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18801

Distr.
RESTRICTED

IO/R.184
18 January 1991

UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION

ORIGINAL: English

IMPROVEMENT OF MANAGEMENT IN THE TEXTILE INDUSTRY

XA/SUD/90/606

THE REPUBLIC OF SUDAN

Technical report: Strengthening the managerial and supervisory functions
relating to financial management and accountancy
of the General and Spinning and Weaving Company Ltd.*

Prepared for the Government of Sudan
by the United Nations Industrial Development Organization

Based on the work of T. Rao,
consultant in accountancy and financial management

Backstopping Officer: M. Farah
Industrial Management and Rehabilitation Branch

* This document has not been edited.

Explanation notes:

- (a) The monetary unit in Sudan is the Sudanese Pound (L.S.).
- (b) As on date of this report 1 US\$ = 12.1 Sudanese Pound.
- (c) A full stop (.) in figures is used to indicate decimals.
- (d) This report is based on the English translation of the financial accounting and other documents provided to the author by the officials of the General Spinning and Weaving Public Co. Ltd, and its factories.
- (e) The term Head office, whenever used refers to the General Spinning and Weaving Public Co., Ltd, Khartoum.
- (f) The term factories refers to the subsidiary companies which are managed, whether they are in production, construction and closure, by the Head office.

Abstract

Post title : Consultant in Accountancy and Financial Management

Project No : XA/SUD/90/606/11-02/J.12200 (Rev. 1)

Objective : To strengthen the managerial and supervisory functions of the Spinning and Weaving Public Company Ltd., in order to monitor the operations of the Weaving and Spinning Factories and help improve their economic performance.

Duration of the : Two and half months.

Main

Conclusions : (a) The General Spinning and Weaving Company Ltd., is responsible for the management of the undermentioned factories;

Spinning : Hag Abdalla- operating
Khartoum-North - "
Port Sudan - under construction

Weaving : Shendi --operating
El dueim - "
Kosti - "
Nyala - "
Kadugli- "
Mangela - closed down

**Ready made:Friendship --operating
garment factory**

(b) Most of the operating factories are making losses due to under utilization of production capacity, lack of motivation of personnel and absence of management and accounting techniques.

Port Sudan spinning factory is under construction for more than 2 years blocking up fixed capital investment. Mangela weaving factory was closed down for the past 10 years due to political problems.

Summary of**Recommendations:**

All the factories should be made to work to optimum capacity by making available the required production facilities. By introducing proper pricing policies, management information systems and accounting techniques including forward planning and control all the factories can be made profitable.

Acknowledgements

The author wishes to express his appreciation for the understanding, co-operation and assistance extended in particular by the under mentioned officials of the General Spinning and Weaving Public Company Ltd., Ministry of Industry and UNIDO.

(a) General Spinning and Weaving Public Co. Ltd;

- Dr. Abdel Rahman Abdallah Ali,
Managing Director
- Mr. Abu Bakar Yaha El Fadli,
Project co-ordinator and Head of Economic
Research, Planning and Training Department.
- Mr. Hassan Khalafalla Hassan, Finance Manager
- Mr. Hassan Omer Elamin] Cost Accountants
- Mr. Atif Leius Fakori]

(b) Ministry of Industry;

- Mr. Ali Khailfa,
Head of International Organization and Training
Department
- Mr. Tahir Mohamed Ahmed,
Director of International Co-operation Department.

(c) UNIDO-Sudan

- Mr. Massimo Garzelli,
UNIDO Country Director.

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INTRODUCTION

- 1.0 Mr. Tangella K. Rao undertook the assignment as UNIDO Consultant in Accountancy and Financial Management XA/SUD/606/11-02/J.12200 to strengthen the managerial and supervisory functions of the Spinning and Weaving Public Co. Ltd., and its factories in the areas of Financial Management accounting, costing and pricing of products. The job description of the Consultant is attached as Appendix A.
- 2.0 The duration of activity for the assignment in question is for a period of two and half months commencing from 10 September 1990.
- 3.0 The original objective of the project was to strengthen the managerial and supervisory functions of the Spinning and Weaving Public Company Ltd, in order to monitor the operations of the Weaving and Spinning Factory and help improve their economic performance. The management of the General Spinning and Weaving Company Ltd. Vide their letter NO: 48/2/3 dated 22-9-90 has substituted Friendship Ready Made Clothes Factory to Port Sudan Spinning Factory since the latter has not yet started operation. Except for this change the original objectives remained as such.
- 4.0 In view of the limited time during which the prescribed duties were required to be performed by the consultant, the management of the General Spinning and Weaving Co. Ltd, suggested the priorities as follows:
 - (a) Visit one Spinning Factory, one Weaving Factory and the Friendship Ready made Garments Factory and study the cost accounting system which is in operation in these three factories.
 - (b) Undertake a diagnostic analysis of the financial situation of the Head office and factories.
 - (c) Study the internal debit/credit status between the head office and factories,
 - (d) Introduce suitable cost accounting systems in the friendship ready made garments factory
 - (e) Give suitable recommendations to the government for further action.

I: ACTIVITIES AND OUTPUTS**1.00 ACTIVITIES:**

The following activities were carried out by Tangella Rao Consultant in Accountancy and Financial Management during the period of assignment of two and half months.

- 1.01 The work plan of the consultant was prepared and attached as Appendix B.
- 1.02 Met a number of officials working in General Spinning and Weaving Company Ltd, and its factors, Ministry of Industry, Ministry of Finance and Economic Planning, The World Bank, Sudanese Businessmen's association, UNIDO etc. as specified in Appendix "D" and discussed with them financial and accounting matters relating to the Head office and factories.
- 1.03 The office of the consultant is located in the premises of the General Spinning and Weaving Company Ltd., consequently detailed rapport has been established with the officials working in the financial, cost accounting internal audit and other departments of the head office.
- 1.04 The following factories were visited along with the Finance manager and Chief cost accountant and detailed discussions were held with the concerned General Manager, Chief Accountant and Cost accountant.
 - (a) Friendship Ready Made Clothes Factory
 - (b) Khartoum North Spinning Factory
 - (c) Kosti Weaving Factory

The details with regard to the visit to these factories are contained in Appendix "F".

- 1.05 The inadequacies in the existing Financial, cost accounting and internal audit divisions were explained in detail to the officials concerned and the need to upgrade these management services was emphasized on the respective officials.
- 1.06 A clear impact has been created on the top management and financial and cost accounting department and internal audit division on the importance of adopting modernized accounting techniques and management information systems so as to highlight the deficiencies in the right time for taking remedial action.

- 1.07 Actively participated in the textile conference conducted on 1st and 2nd of October 1990 jointly by the Ministry of Industry and the General Spinning and Weaving Co. Ltd, under the motto "Textile Industry Towards Self Sufficiency and Export".
- 1.08 Closely associated with Mr. Massimo M. Garzelli UNIDO Country Director and Mr. J. Sarry, UNIDO Textile Consultant in conducting the project activities of the consultant in accountancy and financial management.
- 1.09 Diagnostic analysis were conducted on the financial situation and internal debit/credit status of the Head office and its factories.
- 1.10 Discussed the existing financial and cost accounting systems with the officials concerned at the head office and factories and advised them on the methodology to be adopted for implementing unified accounting system.
- 1.11 Discussed with the officials at Head office and factories the criteria to be adopted for internal costing and pricing of yarn, cloth and ready made garments manufactured by various factories of the General Spinning and Weaving Co. Ltd.
- 1.12 Requirements for establishing Cost Accounting system with forms thereon were prescribed and explained to Chief cost Accountant. The details in this regard are shown as Appendix: H.

2.00 Outputs :

The following outputs were achieved during the period of assignment of the consultant in accountancy and financial management.

- 2.01 The officials working at the Head office and factories in finance and cost accountancy, Internal audit and management information system have become aware of the existing deficiencies and the improvements that are required to be carried out.
- 2.02 The general management at the Head office and factories have become aware of the reasons for losses being made by some of the factories and the areas in which efforts should be made to make them profitable and increase the productivity .

- 2.03 Prescribed the criteria for internal costing and pricing.
- 2.04 The financial management of the head office have become aware of the methodology to be adopted in introducing unified accounting system.
- 2.05 The need to implement sound accountancy system in order to isolate the non-productive costs and avoid them, has been very much recognized by the cost accounting staff.
- 2.06 The management of the General Spinning and Weaving Company has appreciated the role to be played by the Internal auditors as the eyes and ears in revealing the deficiencies existing in various organizations and departments.
- 2.07 The need for providing in house training to the staff of finance, cost accounting, internal audit and management information systems was felt by the concerned departmental heads and top management.
- 2.08 The management of Head office has understood the requirements for establishing good cost accounting system in Friendship Garments Factory.

II: FINDINGS AND CONCLUSIONS:

1.00 Based on the diagnostic analysis carried out in respect of the General Spinning and Weaving Company Ltd. which is the Head office, the following conditions were revealed :

1.01 Status:

The General Spinning and Weaving Company Ltd; was registered on 10 November 1984 as a private company limited by shares under the Companies Act 1975. The objectives and the powers of the company were specified in the memorandum of association and the regulations which are applicable to the company are contained in the articles of association. The share capital of the company is LS. 65,000,000 divided into 1000 shares of LS 65,000 each. Ministry of Finance and Economic Planning holds 999 shares and the National Export/Import Bank 1 share.

1.02 The financial statements of the Head office as on 30th June 1990 are as follows:

a) Trial Balance:

THE GENERAL SPINNING AND WEAVING CO. LTD.
TRAIL BALANCE AS AT 30/6/1990

	CREDIT	DEBITS
	LS	LS
BANK OF SUDAN		172,394,810
BANK OF KHARTOUM		4,257,170.880
DEBTORS & CREDITORS	4,035,236,540	4,383,218,632
EXPENSES		2,153,059,020
CONTRIBUTION	2,139,142,980	
OTHERS INCOME	13,916,040	
PREPAID EXP.		21,226,168
ACCRUED EXPENSES	21,979,590	
FINANCE FOR SIX WEAVING FAC.	26,263,050	
CARS		820,860,880
MOTOR CYCLES		3,100,000
FRIDGE		4,521,890
TYPING CALCULATORS MACHINES		54,689,770
FURNITURE		42,074,870
PHOTO MACHINE		8,641,880
PARKING		2,935,700
PUMPING		290,000
PHOTO MACHINE FOR DIRECTORS		34,689,000
FANS		3,015,000
LETTERS OF CREDIT		614,445,960
DEPRECIATION	364,977,270	
CAPITAL	1,017,358,990	
COOLERS		42,540,000
LONG TERM LOANS	5,000,000,000	
TOTAL	LS 12,618,874,460	12,618,874,460

THE GENERAL SPINNING AND WEAVING CO. LTD

b) BALANCE SHEET AS AT 30/6/90

LIABILITIES	LS	LS	ASSETS	LS	LS
<u>CAPITAL</u>	1,017,359		FIXED ASSETS	1,017,359	
LONG TERM					
LOANS	5,000,000		LES DEPREC.	364,977	
		6,017,359			652,382
CURRENT LIABILITIES			CURRENT ASSETS		
CREEDITORS/COMPANYS	4,014,431		BANK OF SUDAN	172,395	
CREEDITORS/INDIV.	20,806		BANK OF KHARTOUM	4,257,171	
FINANCE TO SIX]			LETTER OF CREDITS	614,446	
WEAVING FACTORIES]	26,263		DEBTORS/COMPANY	3,794,318	
OTHER EXPENSES	21,979		DEBTORS INDIV.	588,900	
		4,083,479	PREPAID EXPS.	21,226	
					9,448,456
TOTAL LS		10,100,838	TOTAL LS		10,100,838

