THE UNIVERSITY OF HULL

Micro-Macro Accounting Integration:
NASCO, An Egyptian Case Study

being a Thesis submitted for the
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Abstract

Increased government involvement in the control of the Egyptian economy has resulted in greater need for accounting information, mainly for planning and control purposes. Egyptian public enterprises are subject to control by a number of ministerial and other bodies, to which they must supply information in a format specified by the Uniform Accounting System.

This study considers government information needs in a planned economy and the aim of accounting uniformity. It also examines the relevance, appropriateness, and adequacy of the information provided as a result of the application of the Egyptian Uniform Accounting System, to meet the needs of planning, administration and control of economic activities, including the linkage between micro and macro accounting.

A case study of the El-Naser Company for Motor-Car Manufacturing (NASCO) is presented. The company's management policies and planning and control both within NASCO and by its holding company, are examined, and its current operations account, sources and applications of funds statement and value-added statement, are analysed from the stand-point of National Income Accounts.

Deficiencies are found in all these areas. Suggestions are therefore put forward as to how the
The above-mentioned account and statements might be modified, and reporting further developed, in order to provide greater assistance to the government in planning, control, and the preparation of National Income Accounts.
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appreciation to my wife, Wafaa, to whom this thesis is dedicated, my two sons, Mohamed and Amro, and my daughter Sarah, for their help and encouragement during this research.
Dedication

To my wife Wafaa
# Table of Contents

Abstract..................................................................................II
Acknowledgment........................................................................IV
Dedication.................................................................................VI
Table of Contents........................................................................VII
List of Tables and Figures........................................................XVII
Abbreviations...........................................................................XIX

Chapter One: Introduction.........................................................1

1.1 Introduction.................................................................2
1.2 Outline of the Thesis.....................................................3
1.4 Function of Accounting................................................5
1.5 Accounting and the International Economy....................8
1.5 Accounting and Developing Countries............................9
1.6 The Role of Accounting for Management of the Economy....14
1.7 The Government's Information Need from the Published Accounts of Companies.................................17
1.7.1 Disclosure of Information..........................................18
1.7.2 Up-to Date and Speedy Information............................19
1.7.3 Disseminating Information to all Companies................19
1.7.4 Greater Uniformity in Information Generation...............20
1.7.5 Current Value Information........................................22
1.7.6 Provision of Accounting Information More Suitable to National Reporting.................................23
1.8 Statement of the Problem..............................................25
1.9 Significance of the Study..............................................29
1.10 Purposes of the Study..................................................31
1.11 Research Methodology................................................31
1.12 Methods of Compiling Data.........................................32
1.12.1 Personal Interviews...............................................32
1.12.2 Literature Review................................................37
1.13 Key Research Questions..............................................38
1.14 Conduct of the Fieldwork............................................38
1.15 Limitations of the Case Study......................................42
1.16 Why Focus on NASCO?...............................................42
# Chapter Two: Economic Development Planning

1. **Introduction** ................................................................. 50  
2. **The Main Features of the Economy of Egypt Before 1952** .................. 52  
3. **The Influence on Accounting Before 1952** ................................ 57  
   3.1 **Accounting Legislation Before 1952** .................................. 57  
   3.2 **Foreign Influence on Accounting Before 1952** ........................ 59  
4. **The Egyptian Private Sector After the Revolution** ........................ 60  
   4.1 **The Period 1952 - 61** ..................................................... 60  
   4.2 **The Period 1961 - 67** ..................................................... 64  
   4.3 **The Open Door Policy** .................................................... 67  
   4.4 **The Period 1977 - 82** ..................................................... 71  
   4.5 **The Period 1982 - 87** ..................................................... 73  
5. **The Private Sector in Egypt and the Accounting System** .................. 74  
6. **Development National Planning** ........................................... 76  
   6.1 **Transition to Comprehensive Planning** ................................. 76  
   6.2 **The General Framework of the Five-Year Economic and Social Development Plan** .................................................. 78  
   6.3 **Five Year Plan (1982/83 - 86-87)** .................................... 80  
7. **The Planning Machinery** ................................................... 81  
8. **Economic Planning and Management** ....................................... 83  
9. **Accounting Information for the Planning Process** ........................ 85  
   9.1 **The Requirements of Accounting Information** ........................ 86  
   9.1.1 **The Impact of Ownership** ........................................... 86  
   9.2 **Economic Planning and Information Requirements** .................... 87  
10. **Summary and Conclusion** .................................................. 90

# Chapter Three: Public Enterprises in Egypt: Problem of Control and Information Gathering

1. **Introduction** ................................................................. 96
3.2 The Public Business Sector in Developed and Developing Economies.................96
3.3 The Problem of Control Over the Public Sector in Egypt...............................99
3.3.1 The Public Organisations.................................................100
3.3.2 Ministerial Control.......................................................104
3.3.3 The Central Accounting Agency........................................106
3.3.4 The Taxation Authorities................................................106
3.3.5 The Central Agency for Organisation and Management (CAOM)......................107
3.3.6 The Administrative Investigation Board......................................108
3.3.7 Other Controlling and Data Collection Agencies............................................108
3.4 Reports and Information Provided to Governmental Bodies Under the Present System of Control........................................110
3.5 Summary and Conclusion.......................................................112

Chapter Four: Micro-Macro Accounting with Uniform System.................................116

