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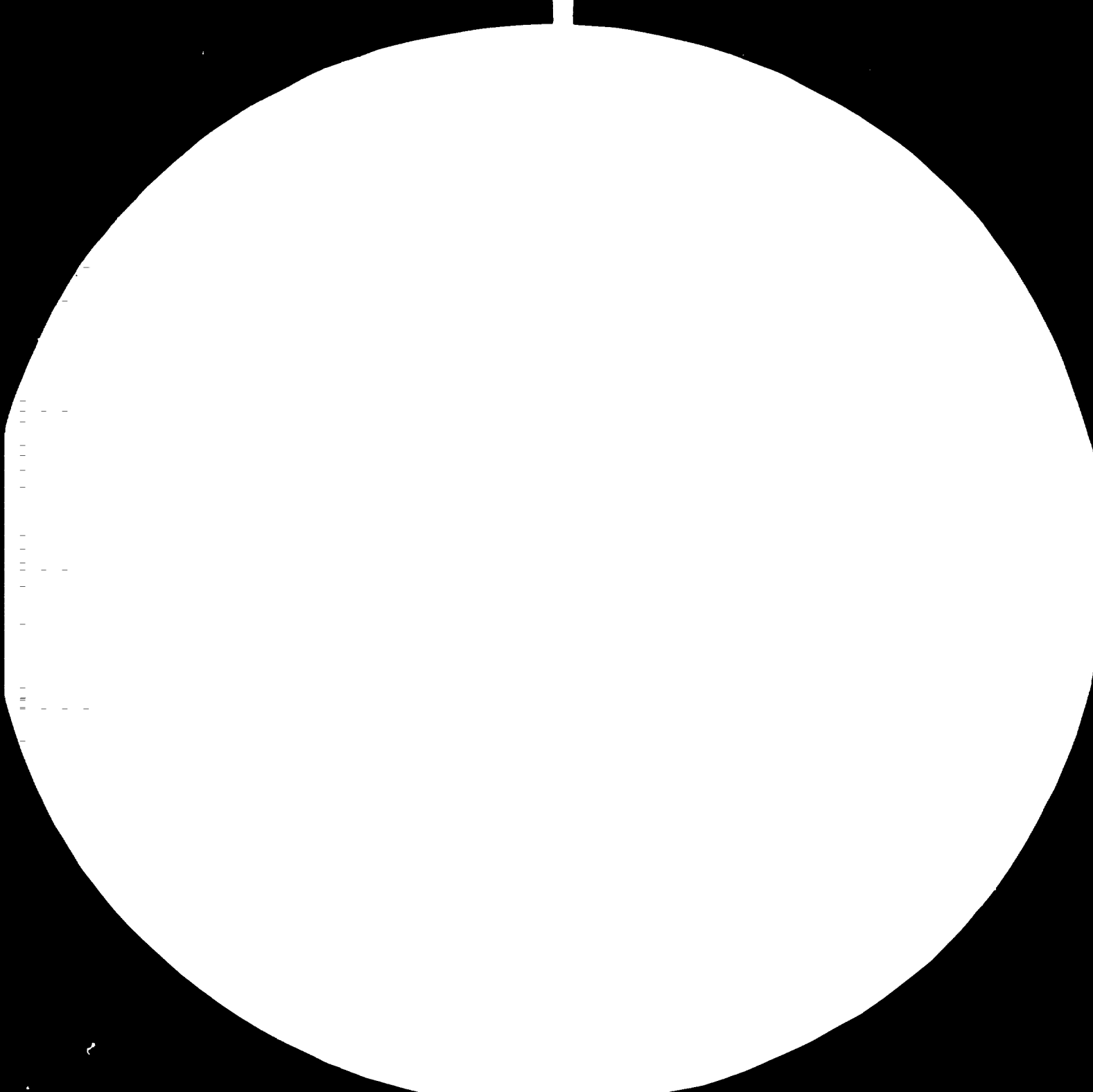
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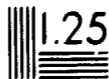
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Kenya. ASSISTANCE TO THE UPLANDS
BACON FACTORY.

SI/KEN/81/801

KENYA.

Technical Report*

Prepared for the Government of the Republic of Kenya by the
United Nations Industrial Development Organization

Based on the work of Charles P. Fearn, meat industry economist

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1. SUMMARY

This report refers to the assignment of a meat industry economist within the project SI/KEN/81/801, Assistance to the Uplands Bacon Factory in Kenya. The main objectives of the project were to assist the Uplands Bacon Factory in modernizing and improving its technical, technological and economic operation. The expert was expected to assess the company's budgetary and accounting system, implement improvements as necessary and to train counterpart staff.