From the above it can be seen that accounting policies have not been prescribed. Internal creditors and debtors were not segregated from external creditors and debtors. No provision has been made for bad and doubtful debts. The particulars with regard to capital as authorized, issued and paid up are not given. The interest payable and the security provided for long term loans are not stated. Confirmation letters for balances in debtors and creditors accounts were not received. Age old analysis of debtors is not given. Overall the Balance sheet presentation do not confirm to international standards of accounting.

c) FIXED ASSETS STATEMENT INCLUDING DEPRECIATIONFIXED ASSET AND DEPRECIATION AS AT 30/6/90

PARTICULARS	ASSETS AS AT 1/7/90	DEP RATE %
CARS	820,860,88	20%
MOTOR CYCLES	3,100,00	20%
FREDDGERS	4,521,89	10%
AIR COOLERS	19,000,00	10%
TYPING & CALCULATR	50,444,77	7 1/2 %
FURNITURE	38,824,87	7 1/2 %
PARKING	2,935,70	7 1/2 %
PUMPS	290.00	7 1/2 %
PHOTO MACHINE	8,641,88	7 1/2 %
PHOTO MACHINE FOR DIRECTOR	34,689.00	7 1/2 %
FANS	3,015,00	7 1/2 %
TOTAL LS	986,323,99	

Detailed inventory for fixed assets is not prepared.

d) Income and Expenditure statements:**THE GENERAL SPINNING AND WEAVING CO. LTD****A. THE EXPENSES FOR THE YEAR 1980-90****LS**

Wages and Salaries	728,170,59
Bonus	80,286,13
Office managers exp.	300,00
Other allowances	59,488,68
Travelling allowances	40,443,50
Assistance allowances	21,167,41
Leaders exp.	18,945,80
Milage all.	3,608,00
Overtime	45,658,51
Leave purchases	40,985,50
Temporary wages	31,281,09
Pension	78,633,39
Social Insurance	2,091,96
Water and light	17,000,00
Stationery	59,203,01
Posts & telegrams	8,184,26
Advertisement	1,818,00
Cars insurance	27,509,50
Local exp.	300,00
Cars maintenance	142,465,01
Building "	29,686,76
Maintenance of fitting	19,029,90
Fairs	3,000,00
Other transports	3,346,00
News papers/magazines	2,993,50
Leave transport	62,006,70
Visitors	7,428,50
Board of directors exp.	27,482,16
Health exp.	10,247,00
Research exp.	270,00
Depreciation	175,005,71
Bank charges	7,967,06
Contributions & notices	8,320,00
Workers uniforms	12,833,10
Medical exp.	42,396,48
Radio & telex exp.	11,087,09
Internal training	68,000,96
Foreign training	12,568,59
Contribution	53,000,00
Previous year exps.	48,701,79
Oils & grease	73,186,33
Foreign treatment	14,812,00
Capital exp.	31,035,00
Travelling allowances	20,334,05

2,153,059,02
 =====

It is not indicated as to how the surplus of expenditure over income is financed.

**THE CONTRIBUTION OF THE FACTORIES
FOR THE YEAR 30/6/1990**

	LS
Hag Abdalla	513,394,32
Kosti Weaving F.	342,262,88
Shendi " " "	256,697,15
El Dewim " "	342,262,88
Kadogli " "	192,522,87
Nyala " "	192,522,87
Ready made friendship F.	299,480,01
Total LS.	2,139,142,98

Excess of expenditure over income	LS.	13,916,04
--------------------------------------	-----	-----------

e) Books of accounts maintained:

The company maintains minimum set of financial books of accounts which are as follows:

- General Journal
- General ledger
- Debtors and creditors ledger for companies
- Debtors and creditors ledger for individuals
- Bank of Sudan ledger
- Bank of Khartoum ledger

There is no accounting manual which specified the documentation and accounting procedures.

1.03 Cost accounting and control:

The company has a cost accountant who reports to the head of the finance department. There are no guidelines given by the cost accountant to the Spinning, Weaving and Garment factories. Since the cost accountant is not supported by any staff his work and activities are very much limited. Cost statements are not prepared on a timely basis for decision making by the heads of departments in the head office and factories.

1.04 Internal debit/credit status:

From the summarized position of debit and credit status as on 30 June 1990 it can be seen that the factories owe head office LS 3,794,318 whereas head office owe LS 4,014,431 to the various factories. Contra debits with credits and vice versa do not tally. Reconciliation of internal debit and credit has been taken up now. But wide variations in the figures do exist.

1.05 Costing and Pricing policies:

The head office has not laid down any costing guidelines for the benefit of its various factories. Pricing policies for the products manufactured by spinning, weaving and garment factories to be sold in domestic and international markets have not been laid down. In view of the incorrect cost information prepared by some of the factories viz., ready made garments factory the selling prices are fixed at a lower rate and consequently losses are incurred. The selling prices should be closely monitored by conducting market study and research. There are about 20 private companies which are manufacturing and marketing yarn, cloth and ready made garments. In addition there is another public sector company by name Friendship textile company which has an integrated factory that carries out spinning, weaving and finishing activities. There is no co-ordination between the friendship Textile Company and the General Spinning and Weaving Company Ltd, with regard to production

and marketing activities. Under the public enterprise and economic management project of the World Bank Friendship Textile company has been selected as one of the pilot enterprises. The criteria being (a) impact on the national economy (b) market orientation (c) size of assets (d) relative size of the government involvement in the sector and potential for privatization and liquidation.

However the general spinning and weaving company ltd, was provided by UNIDO a medium term consultant in production management for about 2 years and a short term consultant in financial management for six months.

1.06 Managerial aspects:

The General Spinning and Weaving Public Co. is not fully equipped with professionals particularly in the areas of Financial and cost accountancy, Internal audit and management information systems.

The head office charges management fees which is called contribution from the factories. Neither the time spent by head quarters staff nor the professional services rendered by them in developing and promoting individual factories are given due consideration in arriving at the fees to be charged.

1.07 Utilization of Production capacity:

The following statement shows the installed capacity, operating capacity and the number of employees engaged by Head office and factories.

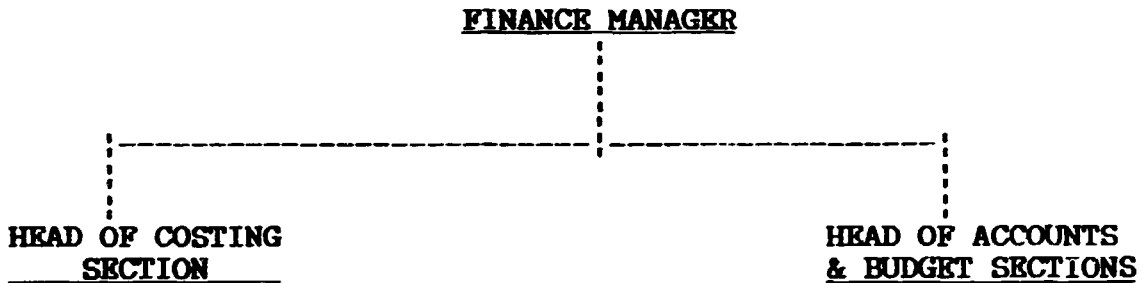
Items	Particulars	Capacity as on 30/6/90		Number of employees
		Installed	Operating	
1	Head office	--	--	90
2	Hag Abdalla Spin. Mill	69120spind.	17280	1506
3	Khartoum North " "	23520	14700	505
4	Port Sudan Spin. "	not operating		88
5	Shendi weaving factory	256 looms	222 loom	322
6	Dewiem " "	256 "	208 "	282
7	Kosti " "	256	256 "	328
8	Kadogli " "	256	251 "	201
9	Nyala " "	256 "	253 "	187
10	Ready Made clothes "	200,000 pieces	not available	225
			per year	
			TOTAL	<u>3,734</u>

It can be seen from the above that the two spinning factories are working much below installed capacity mainly for lack of machinery spares.

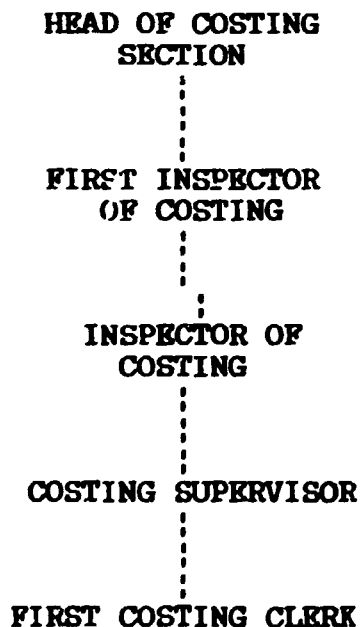
1.08 Staffing:

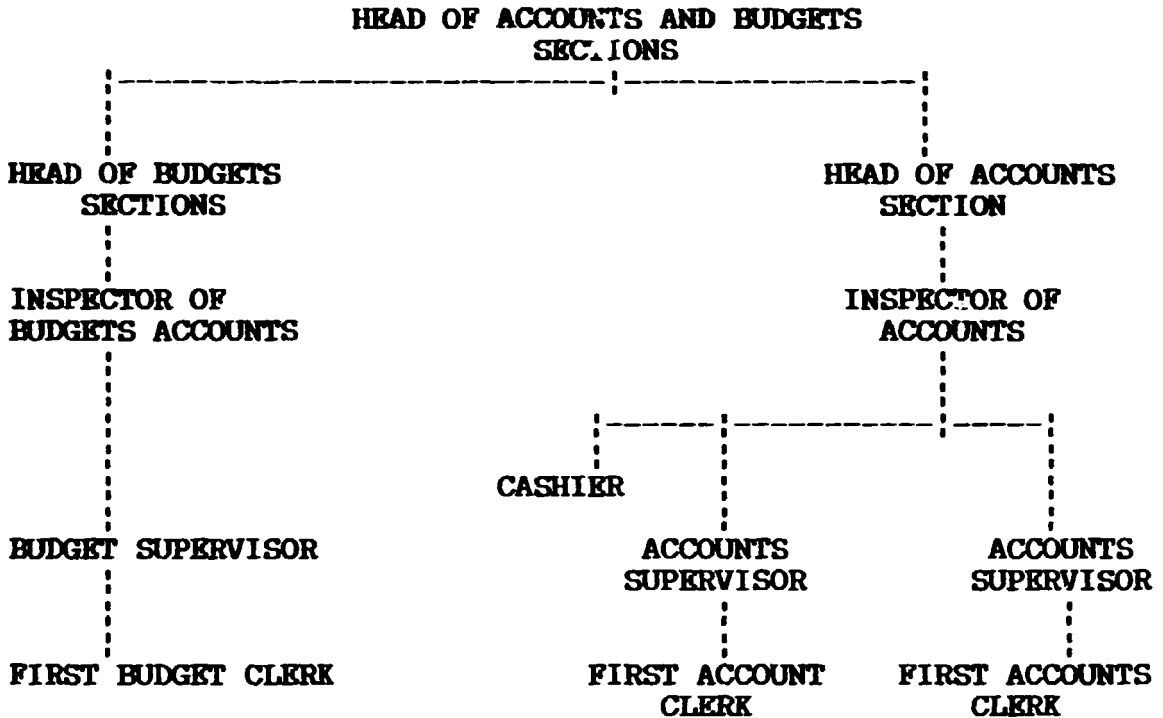
The organization structure of the Finance department is given below:

(a) Finance Manager's office:



(b) Costing Section:



(c) Accounts and Budgets Sections:

It is understood that the finance department of the head office has the following posts vacant from inception

- Head of accounts
- Budget accountant
- Payments accountant

There is a general shortage of qualified and experienced financial and cost accountants in Sudan. Consequently there is an influx of qualified accountants from the Public sector where they are underpaid to the private sector. It is understood that the head of finance and accounts department in a major public sector undertaking is paid about LS 2000 per month whereas in the private sector such official is paid LS 5000 per month.