4.1 Introduction...............................................................117
4.2 The Differences Between Micro and Macro Accounting........................................118
4.3 Development of Macro-Accounting..............................................124
4.4 Advent of Macro-Accounting..................................................126
4.5 Conceptual Foundations of Macro-Accounting.............................................127
4.5.1 Classification of Transactions..............................................127
4.5.2 A Basis for Collecting Economic Information........................................128
4.5.3 The Presentation of Information on Economic Transactions..........................128
4.6 Conceptual Differences Between Micro and Macro Accounting............................129
4.6.1 Concept of Value..........................................................129
4.6.2 Concept of Income.........................................................130
4.6.3 Concept of Entity..........................................................131
4.6.4 The Consistency Concept and Uniformity 131
4.7 Measuring National Income....................................................132
4.7.1 Gross National Product......................................................132
4.7.2 Net National Product......................................................133
4.7.3 Net National Income at Factor Cost........................................133
4.7.4 Personal Income............................................................133
4.7.5 Disposable Income........................................................134
4.8 Macro-Accounts with Uniform Micro-Accounts in Egypt 134
4.8.1 Micro and Macro-Accounting Before 1967 138
4.8.2 The Role of the Egyptian Uniform Accounting System 139
4.8.3 The Egyptian Uniform Accounting System and Methods of Valuation 142
4.8.3.1 Inventory Valuation 145
4.8.3.2 Imputed Transactions 147
4.8.3.3 Capital Consumption 149
4.9 Summary and Conclusion 151

Chapter Five: National Income Accounts as a Source of National Economic Information: Their Uses and Deficiencies 156

5.1 Introduction 157
5.2 Historical Development of National Accounts 158
5.3 National Income Accounts Systems 159
5.4 The Functions of National Income Accounts 161
5.5 The Role of Microdata in the National Economic and Social Accounts 164
5.6 Enterprise Data Requirements 166
5.7 Deficiencies of NIA as a Source of National Economic Information 169
5.7.1 The Effect of Delay in Producing the Accounts 170
5.7.2 The Unreliability of the Basic Statistics 172
5.7.3 Lack of Coverage of Items Within an Account 175
5.7.4 Deficiency in Administrative Statistics 176
5.7.5 The Absence of Stock Variables (Financial and Physical) 179
5.8 National Income and Product Estimates in Egypt: General Discussion 180
5.9 Summary and Conclusion 185
Chapter Six: Uniformity in Accounting: Environmental Influences

6.1 Introduction ................................................. 192
6.2 The History of the Uniform Accounting System .................. 192
6.3 Definition and Types of Uniformity ................................ 195
   6.3.1 Definition of Accounting ...................................... 195
6.3.2 Degree (Types) of Uniformity .................................. 201
   6.3.2.1 Uniform Principles or Standard of Accounts .............. 201
6.3.2.2 Uniform Chart of Accounts .................................. 203
6.3.2.3 Uniform Plan of Accounts (Uniform Accounting System) .... 204
6.4 Appraisal of Uniformity in Accounting .................................. 205
   6.4.1 Advantages of Establishing a UAS ................................ 205
   6.4.1.1 Comparability .............................................. 205
   6.4.1.2 Development of Accounting Theory ......................... 206
   6.4.1.3 Helping Economic Affairs ................................. 206
   6.4.1.4 Helping in the Better Allocation and Training of Accounting Staff .................. 207
   6.4.1.5 Improving Internal and External Auditing ............... 208
   6.4.1.6 Improving the Role of Government in Accounting Activities .................. 209
   6.4.1.7 Computerised Accountancy .................................. 209
6.4.2 Reasons for and Problems Associated With Uniformity .......... 210
   6.4.2.1 Reasons for Uniformity in Accounting ...................... 210
   6.4.2.2 Problems of Uniformity .................................... 211
   6.4.2.2.1 It Hinders the Development of Accounting Theory .......... 211
   6.4.2.2.2 Sophism of Comparability ................................... 212
   6.4.2.2.3 The Difficulty of Implementing Uniformity in a Short Time .......... 213
   6.4.2.2.4 The Cost of Uniformity ................................... 213
6.4.2.5 Restriction of Management Freedom .............................. 214
6.5 Summary and Conclusion ....................................... 214

Chapter Seven: Effectiveness of the Uniform Accounting System: The Egyptian Experience

7.1 Introduction .................................................. 219
<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.2</td>
<td>The Organisation of the UAS</td>
<td>219</td>
</tr>
<tr>
<td>7.2.1</td>
<td>The Main Features of the UAS in Egypt</td>
<td>220</td>
</tr>
<tr>
<td>7.2.2</td>
<td>Application of the System</td>
<td>221</td>
</tr>
<tr>
<td>7.2.3</td>
<td>The Development of the Egyptian</td>
<td>221</td>
</tr>
<tr>
<td>7.3</td>
<td>General Objectives of the UAS</td>
<td>224</td>
</tr>
<tr>
<td>7.4</td>
<td>Economic Units to Implement the System</td>
<td>229</td>
</tr>
<tr>
<td>7.5</td>
<td>General Criteria Underlying the</td>
<td>230</td>
</tr>
<tr>
<td>7.6</td>
<td>The Approach Adopted in the Preparation of the System</td>
<td>231</td>
</tr>
<tr>
<td>7.7</td>
<td>Elements of Financial Statements</td>
<td>235</td>
</tr>
<tr>
<td>7.7.1</td>
<td>Chart of Accounts</td>
<td>235</td>
</tr>
<tr>
<td>7.8</td>
<td>Accounting Report</td>
<td>240</td>
</tr>
<tr>
<td>7.8.1</td>
<td>The Balance Sheet</td>
<td>241</td>
</tr>
<tr>
<td>7.8.2</td>
<td>The Sources and Uses of Capital Funds Statement</td>
<td>243</td>
</tr>
<tr>
<td>7.8.3</td>
<td>The Current Operations Account</td>
<td>245</td>
</tr>
<tr>
<td>7.8.4</td>
<td>Production and Trade Account</td>
<td>248</td>
</tr>
<tr>
<td>7.8.5</td>
<td>The Profit and Loss Account</td>
<td>249</td>
</tr>
<tr>
<td>7.8.6</td>
<td>Cash Flow Statement</td>
<td>250</td>
</tr>
<tr>
<td>7.9</td>
<td>Planning Budget</td>
<td>252</td>
</tr>
<tr>
<td>7.10</td>
<td>The Problems that Influence the Effectiveness of the Egyptian Uniform System</td>
<td>253</td>
</tr>
<tr>
<td>7.10.1</td>
<td>Structural Problems</td>
<td>254</td>
</tr>
<tr>
<td>7.10.1.1</td>
<td>Objectives of the Uniform Accounting System</td>
<td>254</td>
</tr>
<tr>
<td>7.10.1.2</td>
<td>Delay in Providing Accounting Information</td>
<td>256</td>
</tr>
<tr>
<td>7.10.1.3</td>
<td>Elements of Financial Statements</td>
<td>257</td>
</tr>
<tr>
<td>7.10.1.4</td>
<td>Recognition Criteria</td>
<td>258</td>
</tr>
<tr>
<td>7.10.1.5</td>
<td>Measurement Criteria</td>
<td>259</td>
</tr>
<tr>
<td>7.10.1.6</td>
<td>Financial Reporting</td>
<td>259</td>
</tr>
<tr>
<td>7.10.2</td>
<td>Organisational Problems</td>
<td>260</td>
</tr>
<tr>
<td>7.10.3</td>
<td>Environmental Problems</td>
<td>261</td>
</tr>
<tr>
<td>7.11</td>
<td>Accounting Education and the Uniform Accounting System in Egypt</td>
<td>263</td>
</tr>
<tr>
<td>7.12</td>
<td>Current Pressures Threatening the Uniform Accounting System</td>
<td>267</td>
</tr>
<tr>
<td>7.13</td>
<td>Summary and Conclusion</td>
<td>271</td>
</tr>
</tbody>
</table>