The principal conclusions are as follows:

- 1) The company is only operating by the grace of its creditors and urgently requires additional funds to avoid bankruptcy.
- 2) The company does not have the funds available to finance the introduction of new accounting systems. However, this is not considered to be essential at present - what is important is to implement the economist's recommendations regarding improvements to the existing systems in order to safeguard the company's assets and aid decision making.
- 3) The company can make profits, having made a profit in two out of three months covered by this assignment, but to do so a minimum kill-rate of 1500 hogs per month must be achieved.

It is recommended that the Government provide additional funds by buying loan stock in the company, supervision of the company's financial operations by a Nairobi-based chartered accountant be continued on a part-time basis over the next one to three years, that sales on credit only be made within the laid down credit limits or with the specific authority of the chairman of the company and that the chief accountant and general manager of the company carry out the improvements and perform the control functions recommended by the economist.

2. INTRODUCTION

In March 1981, the Government authorities realized that the Uplands Bacon Factory was experiencing very serious financial problems and needed emergency assistance. Based on an official request the assistance was provided within the project SI/KEN/81/801. Originally, it was envisaged that a meat industry technologist will be engaged for a period of six months, possibly in two periods of approximately three months each. It was, however, realized that there are also problems which should be

dealt with by a meat industry economist and the project was modified accordingly in order to accommodate the services of an economist-chartered accountant for a period of three months. The assignment was carried out from the beginning of December 1981, partly spread over February, March and April 1982.

The main duties of the expert were to:

- 1) Assess the present system of budgeting, financial planning and production cost calculation.
- 2) Assess the present system of book-keeping and accounting and, based on this assessment, assist in improving the present accounting system.
- 3) Assist in designing the necessary materials for gradual implementation of the new system.
- 4) Review production planning and production cost calculation and advise on the system required to improve financial evidence.
- 5) Train counterpart personnel in modern accounting and book-keeping systems.

These objectives were largely attained, with the exception that financial constraints meant that it was not practical to introduce new accounting systems and the economist restricted himself to modifying and streamlining the existing system with the emphasis being placed on improving the company's internal controls. In addition, no review of production planning was carried out as this area is being fully reviewed by the meat industry technologist assigned to this project. A copy of the job description is attached as Annex I.

3. FINDINGS AND RECOMMENDATIONS

A brief summary of the work performed and improvements instigated by the economist during the three month assignment is as follows:

- 1) The management accounts for the period from 1st July to 30th November 1981, were reviewed and, as a result of this review, a statement showing revised losses and margins was prepared and issued to the company management. This statement showed more accurately the downhill trend of the company's operations over recent months.
- 2) Production cost figures were reviewed and, as a result of this review, the valuations of meat stocks incorporated into the management accounts over the above-mentioned period were revised.

The effect, generally, was to increase the meat stock valuations, (though September showed a decrease as the previous chief accountant had arbitrarily increased closing stock valuations that month without increasing opening stock valuations, hence showing an incorrect improvement in operating results). Later, meat stock pricing had to be revised twice more to take account of subsequent increases in prices paid to producers.

- 3) The system of recording the cash transactions, and the controls thereover, was examined and, as a result of this examination the system was overhauled, new records established and regular cash counts by independent personnel arranged, thus improving controls over a significant area of the company's operations.
- 4) The purchasing system was examined and improvements recommended to result in more control by top company management over:
 - (a) the placing of orders for goods or services, thus controlling the level of expenditure, and
 - (b) ensuring liabilities are properly recorded and that payments are only made in respect of goods or services received.
- 5) The stores recording system was examined and, based on this examination, recommendations for improvements were made with particular emphasis being placed on the relating of goods received with authorised orders and subsequent creditors invoices and the necessity for regular physical counts reconciled to stock cards. A streamlining of the stock cards system was also carried out, with recommendations being made as to the type of goods which should be charged direct to departments, the aim of these recommendations being to reduce the occurrence of stock misappropriations.
- 6) The system of making payments to producers was examined and, based on this examination, improvements were implemented to the controls over the kill sheets and grading certificates thus helping to ensure proper payments are made to producers.
- 7) The existing format of the management accounts was reviewed and a totally new format was adopted with effect from the November accounts. This new format is much more meaningful than the previous format and this assists the company management in decision making, controlling costs and revising quarterly budgets.