Further there is no proper scheme for training the financial accountants, cost accountants and internal auditors in the industrial sector. Consequently necessary capabilities are not developed within the country. Only basic accounting concepts are taught in the Universities but for securing professional qualifications in accountancy i.e. ACCA and ICMA people have to go to UK for studying for these courses on a full time basis.

1.09 Internal Audit:

As per the organization chart of the head office the internal auditor reports to the Managing Director. The status and consequently the qualifications and experience of the incumbent holding the position of Internal Auditor who should report to the Managing Director are not high enough to conduct financial, cost, management operational and procedural audits. Audit plans and audit programmes are not prepared in advance. The internal auditor is not supported by any staff. Till October 1990 the Internal audit division was not in operation and only recently the Internal auditor at head quarters was appointed.

1.10 External Audit:

The company at each annual general meeting shall in consultation with the Auditor General appoint an auditor to hold office until the next annual general meeting and their appointment remuneration rights and duties shall be regulated by section 137 and 138 of the companies act 1925. However, the financial statement of accounts of head office and factories are being audited by the office of the Auditor General's office.

1.11 Board Meetings and Annual General Meetings:

Sixteen Board meetings are held in a year. At least one meeting is held in each month. The Finance manager and other departmental heads of the Head office do not attend to the Board meeting.

1.12 Systems and Procedural Manuals:

The company has no manuals on maintenance and preparation of financial accounts and cost accounts; there is also no internal audit manual specifying the audit programmes maintenance of working papers and basis for checks to be carried out.

1.13 Management Information Systems (MIS):

The company has not established any management information systems under which utilization of production capacity, profitability, pricing, idle costs etc: are reported periodically to Head office and factories for decision making purposes.

1.14 General Information about the Operating Factories:

The location date of commencement of operations and the profit/loss made by each of the operating factories is given below:

GENERAL INFORMATION ABOUT THE OPERATING FACTORIES

NAME OF FACTORY	LOCATION	OPERATING SINCE	NET PROFIT /LOSS FOR YEAR ENDING 30/6/1990 (LS)
HAG ABDALLA SPINNING MILL	HAG ABDALLA	1983	(931.900)
FINE SPINNING MILL KRT NORTH	KHARTOUM NORTH	1990	---
SHRNDI WEAVING FACTORY	SHRNDI	1978	1,336,500
DEWIKM WEAVING FACTORY	DEWIKM	1978	976,600
KOSTI WEAVING FACTORY	KOSTI	1978	2,458,500
KADOGLI WEAVING FACTORY	KADOGLI	1979	2,084,200
NYALA WEAVING FACTORY	NYALA	1979	3,156,400
FRIENDSHIP FACT. FOR READYMADE CLOTHES	UMDURMAN	1986	(290,000)

2.00 Friendship Ready made Garment Factory:

2.01 The trial balance, manufacturing, trading and profit and loss account and Balance sheet of Friendship ready Made Garment factory as 30th June 1990 are given below:

FRIENDSHIP FACTORY FOR READY MADE CLOTHES:--
(a) TRAIL BALANCE AS AT 30/6/1990

<u>PARTICULARS</u>	<u>DR</u>	<u>CR</u>
Fixed assets	3,907,260,88	
Accumulated depreciation		1,142,763,86
Establishment expenses	509,089,50	
Bank of Sudan	33,841,89	
Commercial Bank	116,933,35	
Debtors and Creditors	1,085,232,78	1,361,961,61
Accrued expenses		91,607,26
Storage	1,129,039,00	
Administrative expenses	599,881,74	
Manufacturing expenses	2,387,064,54	
Other revenue		64,384,10
Sales		2,761,759,13
Depreciation	302,823,86	
Establishment exp. deprec.	56,565,50	
Capital		6,192,808,00
Last year's losses	1,507,490,92	
Total LS	<u>11,615,283,96</u>	<u>11,615,283,96</u>

b) Manufacturing trading and profit and loss
account

Manufacturing account

DR		CR	
PARTICULARS	LS	PARTICULARS	LS
Wages & Salaries	780,022,96	Closing stock of R.M	154,437,87
Raw materials	1,099,772,75	" " " Petrol	17,226,99
Materials	102,301,00	" " spare parts	376,090,74
Spare parts	2,310,78	Balance C/D	2,050,767,96
Petrol & Oils	46,569,20		
Water & Light	77,189,22		
Other manu. exps.	258,898,63		
Depreciation of buildings	40,124,82		
Depreciation of Machinery	191,334,20		
	<u>2,598,523,56</u>		<u>2,598,523,56</u>

Trading A/C

Balance B/D	2,050,767,96	Sales	2,761,759,13
Opening stock	1,129,099,00	closing stock	767,019,29
Balance C/D	356,345,94	" " " (Special order)	7,434,48
(gross profit)	<u>3,536,212,90</u>		<u>3,536,212,90</u>

P & L A/C

Admin expenses	599,881,74	Balance B/D	356,345,94
Estab. exp.	56,565,50	other revenue	64,384,10
Depreciation	71,364,84	Closing stock	17,172,16
	<u>727,812,08</u>	Balance (Net loss)	289,909,88
	<u>727,812,08</u>		<u>727,812,08</u>

Friendship Ready made Garments Factory

DETAILS OF MANUFACTURING EXPENSES 1989/90		
NO.	Particulars	LS
1.	Carriage expenses	2,254,00
2.	Transportation allowance	19,424,70
3.	Petrol oils	46,569,20
4.	Salaries	52,736,16
5.	Travelling allowance	401,00
6.	Assistant materials	102,301,00
7.	Other allowances	4,442,47
8.	Wages	672,011,89
9.	Raw materials	1,099,772,75
10.	Cars	53,519,66
11.	Packing	13,914,50
12.	Leave transportation	4,913,78
13.	Acting allowance	1,000,00
14.	Mileage allowonace	1,336,41
15.	Water and light	77,189,22
16.	Food expenses	42,659,00
17.	Qualification allowances	437,00
18.	Pension	616,00
19.	Rent of cars	84,241,88
20.	Social insurance	7,594,92
21.	Overtime	8,324,51
22.	Medical expenses	11,101,64
23.	Attendance incentive	5,055,66
24.	Uniform	20,058,81
25.	Spareparts	2,310,78
26.	Maintenance of machines	12,174,68
27.	" " " buildings	685,00
28.	" " " furniture	9,120,00
29.	Purchase of leave	3,817,67
	Total	2,367,064,54
	Depreciation (total)	302,823,86
	Grand total	2,669,888,40

Friendship Ready Made Garment Factory

DETAILS OF ADMINISTRATIVE EXPENSES FOR THE YEAR ENDING 30/6/1990

ITEMS	PARTICULARS	L.S.
1.	Travelling allowance	5,550,00
2.	Qualification allowance	90,00
3.	Donations	1,506,36
4.	Transportation allowance	15,974,15
5.	Wages	170,240,38
6.	Advertisement	8,610,59
7.	Acting allowance	2,361,48
8.	Mileage allowance	375,00
9.	Wages	92,239,04
10.	Medical expenses	3,595,98
11.	Acting allowance	3,050,00
12.	Bank charges	2,699,31
13.	Guest allowance	360,00
14.	Exhibition & Marketing exp.	6,269,73
15.	Overtime	37,540,86
16.	Postage & telephone exp.	1,313,33
17.	Other allowances	17,400,00
18.	Stationeries	30,817,80
19.	Pension	16,079,62
20.	Social insurance	3,960,09
21.	Seasonal wages	4,142,06
22.	Local tax	1,390,00
23.	Leave transportation	1,603,72
24.	Contribution to head office	125,000,00
25.	Guest expenses	1,496,84
26.	Culture services	8,368,00
27.	Purchase of leave	1,290,00
28.	Health services	1,290,00
29.	Bonus and incentive payments	8,355,00
30.	Insurance	24,080,40
	Total	599,881,74

c) Balance sheet
FRIENDSHIP FACTORY FOR READYMADE CLOTHES

PARTICULARS	LS	LS
FIXED ASSETS		
MACHINERIES	1,913,342,00	
WATER COOLERS	2,700,00	
BUILDINGS	1,604,992,82	
VEHICLES	338,102,98	
TYPEWRITERS	8,799,20	
FURNITURE	39,323,95	
	<u>3,907,260,88</u>	
LESS ACCUMULATED DEP	1,142,763,86	2,764,497,02
CURRENT ASSETS		
BANK OF SUDAN	33,841,89	
COMMERCIAL BANK	116,933,33	
DEBTORS	1,085,232,80	
GENERAL STORE	17,172,16	
RAW MAT. STORE	154,437,87	
PETROL STORE	17,226,99	
FINISHED GOODS	767,019,29	
SPAREPARTS	376,090,74	
FINISHED GOODS	7,434,48	2,575,389,55
PAST YRS LOSSES	1,507,490,92	
THIS YRS LOSS	289,909,88	1,797,400,80
ESTABLISHED EXP		509,089,50
	<u>TOTAL</u>	<u>7,646,376,87</u>
LIABILITIES		
PARTICULARS	LS	LS
CAPITAL		6,192,808,00
CURRENT LIABILITIES		
CREDITORS	1,361,961,61	
ACCRUED EXP	91,607,26	
		<u>1,453,568,87</u>
	<u>TOTAL</u>	<u>7,646,376,87</u>

- 2.02 From the above it can be seen that the factory has made loss of LS 289,910 for the year 1989-90 and the accumulated losses upto 30.6.90 amounted to L.S.1,797,401. It can be concluded that 1/3 of the invested capital has been wiped off as losses upto 30.6.90.
- 2.03 Even though apparently, under utilization of production capacity and fixation of selling price of products based on wrong cost of production figures are the main reasons for huge losses incurred by the factory detailed investigations are required to be conducted to avoid losses.
- 2.04 The accounts of the factory were audited upto 30.6.87 only and the important audit comments are reproduced below:

Auditing Report of
Readymade Garments Factory for the Year 86/87

Introduction:

The construction of factory is done according to the protocol between the government of Sudan and Government of China on 14 November 1978. The production through the year ended on 30 June 1987 started with low efficiency because of lack of supply of raw material.

System of Accounts:

The system of accounts which is applied now is not internally controlling the books. The relation between commercial section, costing section, and financial section is not good. These must be changed by establishing good control systems. Financial section is not keeping any stores ledger cards to control the movement of items in the stores.