Chapter Eight: El-Naser Company for Motor-Cars Manufacturing (NASCO): A Case Study 280
8.1 Introduction..................................................281
Part One: .......................................................283

8.2 Motor-Car Industries in Egypt...............283
8.2.1 The Main Categories of Motor Car Industry Processing........283
8.3 The History of Egypt's Motor Vehicles Industry...............284
8.4 The Demand for Passenger Cars and Commercial Vehicles.........287
8.5 Egypt's Motor Industry Companies.................290
8.5.1 Ford Company (Egypt)..................................290
8.5.2 The Egyptian Light Transport Manufacturing Company........291
8.5.3 El-Naser Company for Motor-Cars Manufacturing (NASCO).........293
8.5.3.1 Commercial Vehicles (Trucks and Buses)295
8.5.3.2 Trailers.............................................298
8.5.3.3 Passenger Cars.....................................299
8.5.3.4 Agricultural Tractors..............................301
8.5.4 Arab American Vehicles (AAV)..........................302
8.5.5 General Motors (Egypt)................................303

Part Two: .......................................................306

8.6 Financial Management Policies of NASCO...................306
8.6.1 Financial Capital Structure.............................306
8.6.2 Distribution of the Company's Surplus 307
8.6.3 Access of NASCO to Foreign Borrowing..................309
8.6.4 Financial Management Policies Reform..................311
8.7 Pricing Policies...........................................312
8.7.1 The Main Problems of Pricing Policies..................314
8.7.1.1 Restriction on the Finances of Public Enterprises..........314
8.7.1.2 The Distortion of Incentives..........................315
8.7.1.3 The Lack of Accountability...........................315
8.7.2 The Effects of Price Policies on NASCO..................316
8.8 Exchange Rate Policy......................................320
8.8.1 Foreign Exchange Reform...............................322
8.9 Trade Policies............................................323
8.9.1 Tariff Protection Incentives for Motor Industry.............325
8.9.2 Trade Policies Reform..................................330

XIII
Part Three: Planning and Control in NASCO

8.10 Planning and Control in NASCO

8.10.1 The Organisational Structure of NASCO

8.10.1.1 The Planning and Follow-Up Department

8.10.1.2 The Financial Department

8.10.1.3 The Commercial Department

8.10.1.4 The Research and Development Department

8.10.2 The Planning Process of NASCO

8.10.3 The Types of Planning Budgets

8.10.3.1 Classification by Time Span

8.10.3.2 Classification by Flexibility

8.10.3.3 Classification by Purpose

8.10.3.4 Planned Budgets in Relation to Project Tasks

8.10.4 Development of Planning Budgets in the Public Sector in Egypt

8.10.5 Types of Budget and Their Preparation Rules

8.10.5.1 Types of Budgets

8.10.5.2 Planning Budget Preparation Rules

8.10.6 The General Structure of NASCO’s Cost System

8.10.7 NASCO’s Planning Budgeting

8.10.7.1 Regulations for Preparing the Planning Budget

8.10.7.2 The Departments’ Responsibilities in Budget Preparation

8.10.7.3 Participation of the Managerial Levels in Preparing the Budget

8.10.7.4 Basis of Budget Preparation

8.10.7.5 Functional Budget

8.10.7.5.1 Production Programme Budget

8.10.7.5.2 Commodities Requirements Budget

8.10.7.5.3 Exports Budget

8.10.7.5.4 Sales Budget

8.10.7.5.5 Wages and Manpower Budget

8.10.7.5.6 Investment Budget

8.10.7.5.7 Finance Budget

8.10.8 Deficiency of Planning Budget of NASCO

8.10.9 NASCO Performance and Follow-Up Reports

8.10.9.1 Performance Reports

8.10.9.2 Follow-up Reports

XIV
8.11 Engineering Industries Organisation... 377
8.11.1 The Control System at the Engineering Industries Organisation... 378
8.11.1.1 Budgeting... 378
8.11.1.2 Performance Evaluation... 379
8.11.1.2.1 Production Plan Comparison... 380
8.12 Auditing and Performance Control... 381
8.13 The Role of Accounting in Planning and Control... 382
8.14 The Ministry of Industry Control... 383
8.15 Report to the Ministry of Planning... 384
8.16 Summary and Conclusion... 385