- 8) A separate management payroll was established, under the control of the Chief Accountant, with the recommendation that the two staff payrolls be integrated from the start of the next accounting year (i.e. July 1982).
- 9) The existing procedures relating to staff sales were reviewed and improvements implemented with a view to reducing unnecessary staff time lost on procuring orders.
- 10) The trial balance was streamlined, the number of manufacturing departments for which separate costs and allocations are required being reduced, with the purpose of reducing the workload of the accounts department in order to produce monthly management accounts at earlier dates than has been recent custom.
- 11) Deadline dates were discussed and set with regard to the submission of monthly schedules and information to the Chief Accountant with a view to obtaining management accounts as soon as possible after the end of each month.
- 12) The duties and responsibilities of personnel in accounts, audit and stores departments were reviewed and recommendations made with regard to the possible staff reductions which could be effected in those departments.
- 13) Credit limits, in respect of sales to be made on credit to very few customers, were discussed and set, the limit for each customer being restricted to the amount of bank guarantees received in respect thereof. It was recommended that, as far as possible, sales should be made strictly for cash, the company having lost large amounts in the past through bad debts.
- 14) The Pig Unit was established as a completely separate accounting entity, with a separate Profit and Loss Account and Balance Sheet. Although a separate Profit and Loss Account had been prepared previously and incorporated into the management accounts, proper allocations of expenses shared by the factory and pig unit had not been made but clear instructions have been laid down now with regard to the monthly accounting adjustments required. In addition, a separate bank account has been opened and the Pig Unit Manager given responsibility over payments to suppliers of drugs and feeds.

As a result, the viability or otherwise of the Pig Unit can soon be determined, and a decision can be made on either expanding it or disposing of it.

- 15) The latest management letter from the company's auditors was discussed and steps taken to implement the recommendations therein.
- 16) The management accounts were prepared, with the co-operation of the Chief Accountant, for November and December, 1981 under both the old and the new formats. This involved a substantive amount of "auditing" time being spent in order to ensure that accurate results were being produced - an additional benefit being that it assisted the Chief Accountant in preparing subsequent accounts himself under the supervision of the economist.
- 17) The Chief Accountant was instructed on how to prepare the monthly management accounts and the accounting adjustments necessary with respect thereto. This also involved accounting tuition on how to prepare a balance sheet and a cash flow statement and advice was given from time to time on the recommended accounting treatment of abnormal transactions.
- 18) The Chief Accountant was given written instructions with respect to essential duties and control functions which are his responsibility to perform.
- 19) The General Manager, at his request, was given written recommendations as to the information with which he should be supplied, both weekly and monthly, together with written recommendations of control functions to be exercised by himself split between "essential" and "recommended".
- 20) In the course of preparing the management accounts, and reviewing the back-up records with respect to Bank, Debtor and Creditor balances, it was discovered that those records did not agree with the balances in the trial balance, and had not agreed for some considerable time due to a lack of previous control. It was also discovered that records had not been kept of individual creditors balances since the end of June, 1981. The economist instigated the essential updating of these records, which has now been completed, and ensured that such a situation should not occur again by including checks thereon in the list of recommended control functions presented to the Chief Accountant and General Manager.

It is recommended that the Kenya Government buys at least \$3,000,000 of stock in the Uplands Bacon Factory, this being the minimum amount required by the company in order for it to settle its debts and repay existing loans.

It is recommended that UNDP or the Kenya Government procure the services of a Nairobi based chartered accountant on a part-time basis to supervise the financial operations of the company. On the basis of two months accountant time a year this would cost \$30,000 over a three year period, this supervision being considered essential, particularly in the next twelve months, in order that:

- 1) Further improvements can be made and properly implemented.
- 2) Modifications can be made once the effects of recommended changes are seen.
- 3) Budgets can be accurately drawn giving due consideration to anticipated improvements in trading conditions.
- 4) Expert advice can be given with regard to increasing profitability.
- 5) The present Chief Accountant can be enabled to attend courses and be given study leave which will improve him technically and increase his chances of qualifying as a certified public accountant.

It is recommended that sales be made on a cash basis as far as possible and that sales only be made on credit where bank guarantees are received. Credit limits have been set based on such guarantees and these should be strictly adhered to and only exceeded with the specific authority of the General Manager following the instructions of the Board of Directors.

It is recommended that the recommendations made by the economist during his assignment be carried out, it being particularly important that the general manager and chief accountant perform the control functions advised by the economist to be their respective responsibilities. This will ensure that proper records are maintained by the company which, apart from meeting a statutory requirement will aid decision making and help safeguard the company's assets.