- 2.05 The audit report given by the office of the Auditor General do not touch upon the accuracy of balances in respect of debtors and creditors through confirmation of balances received, the accounting policies, valuation of inventors, utilization of capacity etc. The details of manufacturing expenses amounting to LS 2,367,065 shown in the schedule do not tally with the figures appearing in the manufacturing account.
- 2.06 There is need to introduce integrated financial and cost accounting system and improve the standard of accounting. It is also necessary to re-organize the capital structure of the factory so as to make it viable during future years.

3.00 Khartoum North Spinning Factory:3.01 Financial Statement of Accounts:

The Trial balance, schedule of fixed assets and balance sheet of Khartoum North Spinning and Weaving Factory as on 30.6.90 were examined.

The manufacturing trading and profit and loss account for the corresponding period are not made available.

From the Balance Sheet it can be seen that the loss for the year 1989-90 corresponds to LS. 5,107,127 whereas the accumulated losses upto 30-6-90 amounted to LS. 15,672,075. The government has pumped in additional capital of LS.24,201,314 during 1989-90.

3.02 The Auditor General has completed the audit upto 30.6.89 and the salient points of auditors observations are given below:--

Introduction:

The construction of Fine spinning mill was started ten years back, with the protocol between the government of Sudan and government of Romania .

The result is incomplete civil construction by Sudanese and thus the machines and other tools were installed late.

As per the agreements the Romania side completed the civil work, and the production started in October 1987.

Foundation Expenses:

Until the year 88/89 the Mill was still a project so the total expenses and other incomes are transferred at the end of every year to construction account:--

	86/87 L/Pounds	87/88 L/Pounds	88/89 L/Pounds
EXP.	583,886,815	5,992,374,350	8,107,371,620
Incomes	130,311,510	2,248,560,170	2,789,372,700
	-----	-----	-----
The balance transferred to construction exp A/C	453,575,305	3,743,814,180	5,317,998,920
	=====	=====	=====

Stores:

There are many scrap items which are not used now. These must be sold to increase the money.

3.03 From the above it can be seen that the auditors report is not oriented to establish the accuracy of the financial statement of affairs of the factory as on a particular date as reflected in the Balance sheet. The Capital structure of the factory indicating the number of shares type of shares and the paid up amount of the share are not explained.

3.04 Comments and Recommendations:

The debtors as on 30.6.90 amounted to LS. 33,532,977 whereas the creditors for the corresponding period amounted to LS.26,319,847 (including accrued expenses of LS91,000) . The accuracy of these debtors and creditors are doubtful unless confirmations are received and contra checking has been done. Even though the factory has good potential for manufacturing fine yarns, the production facilities and export trade channels are not being fully utilized. It is understood that power failures, lack of spare parts and the motivation to the staff at all level are some of the reasons which are hampering the increase in production and profitability. Cost accounting system has not been introduced in the organization.

4.00 El Hag Abdalla Spinning Factory:

4.01 The Financial statement of accounts of Hag Abdalla Spinning factory as on 30 June 1990 consisting of (a) Trial balance (b) Inventory of stores (c) Statement of fixed assets (d) Manufacturing, trading and profit and loss account and (e) Balance sheet have been examined:--

HAG ABDALLA SPINNING MILL
a: Trial Balance for the year 1989/90

	CR LS	DR LS
Cash in Hand		41,846,850
Cash in El Nillen Bank		1,052,863,880
" " Khartoum Bank		619,101,980
" " National Bank		2,520,570
" " Bank of Sudan		2,733,732
Finance from M. of Finance	10,276,599,574	
Capital	19,887,899,318	
Profit and Loss		29,650,556,000
Sales	15,103,974,110	
Others revenue	1,637,446,730	
Stores		27,866,339,120
Expenses of factory		14,366,106,240
Administration Exp.		4,813,185,970
Fixed assets		25,851,663,904
Total of Deprecation	9,334,399,221	
Foundation Exp.		140,052,000
Debtors and Creditors	52,100,106,434	3,933,454,643
	-----	-----
	108,340,425,387	108,340,424,889
	=====	=====

Inventory of Stores:

HAG ABDALLA SPINNING MILL
b: Stores as at 30/6/90

	LS
General Stores	584,894,650
Spare parts for machines	812,975,090
Spare parts of cars	353,602,760
Fuels	78,575,660
Cottons	24,418,902,860
Finished goods hall (a)	612,701,600
Finished goods hall (b)	592,094,690
Scraps	65,807,880
WIP Hall (a)	111,542,410
WIP Hall (b)	235,241,520

TOTAL	27,866,339,120
	=====

HAG ABDALLA SPINNING MILL

C: STATEMENT SHOWING CAPACITY UTILIZATION AND
ACCUMULATED LOSSES

YEAR	LOSS	PRODUCTION CAPACITY UTILIZATION %	INSTALLED CAPACITY	INVESTMENT LS
1982/83	1,382,693	13%	69120 SPINDLES	21,761,120
1983/84	3,926,845	24%	" "	25,300,154
1984/85	2,747,259	29%	" "	26,711,226
1985/86	4,696,488	39%	" "	30,470,188
1986/87	2,684,685	38%	" "	32,447,061
1987/88	6,838,674	31%	" "	39,582,359
1988/89	7,445,986	24%	" "	49,460,784
1989/90	931,948	25%	" "	51,173,276
TOTAL	<u>30,654,578</u>			

4.02 From the above it can be seen that the total accumulated losses upto 30-6-90 amounted to LS 30,654,578, whereas the capital of the company as on the same date was LS 19,887,899. As such the entire paid up capital was lost by losses made by the factory. Further the factory carries inventories amounting to LS.27,866,339,129 and the creditors amounted to LS.52,100,106 as on 30/6/90. This is not a healthy sign for improving the performance of the company.

4.03 The figures shown in the accumulated loss statement do not tally with that of Balance sheet. the stores inventory total figures do not tally with that appearing in the Balance sheet.

- 4.04 There is a need to re-organize the capital structure of the factory and rehabilitate the factory so that for the future it starts making profits.
- 4.05 The detailed audit report of the company is not available.
- 4.06 Instead of just commenting that the factory is making losses, it is necessary to analyze the reasons for losses so that the situation where the factory makes, future losses can be avoided. One of the main reasons for the factory making heavy losses can be attributable to the capacity utilization of less than 50%.
- 4.07 Comparative figures for previous year are not given in respect of all the financial statements which were prepared by the factory and certified by auditors.

5.00 Kosti Weaving Factory:

5.01 The financial statements of Kosti weaving factory for the year ending 30 June 1990 are exhibited below:--

**GENERAL SPINNING AND WEAVING CO.
KOSTI WEAIVING FACTORY
(A) TRAIL BALANCE AS AT 30/6/90**

DESCRIPTION	CR (LS)	DR (LS)
Manufacturing Exp.		9,140,634,24
Administration Exp.		1,298,271,50
Debtors		1,448,218,57
Creditors	3,125,823,90	
Stores		1,457,538,49
Bank		1,294,422,53
Cash in hand		1,684,35
Sales	12,846,042,91	
Incomes	184,114,84	
Last years Exp.	65,740,75	
Net assets		889,441,70
Capital	4,443,676,18	
Last years profit	1,666,966,08	
Last years loss		6,043,038,98
Opening stock of WIP		595,288,97
Opening stock of goods		11,019,00
Depreciation		152,806,33
Total	22,332,364,66	22,332,364,66

GENERAL SPINNING AND WEAVING CO. LTD
KOSTI WEAVING FACTORY
MANUFACTURING A/C (89/90)

(B)

LS

LS

	LS	LS
Material	5,808,883,82	
Salary and wages	1,917,001,81	
Primary cost	-----	7,725,885,63
<u>Direct Exp.</u>		
Depreciation	152,806,33	
Light and water	620,390,82	
Others exp.	794,357,79	
Total of Direct Exp.	-----	1,567,554,94
Opening stock of WIP	595,288,97	
Closing stock of WIP	619,032,84	
	-----	(23,743,87)
Cost of manufacture		9,269,696,70
Opening stock of Finishing goods	11,019,00	
Closing stock of Finishing goods	7,336,00	
	-----	3,683,00

Cost of goods sold		9,273,379,70
Sales		12,846,042,91

Trading Profit		3,572,663,21
		=====

- 5.02 The factory started making profits from 1988-89 onwards even through the accumulated losses after set off with profits made in subsequent years still leave a balance of loss of LS.1,851,826 as on 30.6.90.
- 5.03 From the liquidity point of view it is necessary to reduce the inventories and creditors.
- 5.04 The composition of the capital of the company is not detailed.
- 5.05 the audit of the factory accounts was done by the Auditor General. However, the detailed management audit reports are not made available.

6.00 El-Dweim Weaving Factory:

6.01 The financial statement of accounts of El Dweim weaving factory consisting of (a) fixed assets schedule (b) manufacturing, trading and profit and loss account and (c) Balance sheet were examined in detail by the consultant:

From the above it can be seen that for the year 1989--90 the factory has made a net profit of LS. 976,658,464 whereas the accumulated losses as on 1-7-89 amounted to LS.5,224,274,439. Instead of setting off the profit against loss the factory has shown these two figures separately in the Balance sheet.

6.02 The Auditor General has audited the accounts but management audit reports are not made available for examination.

7.00 Shendi Weaving Factory:

7.01 The financial statement of accounts of Shendi weaving factory which include (a) trial balance (b) manufacturing, trading and profit and loss account (c) details of manufacturing expenses (d) details of administrative expenses and (e) Balance sheet as on 30.6.90 are examined.

**SHENDI WEAIVING FACTORY
(A) TRAIL BALANCE AS TO 30/6/90**

PARTICULARS	DR	L.S	CR	L.S.
Fixed assets	4,244,488,66			
Stores	572,393,27			
Opening stock of WIP	97,253,75			
Opening stock of F. goods	62,122,90			
Bank	335,872,51			
Manufacturing expenses	6,560,573,39			
Administrative expenses	1,013,899,16			
Profit & Loss a/c	6,952,916,61			
Prepaid expenses	1,069,62			
Debtors	914,156,96			
Creditors			5,877,483,08	
Capital			4,389,608,97	
Sales			8,345,070,15	
Other revenue			110,067,31	
Depreciation provision			1,869,886,03	
Factory insurance provision			72,282,68	
Audit fees ""			16,000,00	
Doubtful debts ""			1,108,00	
Accrued expenses			73,240,61	
	-----		-----	
	20,754,746,83		20,754,746,83	
	=====		=====	

SHENDI WEAVING FACTORY
(B) MANUFACTURING A/C/ FOR THE YEAR END 30/6/90
DR **CR**

PARTICULARS	LS.	PARTICULARS	LS
Opening stock of WIP	97,253,75	Closing stock of WIP	452,368,01
Manufacturing expenses	6,560,573,39	Balance c/d manufacturing cost	6,205,459,13
TOTAL	6,657,827,14		6,657,827,14

TRADING A/C

BALANCE b/d	6,205,459,13	Sales	8,345,070,15
Opening stock of finished goods	62,122,90	Closing stock of Finished goods	162,889,00
Balance C/D (gross profit)	2,240,377,12		
TOTAL	8,507,959,15		8,507,959,15

P & L A/C/

Admin Expen.	1,013,899,16	Balance B/D (gross profit)	2,240,377,12
Balance (net profit)	1,336,545,27	Other revenue	110,067,31
TOTAL	2,350,444,43		2,350,444,43