Chapter Nine: Analysis of NASCO’s Current Operations, Sources and Application of Funds Statement, and Value-Added Statement from the Viewpoint of National Income Accounts... 396
9.1 Introduction... 397
9.2 The Current Operations Account as a Model of the Information Required to Construct the NIA... 400
9.2.1 Strengths... 403
9.2.2 Weaknesses... 406
9.2.3 Proposed Model to Harmonise Financial and National Accounting Requirements... 409
9.3 Analyses of the Sources and Applications of Funds Statement from the Point of View of NIA... 421
9.3.1 Strengths... 424
9.3.2 Weaknesses... 424
9.3.3 Suggested Statement of Sources and Applications of Funds... 426
9.4 Value-Added Statement... 433
9.5 Summary and Conclusion... 438

Chapter Ten: Suggestions for Developing Planning and Reporting at NASCO and its Holding Company... 440
10.1 Introduction... 441
10.2 Recommended System for Activity...
Chapter Eleven: Summary, Conclusions and Recommendations

11.1 Summary ................................................. 472
11.2 Conclusions ............................................ 477
11.3 Recommendations ...................................... 502
11.4 Limitation of the Study .............................. 511

Appendices ..................................................... 513

Appendix (1) Specimen of the Types of Information Required by Four Major Controls, Management and Data Collection Bodies from the Public Enterprises in Egypt ........................................ 514

Appendix (2) Interview Guide .............................. 544
List of Tables and Figures

<table>
<thead>
<tr>
<th>Number</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1</td>
<td>Public Sector Share of Gross Value-Added in Manufacturing, 1966/67</td>
<td>67</td>
</tr>
<tr>
<td>2.2</td>
<td>Total Fixed Investment 1977-1981/82</td>
<td>72 &amp; 73</td>
</tr>
<tr>
<td>5.1</td>
<td>Publication Delay of National Income Accounts of Sixteen Developing Economies</td>
<td>171</td>
</tr>
<tr>
<td>8.1</td>
<td>Egyptian Automotive Imports 1984 To 1986</td>
<td>289</td>
</tr>
<tr>
<td>8.2</td>
<td>Anticipated Demand Level: Ford's and Commercial Vehicles, 1995-2000</td>
<td>289</td>
</tr>
<tr>
<td>8.3</td>
<td>Ramses Car Production, 1959-1973</td>
<td>292</td>
</tr>
<tr>
<td>8.4</td>
<td>History of NASCO's Production of Trucks, Buses, Tractors and Passenger Cars, 1986/87 - 1990/91</td>
<td>305</td>
</tr>
<tr>
<td>8.5</td>
<td>NASCO - Comparison Between Deficiency in Finance and Distributable Surplus</td>
<td>308</td>
</tr>
<tr>
<td>8.6</td>
<td>NASCO - Sources of Financing the Deficit of Financial Structure</td>
<td>309</td>
</tr>
<tr>
<td>8.7</td>
<td>Effect of Mandatory Selling Prices on Profitability Per Unit is Some Selected Products, 1985/86 - 1990/91</td>
<td>317</td>
</tr>
<tr>
<td>8.8</td>
<td>Market Structure: Effective Protection Rates to Tariff and Subsidy Rates, 1980-81</td>
<td>324</td>
</tr>
</tbody>
</table>
8.9 Protection Measures Applicable on Passenger Cars, 1956-85........329
8.10 Comparison Between Actual and Planned Production of NASCO........361
8.11 Comparison Between Actual and Planned Sales of NASCO...............365
9.3 NASCO's Statement of Sources and Applications of Funds, 30/6/1991.422&423
9.4 Proposed Statement of Sources and Applications of Funds........429-432
9.5 NASCO's Value-Added, 1990/91........................................435
9.6 Production Statement and Value-Added, 30/6/91..........................437

<table>
<thead>
<tr>
<th>Figure</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1</td>
<td>Major Bodies Involved in Planning, 1975/80</td>
<td>82</td>
</tr>
<tr>
<td>7.1</td>
<td>Organisation Chart of the Unified Accounting System Preparation Process</td>
<td>232</td>
</tr>
<tr>
<td>7.2</td>
<td>Frame of the Chart of Accounts</td>
<td>239</td>
</tr>
<tr>
<td>7.3</td>
<td>Accounting Curriculum in Assiut University</td>
<td>265</td>
</tr>
<tr>
<td>8.1</td>
<td>The Organisational Structure of NASCO</td>
<td>332</td>
</tr>
</tbody>
</table>
Abreviations

AAV = Arab American Vehicles.
AGA = Annual Central Assembly.
APB = Accounting Principles Board.
ASB = Accounting Standard Board.
ASC = Accounting Standards Committee.
CAA = Central Accounting Agency.
CAO = Central Accounting Organisation.
CAOM = The Central Agency for Organisation and Management.
CAPMS = Central Agency for Public Mobilisation and Statistics.
CIP = Census of Industrial Production.
CMA = Capital Market Authority.
C.V = Commercial Vehicles.
CAO = Central Accounting Organisation.
EDO = Economic Development Operation.
EEC = European Economic Community.
EIO = Engineering Industries Organisation.
EUAS = Egyptian Uniform Accounting System.
FASB = Financial Accounting Standards Board.
GAAP = General Accepted Accounting Principles.
GDP = Gross Domestic Product.
GNP = Gross National Product.
GUAS = Government Uniform Accounting System.
IAS = International Accounting Standards.
ICAEW = Institute of Chartered Accountants in England and Wales.
IMF = International Monetary Fund.
LEDD = Loans and External Debt Department.
L.E = Egyptian Pound.
MNC = Multinational Corporation.
MPS = Material Product Systems.
NASCO = El-Naser Company for Motor-Car Manufacturing.
NCPEA = National Council for Production and Economic Affairs.
NIA = National Income Account.
NNP = Net National Production.
NPC = National Planning Committee.
OECD = Organisation for Economic Co-Operation and Development.
P.C = Passenger Car.
PCDNP = Permanent Council for the Development of
National Production.