4. CONCLUSIONS

The improvements achieved to the accounting systems and controls over a relatively short period have been considerable and should produce a favourable effect on the company's results, though not as

significant an effect in this area, of course as the changes effected by the meat industry technologist. The largest part of the economist's time was spent on the management accounts, this initially involving a review of the management accounts from the start of the company's present accounting year in July in order to establish the accuracy or otherwise thereof and make the necessary adjustments on preparing the following months' accounts. Subsequent to this review a revised format of the accounts was prepared and adopted and this format should assist in better planning and decision-making by the company's management. During the period of this assignment, the improvements initiated by the meat industry technologist began to have an effect and operating profits were recorded during the months of December and February, with January showing only a small loss. This was achieved in spite of a lower pig intake during this period than that of the first quarter of the company's accounting year when large losses were being incurred, a reduction in overheads resulting in a lower break-even point. The fact that the improvement process is continuous, with labour reductions still being made, means that the break-even point should continue to fall and it is recommended that the break-even point be re-calculated at least once a month by company management. This will prove beneficial in planning the number of pigs which must be obtained the following month if the company is to be profitable, as the pig intake is the crucial factor affecting the company's profitability. The company can handle much more than its present intake and there is sufficient demand for its product for it to sell much more than it currently produces.

However, in addition to procuring a sufficient supply of pigs, the company urgently requires additional funds if it is to survive. The company has a large working capital deficit which means that it has insufficient funds to pay its creditors if called upon to do so and it would then become bankrupt. Apart from this, the company requires funds to repay existing loans, thus saving on interest payments, and to carry out plant improvements and repairs, thus becoming even more efficient in its operations.

To conclude, although much has been achieved in a short space of time, both by the meat industry technologist and the meat industry economist, it is essential that outside technological and economic assistance be continued on a part-time basis over the next one to three years if the present momentum is to be maintained. Ultimately, however,

whether the mission was worthwhile or not will depend on whether the company can procure more money and more pigs, in that order, these being the crucial factors in its continued survival and profitability.



UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

UNIDO

18 December 1981

Request from the Government of the Republic of Kenya

for Special Industrial Services

INTERNAL

JOB DESCRIPTION

SI/KEN/81/801/11-52/31.7.C

Post title	Meat Industry Economist
Duration	Two months
Date required	As soon as possible
Duty station	Nairobi and Upland
Purpose of project	To assist in improving technical, technological and economic operation in the Uplands Bacon Factory.
Duties	<p>In close co-operation with the personnel of the Uplands Bacon Factory, the expert will specifically be expected to:</p> <ol style="list-style-type: none"> 1. Assess the present system of budgeting, financial planning and production cost calculation; 2. Assess the present system of book-keeping and accounting and, based on this assessment, assist in improving the present accounting system; 3. Assist in designing the necessary materials (manuals, instructions, forms etc.) for gradual implementation of the new system; 4. Review production planning and production cost calculation and give advice on the system required to improve financial evidence; 5. Train counterpart personnel in modern accounting and book-keeping systems.

..../..

Applications and communications regarding this Job Description should be sent to:

Project Personnel Recruitment Section, Industrial Operations Division
 UNIDO, VIENNA INTERNATIONAL CENTRE, P.O. Box 300, Vienna, Austria

The expert will also be expected to prepare a final report, setting out the findings of the mission and recommendations to the Government on further action which might be taken.

Qualifications Highly qualified Meat Industrial Economist with extensive practical experience in budgeting, cost accounting, production cost calculation and other financial matters related to the operation of meat industry plants.

Language English

Background Information The Uplands Bacon Factory has a slaughtering capacity of some 100-200 pigs per hour, producing fresh meat, hams, bacon, sausages etc. It used to be the only licensed pig slaughtering plant in the country and the most modern some twenty years ago.

According to two documents, a number of shortcomings in the organisation and operation of the plant have been identified. It was indicated that:

- a) demand for meat products is not followed, production costs are not exactly determined for each product and the pricing system is not appropriate;
- b) clear marketing policy, cost price for each product and product mix, crediting conditions, etc. should all be looked at more carefully; the financial accounting department should introduce weekly reporting;
- c) accounting procedures should be reviewed, alternative methods should be introduced where necessary and teaching of accountancy export is essential;
- d) accurate information should be obtained on the present financial situation and a statement to this effect is necessary;
- e) the management should be restructured and new organisation established according to the recommended organisational chart.

The plant ought to be modernised and re-organised; a further delay in doing so would lead to a deterioration in its financial situation and operational condition. This would reduce the supply of meat products to the local market leading to increased shortages and imports.