SHENDI WEAVING FACTORY
(C) DETAILS OF MANUFACTURING EXPENSES 89/90

PARTICULARS	L. S.
Salaries	339,330,82
Wages	1,046,793,50
Seasonal wages	13,272,00
Travelling allowance	18,102,36
Transportation allowance	368,00
Representative allowance	3,100,00
Acting allowance	1,485,00
Purchase of leaves	10,742,25
Qualification allowance	500,00
Overtime	37,994,11
Incentive payments	59,542,20
Stores	115,578,18
Social insurance	6,969,69
Miscellaneous	151,87
Raw materials	3,630,171,16
Assistant materials	46,726,98
Electricity	115,762,09
Packing materials	2,530,00
Oils and grease	21,012,74
Spare parts	386,709,09
Gasoline	84,058,01
Stationeries	10,618,66
Repair of machines	16,187,00
Building maintenance	10,632,50
Maintenance of vehicles	69,643,16
Maintenance of furniture	1,235,00
Petrol for vehicles	52,277,37
Rent for buses	140,297,04
Transportation on leaves	7,820,53
Factory insurance	40,000,00
Cleaning and health services	3,543,50
Water and light	6,111,69
Food for workers	54,900,00
Clothes for workers	29,948,59
Medical Expenses	46,470,87
Depreciation of fixed assets	129,987,43
Total	6,560,573,39

SHENDI WEAVING FACTORY
(D) Details of Administrative Expenses 89/90

<u>Particulars</u>	<u>LS</u>
Salaries	320,066,71
Wages	161,137,56
Seasonal wages	6,968,50
Travelling allowance	20,984,50
Transportation allowance	2,497,68
Representative allowance	2,716,66
Acting "	2,400,00
Purchase of leaves	6,094,00
Qualification allowance	120,00
Secretary allowance	315,00
Other allowances	390,00
Overtime	39,358,37
Incentive payments	37,255,90
Stores	41,831,28
Social insurance	1,126,71
Water and light	5,410,72
Stationery	29,331,78
Telephone & postages	833,07
Advertisement	1,881,90
Rent of houses	47,546,00
Building maintenance	87,94
Furniture maintenance	897,00
Petty expenses	852,00
Local expenses	2,000,00
Leave transportation	5,291,55
Audit fees	8,000,00
Bank charges	7,832,46
Donations	942,80
Medical expenses	11,587,57
Cultural expenses	1,950,00
Cleaning and health exp.	1,005,00
Interest on capital	212,000,00
Guest expenses	1,660,00
Legal expenses	3,410,00
Newspapers	837,00
Contribution to office	25,000,00
Carriage inwards	2,279,50
Total	1,013,899,16

- 7.02 From the Balance sheet it can be seen that the factory has made a net profit of LS. 1,326,545 for the year 1989-90 whereas the accumulated losses as on 1-7-89 amounted to LS 6,952,917. As a result the balance of loss as on 30.6.90 amounted to LS. 5,626,372. The paid up capital of the factory as on 30/6/90 amounted to LS 4,389,609 and the outstanding sundry creditors stands at a huge amount of LS 5,877,482. From these erratic situations it can be concluded that the financial situation of the company has to be restructured and the accuracy of the figures in respect of sundry creditors has to be established.
- 7.03 The audit of the company was conducted by Auditor General and the management audit report disclosing the inaccuracies and weaknesses in the system, the debts due from and the creditors due to other factories which are under the same management of General Spinning and Weaving co. Ltd. are not disclosed separately.

8.00 Nyala Weaving Factory:

8.01 The financial statements of accounts of Nyala weaving factory comprising of
 (a) Trial Balance (b) Fixed assets schedule
 (c) Manufacturing, Trading and Profit and Loss Account, and, (d) Balance Sheet for the year 1989-90 were examined :

NYALA WEAVING FACTORY
(A) TRAIL BALANCE AS AT 30/6/90

	LS	LS
BANK	--	2,171,892,480
CASH		1,030
CAPITAL	4,097,462,580	
WORKING CAPITAL	1,375,140,230	
ASSETS		4,066,536,650
DEPRECIATION	2,092,280,120	
STORES		1,004,631,090
FINISHING GOODS		244,235,120
DEBITORS & CREDITORS	3,369,406,690	874,479,910
ADMINISTRATION EX		1,186,235,550
MANUFACTURING EXP		4,751,452,110
SALES	8,550,427,670	
SALE OF SCRAP	81,899,950	
OTHERS INCOME	10,033,510	
PROFIT & LOSS		5,277,186,810
TOTAL	19,576,650,750	19,576,650,750

NYALA WEAVING FACTORY

(B) MANUFACTURING A/C FOR THE YEAR 1989/90

LS

LS

CLOSING STOCK OF WIP	607,165,52	MANUFACTURING EXP	4,751,452,11
BALANCE C/D	4,388,521,71	OPENING STOCK OF WIP	244,235,12
TOTAL	4,995,687,23	TOTAL	4,995,687,23

TRADING A/C FOR THE YEAR 1989/90

SALES	8,632,327,62	BALANCE B/D	4,388,521,71
CLOSING STOCK OF FINISHING	245,100,00	OPENING STOCK OF FINISHING	156,250,00
		TRADING BALANCE	4,332,655,91
TOTAL	8,877,427,62	TOTAL	8,877,427,62

PROFIT AND LOSS A/C

TRADING BALANCE	4,332,655,91	ADMINISTRATION EXP.	1,186,230,55
OTHER INCOMES	10,033,51	NET PROFIT	3,156,458,87
	4,342,689,42		4,342,689,42

- 8.02 From the financial statements it can be seen that the factory has made losses accumulated to LS 5,277,186, as on 30.6.89 whereas the profit for the year 1989-90 was LS 3,156,458 that has resulted in reducing the total losses to LS 2,120,728 as on 30-6-90.
- 8.03 The financial statement of accounts were audited by Auditor General and management audit report issued by the auditors pointing out the weakness in the book keeping system and accuracy of the debtors and creditors were not produced to the consultant. The outstanding creditors amounting to LS 3,369,407 as on 30.6.90 are subject to verifications and authentication to establish their accuracy.
- 9.00 The country sketch for Sudan is attached as Appendix I for identifying the areas.

III RECOMMENDATIONS:

1.01 (a) The General Spinning and Weaving Company ltd; has as per the Memorandum of association the responsibility to manage the affairs of the undermentioned factories:

i Spinning Factories:

- o El Haj Abdalla
- o Khartoum North
- o Port Sudan (under construction)

ii Weaving Factories:

- o Shendi
- o Kd-Dueim
- o Kosti
- o Nyala
- o Kadugli
- o Mangala (closed down)

iii Ready made garments factory:

- o Friendship textile

(b) It is necessary to define what should be the management and advisory services to be rendered by the Head Office to the factories which are in operation, construction and closed down and also decide the basis for charging the management fee from the factories concerned. The present practices of charging fees on an adhoc basis has to be discontinued and more realistic basis to be adopted.

1.02 Financial Accounts:

(a) It is necessary for the General Spinning and Weaving company ltd, to design an integrated budgetory control and financial accounting system under which budgets/estimates are prepared for the cash receipts and payment and actual income and expenditure are booked against the correct code head so that actuals are compared with estimates and reasons for variations are located and future estimates are prepared on a realistic basis. The head office will not have a manufacturing and

trading account but will have only income and expenditure account and Balance sheet prepared at least on half yearly basis. The unified system of accounting is appropriate for the Spinning and Weaving and garment factories which deal in manufacturing and trading activities. The unified accounting system should be in operation parrallel with the existing accounting system for two years so that the raw system can replace gradually the old system of accounting.

- (b) Manuals for Judgetory control and financial accounting including codification of accounts have to be prepared as applicable to the General Spinning and Weaving company Ltd and its factories.
- (c) Financial regulations indicating the powers delegated to officials of the head office and factories have to be prepared and introduced for better managerial control.
- (d) The organization structure and job description specifying the duties and responsibilities of all officials working in the head office and factories has to be prepared for purposes of administrative control. The financial manager who is presently head of the finance and cost accounting division should be a functional member of the board of directors of the General Spinning and Weaving company ltd. Presently the Internal Auditor reports to the Managing Director of the head Office . As the financial disciplines are not well established the Internal Auditor should report to the Finance Manager/Director for some time to come. Since there is a dearth of accounting staff in the country the emoluments and perquisites to the officers and staff working in the finance, accounts and audit department should be made attractive so that qualified, experienced and dependable employees do not leave the organization and take up jobs in other public sector and private organizations.
- (e) There is a definite need to organize, establish and strengthen the internal audit division at the head office. Since Spinning and Weaving and Garment factories numbering to more than ten of which some are operating some are under construction and some are closed down and located

all over the country are required to be audited from the management point of view. For this purpose it is necessary to prepare an internal audit manual. Audit plans and programmes have to be prepared in advance and approved by the Finance manager/Director before implementation. Priorities in this regard can be fixed by the Managing Director depending upon the overall requirements of the top management.

- (f) The accounting policies with regard to depreciation of fixed assets, provision for bad and doubtful debts, valuation of inventories including finished stock have to be laid down by the head office in respect of itself and the factories.
- (g) The format of the Income and expenditure account and Balance Sheets along with the notes to financial statements should be prepared and standardized for the head office and factories. The present standards in this regard are considered poor. It is also necessary to give comparative figures for previous years.
- (h) The head office is not preparing any consolidated accounts for its factories. consequently the overall operational results and the financial situation of the head office and its factories are not known as a whole.

1.03 Management Accounts:

The head office should reclassify the name of the cost accounting division located in the head office to management accounting division. This division should be responsible to provide guidance in introducing cost accounting system in the factories and also collect details regarding production and profitability of various factories. The management accounting division should report periodically to the Board of Directors of the Head office on the performance efficiency of the different factories. Cost accounting manual which specifies the requirements for head office and factories should be prepared, introduced and monitored.

1.04 External Audit:

The present situation with regard to audit of accounts is not satisfactory.

It is necessary that the external audit of financial books of accounts of head office and factories should be completed within six months after the close of the year. For this purpose the head office and factories should close the books of accounts and prepare financial statements within three months after the close of the year and present for audit.

Mistakes, fraud, miscalculations, misappropriation can be located and rectified on a prompt basis, if the accounts are audited without delay and the audit report is made available to the management within a reasonable time after the close of the year.

If the Auditor General's office do not have enough manpower to handle the audit of the General Spinning and Weaving Company Ltd, and its factories on a prompt basis the audit work can be entrusted to public accountants on the recommendations of the Auditor General till the present situation improves.

1.05 Management Information system (MIS)

There is need to introduce management information systems for prompt decision making. The reports to be prepared in this regard have to be specified. Initially the cost accounting division should assist in preparing necessary reports for the benefit of Board of Directors of head office and general management, production management and sales management of the factories.

1.06 Policy and Objective:

The Head office should prescribe the policy and objectives by elaborating whether profit has to be made as a percentage of return on investment or maintain specified profit margins as a percentage of add up to total cost of production or keep up to their market share for sale of products. Imitating or following the pricing practices adopted by other Public Sector Company, or Private companies operating in the textile sector is not in the best interests of the head office.