PCNP  =  Permanent Council for National Production.
PSC   =  Permanent Special Committee.
SKD   =  Semi Knock - Down.
SNA   =  System of National Accounts.
UAS   =  Uniform Accounting System.
UNCOTC=  The United Nations Centre on Transnational Corporations.
Chapter One

Introduction
1.1 Introduction:

Egypt has a total area of 386,900 sq.miles (1,002,000 sq.Kilometre), just over four times the area of the United Kingdom. About 3 percent of the land area is cultivated and that is restricted to the Nile Valley and Delta.

During the first half of the nineteenth century Egypt was ruled by Mohammed Ali (1805-1849). It was part of the Ottoman Empire from 1517 until December 1914 when it became a British protectorate. After World War I, the movement for independence gained strength, and on February 21, 1922, Egypt became an independent sovereign state. Following a revolution on 23 July 1952, a Republic was proclaimed on 18 June 1953 (Statement’s Year Book, Article on Egypt, 1990).

This chapter contains the general framework of the study and a general theoretical survey of the importance of accounting information and its implications for the management of the national economy, starting with a brief review of the evolution of the accounting function.

The importance of accounting information in developing economies is briefly and generally discussed as an introduction to the study.

The basic needs of government, including the compilation of national accounting statistics from the published accounts of companies, is also outlined.
The chapter concludes with a statement of the problem to be addressed in this research, together with the main research questions that this study investigates and the possible significance of the present work. The methodology is also explained.

1.2 Outline of the Thesis:

The rest of the thesis is divided into ten chapters.

Chapter Two examines Egypt’s economic philosophy and policies from 1952 to the present. It also examines the influence of government intervention and central economic planning and control on accounting systems.

Chapter Three examines the role, character and organisational structure of the public sector in Egypt. It also examines the effects of the multiplicity of control and data collection agencies upon public enterprises.

Chapter Four examines the relationship between micro accounting and macro accounting before and after the Egyptian uniform accounting system.

Chapter Five discusses the major fundamental deficiencies in the present structure of national accounts, especially in developing countries, and offers suggestions for practical solutions to these deficiencies.

Chapter Six examines the history of the uniform
accounting system, the main types of uniformity and the advantages and problems of uniformity. Finally it shows the significance of uniformity in accounting, especially in developing countries.

Chapter Seven discusses the organisation, structure, and environment of the Egyptian accounting system. The discussion focuses on the ability of the uniform system to provide the necessary information for economic planning and control, as well as the construction of national accounts. At the same time, this chapter discusses the major problems that affect the effectiveness of the disseminated information and tries to suggest solutions.

Chapter Eight is a case study carried out at El-Naser Company for Motor-Car Manufacturing. This chapter is structured in three parts. The first part examines the Egyptian motor car industry in terms of its present structure, product mix and nature. This description is followed by an account of the historical background of the industry. The second part examines the impact of government policies on NASCO's performance (financial management policies, pricing policy, exchange rate policy and trade policy). The third part examines planning and control in NASCO and the Engineering Industries Organisation (EIO).

Chapter Nine examines the unsatisfactory status of NASCO's present current operations account and sources
and applications of funds statement, and suggests some modifications to the present framework of these accounts to provide greater assistance to the government in performing its functions, including the compilation of NIAs.

Chapter Ten presents detailed proposals for remedying the deficiencies in NASCO's planning and reporting systems found in the empirical worked described in previous chapters. Details are also given of the reports which are available to the holding company.

Chapter Eleven presents a summary of the study, and the conclusions drawn from it. Recommendations for future development are also made.

1.3 Functions of Accounting:

Ever since accounting systems were first introduced, they have been generally considered to be an essential part of an organisation. The main tasks have traditionally been to gather, process, record and communicate financial information concerning the management of the enterprise(1). Much of this is concerned with legal requirements, such as complying with the provisions of Companies Acts when drafting final accounts, or keeping an accounting record of a customer's legal indebtedness, i.e. a debtor's account. With enterprises, the final accounts represent the account given to the shareholders by the directors of their
running of the enterprise during a particular year; in other words, a statement of the directors' stewardship. These accounts are also given to other interested parties, such as bankers, creditors, inspectors of taxes etc.

In 1974 the Accounting Standards Committee (ASC) set up a working party to re-examine the scope and aims of published financial reports in the light of modern needs and conditions. The conclusions of the working party were published in June 1975 as a discussion document entitled The Corporate Report.

Lee (2) has suggested that the changing function of accounting information has been due mainly to:

"...the increase in the degree of public interest in corporate affairs, the equivalent development of capital markets and investment communities, (and) a growing awareness by accountants of their responsibility to persons other than those with whom they have a contractual relationship; in other words, company profit and loss accounts and balance sheets have become general purpose statements for potential use by a variety of users...".

Accounting is in an age of rapid transition. Its environment has undergone vast changes in the last two decades and an accelerating rate of change is in prospect for the future. Much of what is accepted as accounting today would not have been recognized as such fifty years ago, and one may safely predict that in fifty years' time the subject will bear little resemblance to what it is
In recent years, changing social attitudes have combined with developments in information technology, quantitative methods and the behavioural sciences to affect, radically, the environment in which accounting operates today, thereby creating the need to re-evaluate the objectives of accounting in a wide perspective. Accounting is moving away from its traditional procedural base, encompassing record keeping and such related work as the preparation of budgets and final accounts, towards a role which emphasises its social importance. As a result, governments in developing countries are undertaking many new development programmes and expanding old programmes in their efforts to relieve their various social and economic problems.

Indeed, governments use much of the accounting information to evaluate performance and control the economy, as well as in the construction of national accounting statistics.

Although the government is able to collect whatever information it needs from enterprises, published accounts of these enterprises constitute a major part of the state’s information needs. When it comes to the published accounts of the public sectors over which the government has direct control, the needs of government should be the fundamental consideration in deciding the information to be disclosed.
The planning process also creates new sources of information decentrally and therefore the needs of "central" planning may change. This information is the output of the country's macro accounting system and the macro accounting system draws its input data from the accounting systems of the micro units. This, in turn, creates the need to establish an effective linkage between the micro and macro accounting systems. This linkage would play a major role in the constructing of national accounts.

