual and theoretical framework, various accounting concepts and conventions, application of various national and international accounting standards are adopted, the system of Reporting methods, theoretical aspects of analysis and interpretations are discussed.

(ii) In the analytical frame work, analysis and interpretation of data is made (a) organization wise and (b) organization Vs organization wise
On the basis of secondary data analysis is made by using appropriate tools like averages, percentage changes, ratios, trends etc.

Following methods of financial statements analysis are used:
(i) Comparative statements
(ii) Trend analysis
(iii) Common size statements
(iv) Funds flow and cash flow analysis
(v) Ratio analysis

The documentary information primary data was used for analysis & interpretations and for making conclusions, suggestions and recommendations.

1.8 LIMITATION OF THE STUDY

A study on “Accounting and Reporting Practices” of organizations heavily relies on the information made available by surveyed organizations. In some cases the data made available by these organizations are not adequate. Full information was not provided by the executives of those organizations due to not preparing the reports and loss of information in the prolonged war between Eritrea and Ethiopia. Some organizations did not function for few years during the period of 1991 to 2000. Thus the study suffers on account of paucity of required data to some extent.

1.9 CHAPTERISATION

The Study titled “Accounting and Reporting Practices or Organizations in Eritrea” is organized into six chapters:

Chapter I : Introduction
Chapter II: Conceptual and Theoretical study of the Accounting & Reporting Practices.

Chapter III: Profiles of the Surveyed Eritrean Organizations.

Chapter IV: Analysis and Interpretation of data

Chapter V: Comparative study of Accounting & Reporting Practices in the Organizations of Eritrea and India.

Chapter VI: Conclusions and recommendations