1.07 Costing policies:

Presently, in the factories the cost accounting system is based on the distribution of expenses relating to depreciation cash payments and stores items to production and service departments and subsequent allocation of service department costs to production departments. The cost of production of a product is arrived at by adding the costs incurred in all the production departments. This is a very rudimentary method under which production costs cannot be correctly arrived at and properly controlled. The difference between the cost of production and prefixed selling price will reflect the profit or loss made by the factory. Unless the cost of production is arrived at correctly selling price cannot be fixed profitably.

It should be the responsibility of the factory to arrive at the correct cost of production and suggest to the Ministry of Industry the selling prices to be prescribed based on reasonable percentage of profit added to production cost.

In order to arrive at the cost of production at minimum level cost reduction, cost saving and profit improvement measures have to be adopted by the factories.

1.08 Pricing Policies:

The pricing of products for domestic and export markets should be different. Domestic prices may be fixed taking into account the policy to be accorded to the textile sector, social benefits to be extended to consumers and other related factors, whereas the prices in the export markets are generally fixed based on the interaction of supply and demand and the quality and style of the products. There are innumerable methods of pricing the products viz. Acceptable price, Reference price, Base point pricing, Contingency pricing, Contribution pricing, Cost plus pricing, Customary pricing, End prices, List price, Maximum acceptable price, Mixed bundling price, Strategic price, Odd-even pricing, Multiple unit pricing, Predatory pricing, Pre-emptive pricing, Proactive pricing, Rate of return pricing, Transer pricing etc.,. The prices of the products manufactured by the factories belonging to General Spinning and Weaving Company Ltd., should be fixed based on cost of production, market survey, analysis and research.

A market survey has to be conducted to balance the domestic and international demands for the products manufactured by the factories and establish selling prices for products to be sold in both types of the markets. While short range pricing policy can be to penetrate into international markets the long range pricing policy should be based on profitability.

1.09 Training:

It is noticed that the profession of accountancy has very limited development in Sudan. It is therefore necessary to introduce short term and long term training courses for the benefit of Financial Accounting, Cost Accounting and Internal Audit staff.

(a) Short term training courses;

Fresh entrants from schools and colleges after they have completed higher secondary school course and 1st degree in colleges should be recruited for 2 years period as accounts trainees by the General Spinning and Weaving Co. ltd, and posted to head office and factories. These trainees work on the job and also attend class room courses of 2 hours per day for 3 days in a week. These courses are conducted during working hours. Every six months written test will be conducted to evaluate the aptitude and performance of the candidates. Those who qualify in the tests and are good on their job are advanced by increasing their salaries. After two year period the trainees who are qualified are designated as Industrial accountants. (Financial/ cost) and absorbed in senior positions. Under the Indian Technical and Economic Co-operation programme it is possible to send some of the employees working in the General Spinning and Weaving factories for 3 months training in costing of textiles at the South India textile Research Association Coimbatore and 8 week certificate course in financial management at the Institute of financial management and research Madras.

(b) Higher long term training course:

Those accountants who are already working with the head office and factories but are not fully qualified professionally in financial and cost accountancy but are well experienced and proved to be competent may be sent for higher studies ranging up to 4 years to

acquire professional qualifications as Chartered accountants, Certified public accountants, Cost and management accountants. This scheme can be introduced through bilateral and multilateral assistance provided by British Council, USAID, UNIDO etc.

1.10 Financial Rehabilitation and Restructuring:

- (a) From the financial management point of view it is necessary for the General Spinning and Weaving Co. Ltd. to provide long term and short term financial needs of various factories to which it is responsible and plan procurement of funds in local/ foreign currency. For this purpose detailed exercise has to be carried out in respect of each of the factories to establish cash flow involving receipts and payments of cash in terms of local as well as foreign currency.

For establishing the financial needs of each of the factories it is necessary to arrive at the correct financial status of each company as on a particular date i.e. the close of the financial year say 30 June 1990 as reflected in the Balance sheet. Based on the capacity utilization and future production forecasts it is necessary to arrive at the long term and short term capital needs. The total requirements of all the factories have to be worked out so that the financial planning programme of the head office can be comprehensive.

- (b) While restructuring the financial situation it is necessary to write off the past debts which are not collectable and also provide necessary liabilities for creditors, taxes, duties etc.
- (c) The share capital of each of the factories and Head Office has to be correctly defined and specified.

1.11 In conclusion it is stated that UNIDO should continue to provide technical assistance to Public Sector Textile Industries in Sudan, particularly in the areas of Financial Management, Cost Accounting, Auditing and Information systems so as to introduce and strengthen the internal control systems for increasing the productivity and profitability of the textile factories. Further there is need to provide technical assistance for a longer period extending from 3 to 4 years so that local staff at different levels can be adequately trained to deal such matters with independence, confidence and competence.

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
PROJECT IN THE REPUBLIC OF SUDAN

XA/SUD/90/606/11-02/J.12200 (REV.1)

JOB DESCRIPTION

- Post title** : **Consultant in Accountancy and Financial management**
- Duration** : **Two and half months**
- Date required** : **As soon as possible**
- Duty Station** : **Khartoum Sudan**
- Purpose of project** : **To strengthen the managerial and supervisory functions of the Spinning and Weaving Public Co. in order to monitor the operations of the weaving and spinning factory and help improve their economic performance.**
- Duties** : **In co-operation with the personnel of the Spinning and Weaving Public Co. and taking into account the work done by the previous consultant, the consultant will carry out the following duties:--**
- (a) **Undertake a diagnostic analysis of the financial situation of the company and the factories. This will include an analysis of the internal debit/credit status between the company and the factories, as well as an assessment of the suitability of the existing accounting systems and procedures used.**
 - (b) **Advise on and assist in the introduction of a unified accounting system and procedures for the Company and the factories; examine the relevance of the findings and the recommendations of the previous consultant.**

- (c) Establish criteria for the internal costing and pricing of products.
- (d) The consultant will be expected to prepare a final report setting out the findings of his mission and recommendations to the government on further action which might be taken.

Qualifications : University Degree in business administration with emphasis on finance or a degree in financial management in accounting systems with wide experience in the field of industry.

language : English, Arabic an asset.

Background information:

Though rudimentary in the early stages, Sudan has a long history in textile industry. Soon after independence, the textile sector was modernized with the introduction of new equipment and technology. Both spinning and weaving factories were established as follows:

(a) Spinning factories:

El Hag Abdalla Spinning Factory
 Friendship Garments factory
 Khartoum North Spinning Factory

(b) Weaving Factories:

Shendi Weaving Factory
 El-dueim Weaving Factory
 Kosti Weaving Factory
 Nyala Weaving Factory
 Mangala Weaving Factory (not working for many years)

The various reasons that encouraged the development of the textile industry include the following:--

- (a) Availability of locally grown, good quality cotton.
- (b) Availability of relatively cheap labor,
- (c) Warm climatic conditions which made cotton fabrics attractive in the local market,
- (d) Good possibilities of exporting cotton yarn.

The Spinning and Weaving Corporation was established in 1975 to be responsible for the overall management of the textile enterprises which belonged to the public sector. In 1985 a public company (Spinning and Weaving Public Company) was formed to replace the public corporation. The new company was given more autonomy and flexibility in the management of the public sector textile enterprises. Some years after being taken out by the public sector, the production output, the efficiency and capacity utilization of the enterprises suffered seriously, because of deterioration of technical and management skills, and shortage of spare parts resulting from scarcity of foreign exchange.

In the context of the economic recovery and structural adjustment programme undertaken by the government, it is planned that the textile sector would be rehabilitated. This would include the reorganization of the enterprises concerned regarding structural set-up, staffing, establishment of financial control systems and procedures, improvement of production systems and maintenance, and ensuring effective management. In this effort, the government would like to have UNIDO's technical assistance in special areas of management, and in financial management and accounting.

WORK PLANMr. Tangella Rao Work Plan
XA/SUD/90/606/11-02/J.12200

<u>Time Schedule</u> 1990	<u>Activity</u>
Sept. 16	: Arrived in Khartoum.
Sept. 17 to 23	: Meeting the officials of UNIDO, Ministry of Industry, Ministry of Finance and Economic Planning, World Bank, Spinning and Weaving Public Co., UNIDO Textile Consultant.
Sept. 24 to 30	: Detailed discussions with Managing Director Project Co-ordinator, Finance manager, Cost Accountant of spinning and Weaving Public co.
October 1	: Attend Textile Conference conducted by Ministry of Industry, along with Mr. M. Garzelli, UNIDO Country Director.
Oct. 2 to 20	: Visit Spinning, Weaving and garment Factories and undertake diagnostic analysis of the financial situation, internal debt/credit status, existing accounting systems and procedures.
Oct. 21 to 25	: Examine the relevance of the findings and recommendations of the previous consultant.
Oct. 26 to 31	: Advise on unified financial and cost accounting system and assist in introducing the same.
Nov. 1 to 10	; Establish criteria for the internal costing and pricing of products.
Nov. 11 to 17	: Prepare draft final report and send copy to UNIDO Headquarters.
Nov. 18 to 21	: Discuss the draft final report with Spinning and Weaving Public co., UNIDO Country Director and Ministry of Industry.

Nov. 22 : Travel to Vienna for briefing .
Nov. 23 : Briefing in Vienna.
Nov. 24 : Travel Vienna to New York (Repatriation).

The above work plan has been finalized in consultation with the Spinning and Weaving Public co., and Ministry of Industry. Rao made a good start and his assignment is progressing well.

Appendix "C"Senior counterpart staff

<u>Ser.No</u>	<u>Name</u>	<u>Designation/ Organization</u>	<u>Functions</u>
1.0	Mr. Hassan Khalafalla Hassan	Finance Manager The General Spinning and Weaving co. ltd. HQ.	Head of the Finance and cost accounting department.
2.0	Mr. Hassan Omer Elamin	Finance Manager Khartoum North Spinning Factory	Head of finance and costs department of the factory
3.0	Mr. Atif Lewis Fakori	Chief of costing sec. Head office	In charge of costing divi- sion
4.0	Mrs. Ihklass Mohamed Ahmed	Cost account- ant head office	Assist the the cost accountant

List of Officials Met

<u>Sr. NO.</u>	<u>Name</u>	<u>Title</u>	<u>Organization</u>
1.	H.E. Dr. Eng. Mohamed Ahmed Omer	Minister	Ministry of Industry
2.	Dr. Abdel Rahman Abdalla Ali	Managing Director	The General Spinning and Weaving Co.Ltd
3.	Mr. Abu Baker Yaha El Fadli	Project Coordinator	General Spin- ning & Weaving Company, Head of Economics Research & Planning
4.	Mr. Hassan Khalafila Hassan	Financial Manager	Head office
5.	Mr. Atif Lewis Fakcri	Chief costing section	--do--
6.	Mr. Hassan Omer Elamin	Finance manager	Khartoum North Spinning factory.
7.	Mr. Ali El Khalifa El Hassan	Head of Inter- national Organ- ization & Trng.	Ministry of Industry
8.	Mr. El Tahir M. Ahmed	Managing Director International Org.	--do--
9.	Mr. Ahmed Sharif Osman	Managing Director Planning Dept.	--do--
10.	Mr. Mohamed A. Ibrahim	Operations officer	World Bank
11.	Mr. J. Saary	Textile Const.	UNIDO
12.	Mr. Miles	2nd IDDA Const.	UNIDO