Since the end of World War II, however, international business has undergone a revolution out of which has emerged what is probably the most important economic phenomenon of the latter half of the twentieth century. Hence the accounting function has to meet a new kind of demand on its services, in which the accounting information is needed not only by the interested parties within the national economy but also by those on an international level.

1.4 Accounting and the International Economy:

The volume of international transactions has grown enormously since the end of World War II. Annual capital flows involving hundreds of billions of pounds occur between nations. International trade and investment of this magnitude would not be possible without the ability to buy and sell foreign currencies.
The trading of currencies takes place in foreign exchange markets whose primary function is to facilitate international trade and investment. Knowledge of the operation and mechanics of such markets, therefore, is important for any fundamental understanding of international financial management. The primary function of accounting, in this context, is the part it plays in the maintenance of the mutual confidence which is necessary in business relationships.

Other factors have contributed to the use of accounting information at the international level. One of these is the System of National Accounts (SNA) issued by the United Nations, which was designed to facilitate, among other things, sound appraisals and decisions on the domestic as well as the international level and to enable comparison between countries of the same and/or different stages of economic development. The recent developments in national balance sheets and flow of funds accounts, combined with the analyses made possible by them for government policy and in economic analysis, have been considered important factors. Associated with these are the requirements of the international organisations such as IMF, World Bank and OECD which have emphasised the necessity of keeping and producing accounts with acceptable accuracy and resolution.

1.5 Accounting and Developing Countries:

The reason behind the emphasis on broadening the
The scope of accounting in developing countries is that it provides essential techniques and information both for the measurement of available resources and for control of their use.

The accounting needs for the different aspects of national economic planning in developing economies have been discussed in the current literature of accounting. These may be summarized \((4,5,6)\) as follows:

(a) Accounting and planning are two complementary techniques; planning aims at the efficient allocation of the country's scarce resources. Accounting is concerned with the administration of economic resources.

(b) Accounting is the main source of information which will help the construction of national accounts, on the basis of which, organisation, evaluation and revision of national economic plans would be possible.

(c) Business accounting is most helpful to the government's functions. Companies' accounts furnish the necessary information for assessing the performance of the different economic units.

(d) Accounting is one of the tools potentially able to improve the functioning of the development process. If development consists of more efficient allocation
of resources, accounting techniques may improve both the allocation process and the efficiency of some of the resources. It would be useful to discuss the importance of financial accounting information to the economic development of emerging economies and to clarify the role it plays in the process of economic development of these developing countries.

Financial accounting has a dual role in economic development. First, it is a generator of important financial information, on the basis of which, national policies and expansion may be formulated. Second, it can stimulate the confidence and interest of investors (both local and foreign) by disclosing reliable and sufficient information. This could mobilise large numbers of investors and, consequently, stimulate the development of capital markets.

Both tasks are important and will play a key role in national economic planning and progress. As an example of the impact of accounting information on economic development, the interdependence of corporate report and the development of a capital market in a developing economy will be outlined in broad terms.

In writings on the problem of development in the emerging nations, it is always admitted that a close relationship exists between the low rate of savings and the development of a capital market. This is a direct relationship, thus, the low rate of savings tends to
limit the development of a capital market, and consequently the formation of capital. In turn, a capital market cannot operate if small savings are not mobilised and made available to the enterprises.

Companies' reports and accounts could help to break this cycle by helping to create badly needed investor confidence (local or foreign) through the disclosure of objective, reliable, accurate and timely information to the national and/or international financial community (7&8). Thus, an organised and effective capital market may exist to channel private and foreign investments into industrially productive activities.

It has been argued by Wai and Patrick, (9) that the availability of reliable information is one of the conditions required to enable small companies in developing economies to issue securities through capital markets.

The important function of the accounts of a company in the development of capital markets is to disclose information relevant for the measurement of the company's efficiency and performance.

Because a developing economy cannot be solely dependent upon its own resources in securing the required capital, recourse to the international community would seem to be inevitable. Evidently, most developing countries today benefit from the services of
international organisations. These international organisations not only prefer that the recipient country's government guarantees payment in case of default, but also demand from the firms receiving a loan, certain financial information concerning their activities. As an example of the nature of this information, the following is cited from the bulletin issued by the International Finance Corporation, (10):

"Investment agreements between various enterprises and IFC often provide for installation and maintenance by borrowers of accounting and cost control systems and the appointment of independent auditors. These agreements also deal with financial reporting to IFC and related matters. While each IFC investment agreement recognizes the circumstances of each individual case, certain financial information is submitted in all cases. The type of information desired corresponds to the information usually needed for private institutions"

In conclusion, it seems that the financial information furnished by accounting can, and does, play a vital role in supporting the economic development process in developing economies. In these countries, the necessary loans and capital are not likely to be forthcoming from domestic or foreign sources unless investors have a clear picture of the financial position and prospects. This applies not only to companies, but also to government (at all levels). It is the function of accounting, business accounting no less than national accounting, to furnish this information.
1.6 The Role of Accounting for Management of the Economy:

In recent decades, the role of accounting in facilitating the allocation of scarce resources and in the formulation of government policy in developed and developing countries, has been widely publicised.

In advanced countries, accounting is a major source of information for managerial decision-making at micro and macro levels. National accounting has been regarded as an indispensable instrument for government, to formulate national policies.

The important role of accounting in the industrial economies has grown so rapidly that a sophisticated accounting system is regarded as a pre-requisite for a high degree of industrialisation. In this regard, Bevis (11) suggested that:

"...an accounting function of high order is characteristic of a successful industrial economy. It is further suggested that this relationship is essential rather than accidental and that, therefore, a high degree of industrialization and the attendant economic progress cannot be developed without a highly developed accounting function which makes possible the flow of indispensable economic data"

It appears, then, that accounting and the information it offers may be regarded as an inherent and coherent part of a successful industrialised policy.