13.	Mr. Jurgen Erdmann	General manager	Hanss Mehr Hamburg
14.	Mr. Masayoshi Satoh	Manager	Marubeni Corporation Khartoum
15.	Mr. Faisal El Tayeb	Principal	COMATEX Khartoum
16.	Mr. Sheikh Idris O. Bakheit	Director Rehabilitation Unit Textile Sec.	General Spin- ning & Weaving Co. Ltd
17.	Mr. El Tuhir Sulieman Nidam	Senior Inspector Foreign Aid Admin	Ministry of Finance & Eco- Planning
18.	Mr. Mustaf Mohamed Sulieman	General Manager	Friendship Readymade g a r m e n t s factory
19.	Mr. Bakri Ahmed Nasir	Chief Accountant	--do--
20.	Mr. Ahmed	Technical manager	--do--
21.	Mr. Abdul Wahap	General Manager	Khartoum North Spinning Fac.
22.	Mr. Ismail Buhair	Finance Manager	--do--
23.	Mr. El Fatih ali Eid	Deputy Under Sec. Public corp. Dept.	Ministry of Fin. & eco. Pl
24.	Mr. Sharaf El Deen	General Manager	Kosti Weaving Factory
25.	Mr. A.N. Singh	Amabassador to Sudan	Republic of India
26.	Mr. Per. H. Janvid	Resident Representative	United Nations Development Programme
27.	H.E. Dr.Tagelsir Mustafa	Minister	Ministry of Investment

Appendix "E"Proposed Training Programmes**1.0 Short Term Courses:**

In house training programmes for all staff working in Head office and factories should be implemented by conducting 2 classes of 2 hours each per week explaining the concepts of Financial accounting (double entry, maintenance of books of accounts preparation of bank reconciliation statements, preparation of trial balance and compilation of manufacturing account, trading account, profit and loss account and balance sheet).

The classes should be conducted within the working hours. These course are mainly meant for fresh entrants. On completion of training satisfactorily the staff should be given financial incentives.

2.0 Long term courses:

Senior and experienced employees with good track record should be sent to UK or any other developing country to study and qualify in examinations which are equivalent to ACCA or ICMA. These course should be completed on a full time basis covering a period of 3 to 4 years.

3.0 Financial courses for non-financial managers.

General managers, production managers and other departmental heads should be made to appreciate the importance of financial discipline. Once a week a two hours orientation course has to be conducted for the benefit of non-financial managers. Courses indicated at (1) and (3) can be conducted by the consultant in Accountancy and Financial management candidates for courses explained at (2) above should be sponsored by utilizing funds from World Bank UN, British council USAID and other multilateral and bi-lateral assistance.

DETAILS OF FACTORY VISITS**(A) Friendship Readymade Garments Factory:**

- 1.0 Tangella K. Rao UNIDO Adviser along with Mr. Hassan Khalafalla, Finance Manager and Mr. Hassan Omer El Amin Chief of Costing section of the General Spinning and Weaving Company visited the Readymade Garments factory to assess:
- (i) The system of financial accounting that is being adopted and its adequacy.
 - (ii) The system of cost accounting that is being implemented and its usefulness.
- 2.0 Detailed discussions were held with Mr. Mustafa Mohamed Sulieman, General Manager and Mr. Bakri Ahmed Nasir, Finance manager of the garment factory.
- 3.0 The UNIDO Adviser also visited the production and cost centers of the garment factory representing :--
- (a) Production centers:
 - o Cutting
 - o Tailoring
 - o Finishing
 - (b) Service centers:
 - o Stores
 - o Maintenance
 - o Transport
 - o Canteen
 - o Dispensary
- 4.0 (a) It is observed that the workers deployed to the production centers are not fully utilized and consequently there will be idle time costs which will increase the cost of the products manufactured in the factory. The general manager has stated that the cost accounting division is not in a position to give the correct cost of production to enable him to fix the selling price profitably. Consequently when the actual

production costs are accumulated they are much more than the estimated costs and consequently the cost of production has become higher than the selling price resulting in loss. As such the company has made a net loss of LS. 289,310 for the year ending 30 June 1990. The financial statement of accounts i.e. Trial Balance, assets schedule, manufacturing trading and profit and loss account and balance sheet as on 30.6.90 are prepared in time i.e. by 30.9.90. These accounts are yet to be audited by the Auditor General .

(b) However the cost accounting system is not well designed and implemented . The factory maintains only material card for warehouse and internal manufacturing order. The raw material stores and finished goods stores are not well laid out with racks bin cards and stores record cards to identify the stocks and also conduct physical check on a regular basis to locate the shortages/excesses.

- 5.0 The management of General Spinning and Weaving co. ltd. and the Friendship garment factories expressed the need to design and introduce immediately a good cost accounting system in the factory.
- 6.0 The General manager has stated that since the factory is making losses there is shortage of working capital. He also mentioned that sufficient raw material i.e. cloth is not available to make readymade garments. It seems that most of the cloth produced by the weaving factories which are under the control of the General Spinning and Weaving factories is bought by the readymade garment factories which are in private sector.
- 7.0 The total number of employees in the factory is 230. The production capacity is 200,000 pieces per annum on a single shift production basis. Whereas at present only 100,000 pieces are produced per annum. Consequently the factory is operating at about 50% capacity even though the factory can work more than one shift a day. The factory mostly produces school uniforms. It is understood that there are 20 tailoring companies in the private sector as on date. The production is distributed as 50% shirts, 30 % trousers and 20% ladies dresses.
- 8.0 The selling prices have to be approved by the Ministry of Industry based on the recommendation of the factory management. The selling prices are based on actual/estimated cost of production plus 10 to 15% towards profit .

9.0 The financial status of Friendship garment factory and the recommendations of the consultant were given at the appropriate chapters of the report.

(B) Khartoum North Spinning Factory:

- 1.0 Tangella K. Rao UNIDO Adviser accompanied by Mr. Hassan Khalafalla Hassan, Finance manager and Mr. Hassan Omer El Amin, Chief of costing section of the General Spinning and Weaving company Ltd., visited the Khartoum North Fine Spinning Mill. The visiting team met Mr. Abdul Wahab, Acting General manager who has taken round the team to the raw material stock yard/store, the production and service departments and the finished goods store. The G.M. has stated that shortage of cotton which is used as raw material by the factory is mostly exported. The UNIDO adviser discussed with Mr. Ismail Buhari Finance Manager of the factory and visited the office of the cost accountant. The finance manager is a senior and experienced official but is frustrated due to the low salaries offered in Public sector when compared to the private sector.
- 2.0 The General manager has stated that 95 tons of fine yarn is ready for export but due to bureaucracy in export procedures the goods are lying at the factory for the past 3 months. If these goods are exported the factory will earn foreign exchange equivalent to LS 140,020,705.
- 3.0 The capacity of the factory is 25,000 spindles. Raw materials is available in abundance. 4 machines to be used in the manufacturing department are still awaited. The present staff strength of the factory is 500 employees, whereas the required manpower is 650 employees. We were told that the airconditioning is defective and there is acute shortage of foreign exchange to import essential spareparts. The factory is working for 2 shifts a day. The workers could not be provided with transport facilities since the two buses meant for this purpose are broken down and could not be repaired for want of spares. There is an acute shortage of bread in the canteen. General dissatisfaction was expressed at all levels including the General manager in that the salaries in Public sector are poor and less than 50% of those offered in private sector spinning factories. There is also shortage of working capital for the factory since the goods produced are not sold and cash not realized. The factory produces fine yarn with counts 30/1 NE, 36/1 NE, 40/1 NE.

4.0 The production processes involved are:

- (a) Blowing (b) Carding (c) Combing (d) Drawing
- (e) Roving (f) Spinning (g) Winding process I (single yarn)
- (h) Doubling (i) Twisting (j) Winding-process II (folded yarn) (k) Packing.

(C) Kosti Weaving Factory:

The Consultant visited Kosti weaving factory along with Mr. Hassan Khalafalla Hassan Finance manager and Mr. Atif Lewis Fakhor chief cost accountant, and met Mr. Sharaf El Din General manager, and other officials of the factory and discussed in detail matters relating to capacity utilization, purchase and sales procedures, financial and cost accounting system, internal audit and debit balances and rehabilitation and restructuring the capital of the factory. Kosti weaving factory has made losses upto 30 June 90.

The factory basically manufactures grey fabric for which raw material is imported from Hag Abdallah Spinning factory. The factory employees about 300 workers and consists of about 250 looms. The factory works on a two shift basis and produces 900 yards of grey fabric per day. The finished product is mainly used for local consumption. The salary structure at the factory workers level is low and do not provide sufficient incentive and motivate workers to be more efficient. The production processes involved are:--

- Preparation : Birn winding .
- Yarn treatment Warping (weft-width and warp-length)
- Sizing
- Weaving
- Inspection

The factory complex consists of:

- Main production unit
- Boiler house
- Power house
- Work shop
- Raw material stores
- Finished goods store
- Spare parts stores

The Ex-factory price of Grey Fabric is LS 8:00 per yard and sold to whole salers at 10% profit i.e. Ls. 8.80 and the cloth is sold by whole salers in the retail market upto LS 10.00 per yard.

Interruptions in the supply of electricity from National Grid system and lack of generating unit of 500 k.w. are some of the reasons for reduced production.

The installed capacity of the factory on 3 shifts working basis is 9,900,000 yds.per annum whereas the rated capacity on 2 shift basis is 4,000,000 yards. In the private sector there are 8 spinning factories 12 weaving factories and 20 ready made garments factories apart from one integrated spinning and weaving factory operating in Public sector. These organizations sometime operate in competition with the factories that are being managed by General Spinning and Weaving Co. ltd. For rehabilitation programme which will take 6 months to complete, the factory innmediately needs the following equipment which would cost approximately US\$ 3 million :--

- Spare parts
- Repairing- machinery foundations
- Replacement of service machinery
- Power generator 500 m.w
- Transport trucks 2
- Buses 4 (for transporting employees)
- Cars 2 (for executives)
- Fire fighting and other equipment.

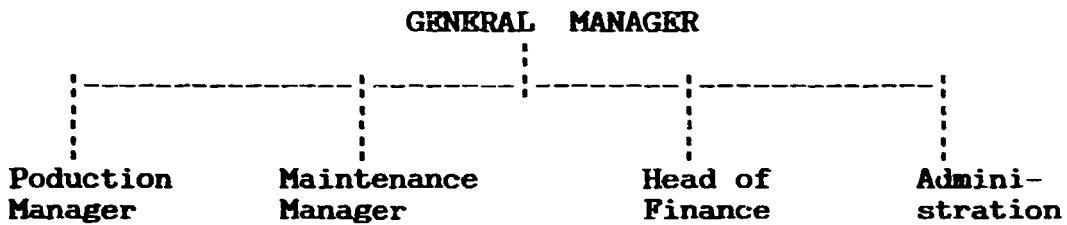
The working hours of the factory are 1st shift 6am to 2 pm and 2nd shift 2pm to 10 pm.

The factory is insured with the General insurance company.

The basic salary of the factory worker is LS 420 which does not satisfy the needs of the family based on current cost of living.

The Kuwait fund has approved a loan of US\$ 2.5 million but due to the political disturbances in the gulf area the loan amount has not been released fully to General Spinning and Weaving Co. Ltd.

The organization structure of the factory is given below:--



The head of finance deals with cost accounting, stores and slaes functions which is not a healthy practice .

The audit reports issued by the staff of the Auditor Genral's office are not comprehensive to cover deffects in Financial and Accounting areas.

The Kosti weaving factory is one of the potential units that can reach optimum production capacity Mr. Sharaf El Din General manager has determination and zeal to improve the performance efficiency and operational capacity of the factory.

Appendix "G"Criteria for the internal costing and pricing of products:1.C Introduction:

There is an old saying that cost is a fact and price is a policy. This statement is true whether a product is manufactured and sold in the domestic market or export market or for internal costing and pricing purposes. In the case of export market price has a major significance, whereas in the domestic market-price is either based on cost plus basis or controlled by Government. Only in free market the price of a product is determined mainly by interaction of supply and demand. With regard to internal costing of products there is more flexibility in the management discretion.

2.0 Internal Costing:

2.1 The composition of a cost of product by elements is as follows:

Illustration:

Direct material	LS.	1,000
Direct labour	LS	2,000
Factory over head cost (50% of direct labour)		1,000

Factory cost or Manuf- acturing cost	LS	4,000
Administration costs (25% of factory costs)	LS	1,000
Delivery costs (actual)		500
selling costs (10 % of admin. costs)		100

Total cost of production		5,600
Mark up 20 %		1,120

Selling price		6,720
		=====

Note: It is assumed that finance charges are included in administrative costs.

- 2.2 It is clarified here that the basis for arriving at the cost of production should be the same whether the product is transferred for internal purposes or external sale.

3.0 Internal pricing:

- 3.1 Normally the selling price should include total costs plus a percentage of profit added to total cost of production.
- 3.2 However in case of products manufactured in the same factory and transferred to another department in the same factory the criteria for transfer would be to transfer the product at factory cost. For example in a composite textile mill the spinning department may transfer the yarn to the weaving department at factory cost and administrative selling and distribution costs are added to the product manufactured in the weaving department. However, in case if a part of production of the spinning department is sold to outsiders it should be taken at full cost which include administration selling and distribution expenses. It can therefore be concluded that if the intermediate product is sold to outsiders then the administration and selling expenses charged on the final product gets reduced.

4.0 Criteria for pricing decisions:

- 4.1 The four basic rules for pricing are:

- (a) know your costs
- (b) know your demand
- (c) know your competition and market
- (d) know your objectives

- 4.2 The pricing decisions depend upon whether:

- (a) the factory is operating at maximum capacity.
- (b) the factory is operating at normal capacity.
- (c) the factory is operating below normal capacity.

4.3 For making wise decisions regarding pricing of products it is necessary to assess :

- (a) the demand effects of price changes
- (b) cost effects of price charges

4.4 Pricing is a critical decision variable in the marketing mix . The guidelines for making better pricing decisions are as follows:

- (a) Set clear operational and consistent objectives.
- (b) Identify alternatives
- (c) Acquire complete relevant information
- (d) Make sure that cost information identifies which costs will be affected by a particular pricing alternative.
- (e) Communicate with and involve accounting staff with the cost aspects of a pricing decision.
- (f) Making the pricing decision which will satisfy maximum requirements.
- (g) Encourage feed back and maintain control.

5. Recommended Pricing Policy:

In the case of the General Spinning and Weaving Company ltd, it has the responsibility to control and monitor 2 Spinning factories , 5 weaving factories and one ready made garments factory. However when the yarn from spinning factories is transferred to weaving factories and the finished cloth from weaving factories is transferred to the ready made garments factory the product transferred to the recipient company should be charged on full cost plus mark up basis. Then only the efficiency of operations of each of the factories can be known and they can be run on a competitive and commercial basis.

Appendix "H"REQUIREMENTS FOR ESTABLISHING COST ACCOUNT SYSTEM IN FRIENDSHIP READY MADE GARMENTS FACTORY:

The following information is required on a priority basis so that Mr. Tangella K. Rao UNIDO Financial Adviser can design and introduce an effective cost accounting system in Friendship ready made garments factory.

- 1.0 Estimated Production during 1990-91 of readymade garments in terms of quantities in different designs and specifications.
- 2.0 Estimated quantities, types and value of direct materials that should be used for achieving the production indicated at para 1.0 above.
- 3.0 Estimated direct labour in terms of hours, rates and amounts to achieve the estimated production stated at para 1.0 above.
- 4.0 Existing number of direct labourers, rates and amounts payable to them during 1990-91 in each of the production and cost centres indicated at para (5) below.
- 5.0 Cost of Investment in Factory Buildings as on 1.7.90.
 - (a) Production Centres
 - o Cutting
 - o Sewing/tailoring
 - o Finishing
 - o Packing
 - (b) Service Centres
 - o Designing
 - o Maintenance
 - o Power house
 - o Canteen
 - o Dispensary
 - o Traffic/transport
 - o Security
 - o Stores for spare parts/raw materials
 - o Finished goods store.
 - o Administrative officers
 - o Sales officers

- 6.0 Types of machinery tools and other equipment along with their cost invested in Production and service centres indicated at para 5 above as on 1.7.90.
- 7.0 Estimated expenditure towards indirect material to be incurred during 1990-91 in Production and Service centres indicated at para (5) above.
- 8.0 Estimated indirect expenses to be incurred during 1990-91 in Production and service centres indicated at para (5) above.
- 9.0 Estimated sales revenue in respect of production specified at para (1) above.
- 10.0 Estimated manufacturing, trading and profit and loss account and balance sheet for the year 1990-91.
- 11.0 The forms for the above purpose were designed and given to Mr. Atif Lewis Chief Cost Accountant on 31 October 1990.
- 12.0 Some of the costing forms which are designed for use in costing divisions are attached.

FRIENDSHIP READYMADP. GARMENTS
PRODUCTION AND SERVICE CENTERS

PRODUCTION --CUTTING

--TAILORING

--FINISHING

SERVICE --DESIGN DEPT

--MAINTENANCE DKPT

--STORES--RAW MATERIAL & SPARES

--STORES--FINISHED GOODS

--STORES--FUEL

--CANTEEN

--MEDICAL

--TRANSPORT

--SECURITY

--G.M

--TECHNICAL MANAGER

--HEAD ACCOUNTS

--COMMERCIAL (PURCHASE AND SALES)

--ADMIN

GARMENT FACTORY
COST ACCOUNTING DOCUMENTS

1.0 Production orders--register

- 1.1 Design manufacturing orders PRO/D NO:
- 1.2 Stock manufacturing order PRO/S NO:
- 1.3 Customers manufacturing order PRO/C NO:
- 1.4 Transfer manufacturing order PRO/T NO:
- 1.5 Internal manufacturing order PRO/I NO:

2.0 Purchase order register

- 2.1 Design manufacturing order : PU O/D NO:
- 2.2 Stock manufacturing order : PUO/S NO:
- 2.3 Customers manufacturing order: PUO/C NO:
- 2.4 Transfer manufacturing order PUO/T NO:
- 2.5 Internal manufacturing order PUO/I NO:

3.0 stock material requisitions:

- 3.1 Design manufacturing order : SMR/D NO:
- 3.2 Stock manufacturing order: SMR/S NO:
- 3.3 Customers manufacturing order SMR/C NO:

FRIENDSHIP GARMENT FACTORY

1. Production Order
 - Design order
 - Stock order
 - Customer order
2. Material requisition (a) direct (b) indirect
3. Clock /Job card
4. Job order
5. Factory over head schedule
6. Administration and selling overhead schedule
7. Cost centres (production and service)
 - (a) Stores (b) Cutting (c) Sewing
 - (d) Finishing (e) Maintenance (f) Canteen
 - (g) Dispensary (h) Transport (i) Security
8. Codification for materials
9. Identification of workers by numbers

DESIGN ORDER NO:

FRIENDSHIP GARMENT FACTORY

(PRODUCTION ORDER--DESIGN)

1. Style/Design/Pattern
2. Description
3. Colour
4. Size
5. Quantity/length
6. Date of commencement
7. Date of completion
8. Names of designers
9. Design approved by
10. Estimated selling price
11. Estimated cost:

<u>S.NO</u>	<u>PARTICULARS</u>	<u>QTY</u>	<u>MATERIAL COST</u>	<u>LABOUR HRS</u>	<u>COST</u>	<u>TOTAL COST</u>
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TOTAL PRIME COST

FACTORY OVERHEAD....% OF PRIME COST

FACTORY COST LS

ADMINISTRATIVE OVERHEAD % OF FY COST

TOTAL COST LS

FRIENDSHIP GARMENT FACTORY

(PRODUCTION ORDER --STOCK)

- 1.0 Style/Design/pattern NO:
- 2.0 Description
- 3.0 Colour
- 4.0 Size
- 5.0 Quantity/length
- 6.0 Date of commencement
- 7.0 Date of completion
- 8.0 Names of direct workers
- 9.0 Names of supervisor
- 10.0 Quality control checked by:
- 11.0 Estimated selling price:
- 12.0 Estimated cost:

<u>S.NO</u>	<u>Particulars</u>	<u>Material</u>		<u>LABOUR</u>		<u>Total</u> <u>cost</u>
		<u>Qty.</u>	<u>cost</u>	<u>qty</u>	<u>cost</u>	

Total prime cost

Factory overhead % of prime cost

Factory cost

Administration overhead % of Fy cost

Total cost LS

Customer Order No:

FRIENDSHIP GARMENT FACTORY

(PRODUCTION ORDER -- CUSTOMER)

- 1.0 Style/Design/Pattern
- 2.0 Description
- 3.0 Colour
- 4.0 Size
- 5.0 Quantity/length
- 6.0 Date of commencement
- 7.0 Date of completion
- 8.0 Names of direct workers
- 9.0 Name of supervisor
- 10.0 Quality control checked by
- 11.0 Actual selling price
- 12.0 Estimated cost

<u>S.NO.</u>	<u>PARTICULARS</u>	<u>MATERIAL</u>	<u>LABOUR</u>	<u>TOTAL</u>
		<u>QTY</u>	<u>HRS</u>	<u>COST</u>
		<u>COST</u>	<u>COST</u>	<u>COST</u>

factory overhead	% of prime cost
Factory cost	
Administrative overhead	
Total cost	LS

Material Requisition NO:

FRIENDSHIP GARMENT FACTORY

(STORES MATERIAL REQUISITION)

1. Design/stock/customer order no;
2. Description
3. Colour
4. Specification
5. Size
6. Quantity/length
7. Rate
8. Amount
9. Bin no:
10. Tag NO:

Requisitioned by

Approved by

11. Issued quantity
12. Entered at stores ledger folio no by:
13. Entered at bin card no:

Issued by _____

received by _____

Form NO:

Checked by

CLOCK/JOB CARDS NO:

FRIENDSHIP GARMENT FACTORY

CLOCK/JOB CARD FOR WEEK ENDING....

- 1.0 NAME OF THE WORKER
- 2.0 SKILLS
- 3.0 DEPARTMENT /DIVISION
- 4.0 SALARY PARTICULARS:
- (A) BASIC P.M
- (B) SPECIAL ALLOWANCES IF NAY
- 5.0 RATE PER HOUR (GROSS)

<u>DATE</u>	<u>TIME IN</u>	<u>TIME OUT</u>	<u>NO OF HOURS WORKED</u>	<u>DESIGN/ STOCK/ CUSTOMER ORDER NO:</u>	<u>AMOUNT</u>	<u>REMARKS</u>
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