The developing nations are increasingly becoming conscious of the importance of accounting functions for
their economic development. Enthoven (12) noted that a fundamental accounting approach is most needed within the economic structure of developing nations, while the relevance of cost accounting has been clearly established from the viewpoint of organisation management.

The managerial applications of cost accounting information derive from, and are determined by, the needs of management in particular instances. Cost data are very useful to economic management, in planning, controlling and evaluating business operations and in making specific decisions among alternative courses of action. They enable decision-makers and policy-makers to base their decisions on facts and figures rather than guess-work.

Cost accounting information has been used in the service of national policies and economic management and has helped the government to prevent monopolies and price discrimination between various regions.

Cost accounting information is of help to governments in regulating public undertakings and setting pricing policy.

It may be apparent from what has already been said, that cost accounting information is a valuable instrument for governments, by which they can:

(a) assess the effective utilisation of national economic
resources.

(b) facilitate comparisons between similar industries either in the public or the private sector;
(c) detail a pricing policy;
(d) gather facts about the industries which are of considerable value to the national economy.

The use of cost accounting information is not limited only to the areas discussed above. It has also been used in other spheres of economic analysis at a national level. Among the most important uses in project appraisal.

In Egypt, it has been found that, as a result of deficiencies in the management of public enterprises, several of the projects implemented by these enterprises have constrained economic development efforts. One such company (to be discussed in chapter Eight) revealed that the cost structure is not accurate. Deficiencies of this kind cause severe problems in the form of idle capacity, foreign currency bottle-necks and operational waste. The necessary authority should be given to the chairmen of these enterprises to allow them to decide upon their pricing policies and the method of improving productivity (13). It was cost accounting information that helped the NCPEA to issue the recommendations, by which it is hoped to free Egyptian public enterprises from bureaucratic restrictions.
It may be concluded, then, that cost accounting information is of fundamental importance for the management of the national economy. Its importance has grown from the desire of a country to accelerate its economic growth and technological development. This desire creates a situation that demands careful planning, adequate control and factual information for decision-making.

The above discussion indicates that management of the economy, developed or developing, involves the control of resources to produce results. Consequently, plans have to be made and decisions have to be taken. Performance of these functions will be greatly enhanced by receiving relevant, sufficient and accurate data, on the basis of which, realistic national policies can be formulated. Accounting, in this respect, can be regarded as a major quantitative information source for the management of the economy.

1.7 The Government's Information Need from the Published Accounts of Companies:

As mentioned, the published accounts of companies are the source of much of the basic information needed by government. The government uses this information for a variety of purposes, including the construction of national accounting statistics as well as assessing the performance of these companies. Consequently, the quantity and quality of these data may have a
significant effect on the behaviour of the government when making decisions in respect of these companies, particularly those publicly owned.

The following may be considered to be the basic requirements of the government from the published accounts of companies, particularly those in public ownership, over which the government has direct control:

1.7.1 **Disclosure of Information:**

The final accounts of public sector and organised private sector companies should be presented to governmental bodies in such a way as to influence their actions. The more directly the government uses the accounts as first hand observation, the less its dependence on second-hand information; hence, the possibility of manipulation errors may be avoided. For information to be useful, it should be comprehensive, timely, well presented and based on a sound set of fundamentals. It should give a realistic picture of the status and activities of the entity.

The greater the detail and variety of the data disseminated in the financial statements of these companies, the more effective the government actions could be, and the better the management of these industries. For example, greater disclosure of information could benefit the government by:

- identifying a company's development potential,
- identifying, at an early stage, the problems and bottle-necks facing a company,
- assisting in the allocation of available and scarce sources.

Finally, it has been argued that improvements in planning, both in industry and by government, depend, to a large extent, on greater disclosure of information at the company level.

1.7.2 **Up-to Date and Speedy Information:**

The effectiveness of accounting information for the purpose of decision-making and control depends on the speed with which the information is made available to governmental bodies. The information loses most of its value for control purposes if the data do not reach the government within a reasonable time and may result in unproductive investments.

1.7.3 **Disseminating Information to all Companies:**

Accounting information also helps to eliminate market advantages which accrue only to the particular companies possessing exclusive information. Market opportunities are thus made more widely known within business communities.

If governments of developing countries force companies with high rates of return and little inclination to expand or increase efficiency to surrender data on costs and profits, and make this information
available to the entire business community more vigorous companies will enter and expand the market, perhaps simultaneously creating economies of scale and reducing costs and consumer prices (14).

This role of government as an information middleman is especially important in developing countries, where many sources of information commonly found in industrial nations do not exist.

1.7.4 Greater Uniformity in Information Generation:

Accounting information is not politically neutral, and there is a danger that in encouraging developing countries to adopt international standards which are ideal for a set of social, religious, political, and economic circumstances different from their own, we may be doing more harm than good. Developing countries should be interested in designing accounting systems to suit their particular needs, rather than in designing systems to suit world trade (15).

The need for greater domestic uniformity in accounting systems (both cost and financial) is considered an important step towards the development and improvement of accounting information at both micro and macro levels. It is aimed to increase reliability and comparability of the information disseminated either by business or by nations.

The uniformity of accounting information is not only
desirable but also essential at the various levels of the economy.

The aims of the uniform accounting system as stated in the Egyptian Uniform Accounting System are (16):

"1- To provide the necessary accounting information for planning, coordination, and control at all levels. The levels are the following:

a) The Enterprise Level. In addition to providing the necessary information for the decision-making process and the analysis of the financial statements, the system requires the preparation of three main budgets: a budget for production requirements in physical terms, a cash budget, and a financial budget. According to the system, this will enable the enterprises to coordinate their plans in the physical terms with their financial plans. This coordination is essential on the enterprise level to achieve an overall economic balance.

b) The General Organisation Level. The system is intended to provide information to facilitate control, direction and supervision. In addition, it enables the General Organisation to participate in the planning process. The General Organisation is authorized, by law, to control, supervise, coordinate and evaluate the efficiency of economic units affiliated to it. The Uniform Accounting System is intended to provide information to facilitate all of these functions.

c) The Ministry Level. The system is intended to aid the Minister of National Planning in coordinating the various plans of economic units with the national plan. The uniform information enables the ministry to follow-up the national plan at all levels. The system is
intended to supply the uniform information needed by the Ministry of Finance and the Ministry of Economics to coordinate the national budget and the foreign currency budget. It is intended to meet the requirement of the banking system and is intended to facilitate the function of Central Agency for Public Mobilization and Statistics by supplying uniform information.

2- To provide a link between the accounts of the individual economic units and social accounting. This coordination facilitates the preparation of gross national income accounts and other statistical data used in planning the economy and in controlling its direction.

3- To facilitate the tabulation and strength of accounting information. This enables the economic units to supply the information needed by the planning authorities in a uniform format and in terms of uniform treatment."

1.7.5 **Current Value Information:**

It is sufficient to note here that the significance of the use of current values in the presentation of a company's accounts is that this enables a more proper evaluation of the real results of companies' operations, as well as better information concerning the extent to which the real capital position of companies has been eroded, maintained, or increased over time. This permits real income to be compared with the capital resources utilized in the generation of that income and the calculation of rate of return in economic terms.

National accounting information needs are also affected by current value accounting. The conceptual
unity between national income accounting and private enterprise external reporting hoped for by Yu seems to be at least partially realized with economic evaluation accounting (17). Yu states that:

"... the general valuation basis in macroaccounting (national income or social accounting) is market value (and) ...real income and output are emphasized in macroaccounting."

Use of market value in the accounts of private enterprises in developing nations would ease the task of preparing national accounts as well as very probably increasing their accuracy and utility for purposes related to economic development (18).

Current value accounting also has important implications for national economic development planning. For example, current values are the appropriate valuation method for cost-benefit analyses undertaken by governments but relying on enterprise accounting data. Also, in developing countries,

"..."current value" shows how goods and services interact among industries, and is being widely used as an analytical tool and guide to decisions about economic policy " (19)

1.7.6 Provision of Accounting Information More Suitable to National Reporting:

Generally a major portion of a nation's income and product account activities takes place in the business enterprises sector. In other words, a large portion of
the information needed for the construction of the various components of national accounts comes from business accounting. Ruggles and Ruggles (20) argued that the microdata set can provide a valuable extension of the various components of national accounting, and the former data must be integrated with the national accounts. Enthoven (21) comments that the two branches of accounting systems (business and national accounting) are able to complement each other.

The company's accounts should consider the data needed for national accounts. In developing countries, as well as in developed countries, these data are derived to a large extent from income tax reports of private enterprises or from social security reports. They are then consolidated for national reporting purposes.

Even in developed countries where extensive and accurate accounting data are generally received from private enterprises, several adjustments must be made to make these data suitable for national accounts. Some of these adjustments are caused by differing accounting principles between enterprises, and some by the necessity of eliminating double-counting. In developing countries, adjustment problems are compounded because private enterprises produce too little, and often unreliable, accounting data (22).

In discussing national accounts systems, and the need of private enterprises' accounting data for national
reporting purposes Yu suggests that (23):

"Theoretically there should exist a unified system of accounting concepts and principles which are equally valid for and applicable to, both microaccounting (business accounting) and macroaccounting (national reporting)"

If what Yu suggests is correct, and private enterprises accounting in the developing countries were to embrace the concepts and principles about which he speaks, presumably accounting information from private sectors for national reporting would be easier to collect and more suitable for national reporting purposes than those at present.

1.8 Statement of the Problem:

Some developing countries, e.g. Egypt, desire to achieve sustained economic growth through realization of the objectives of their economic development plans. For this to be done, the need for a comprehensive uniform accounting system capable of supplying the accounting information required by central planners and decision-makers is paramount.

Since 1954, when the first Five-Year development plan was introduced, the planning of the economy has been the responsibility of the Ministry of Planning. The socio-economic development plan is prepared centrally by the Ministry of Planning, approved by the People's Assembly and implemented by the planning committees at state and municipal levels. The government has moved
through successive stages, from encouragement of the private sector, to gradually increased restriction and controls, and finally massive nationalisation and intervention throughout the economy, with a large public sector which covers most modern industrial activities, all banks, insurance companies, and financial intermediaries, wholesale trade, modern transport and a high proportion of construction firms (24).

After the public sector assumed the leading role in the economy, the State Audit Department assumed the legal right to audit the financial activities of public organisations, public sector enterprises and government institutions (25).

In March 1964, a Presidential Decree was passed to replace the State Audit Department by the Central Accounting Organisation (CAO), which became the authorised government professional body in Egypt (26). Accordingly, the need to review the efficiency of the plan in public sector enterprises encouraged the establishment of a uniform accounting system. In December 1966, the Central Accounting Organisation developed a Uniform Accounting System (UAS). A major objective of the Egyptian Uniform System is to provide a link between the accounts of the individual economic units and macro accounting. This coordination facilitates the preparation of gross national income accounts and other statistical data used in planning the economy and controlling its
direction. The contribution of a uniform accounting system in facilitating the construction of input-output tables can be seen in additional macro data covering intermediate inputs, which reflect the value of intermediate products and services provided by the economic sectors, and by sectoral classification of the economic units transactions. Therefore, an examination was made by the Central Accounting Organisation (CAO) of the relevance, appropriateness, and adequacy of the economic information provided as a result of the application of the uniform accounting system to the needs of planning authorities and the proper administration and control of economic activities, as well as the cooperation between micro and macro accounting.

During the 1970s, however, the private sector and western influence increased, leading to increased interest in external trade. At the same time, demand for the creation of professional accounting firms increased, and international accounting firms attempted to establish or re-establish a presence in Egypt. As a result, pressure groups developed: the Syndicate of Commercial Professions, the Egyptian Society of Accountants and Auditors, the Central Accounting Organisation, the Capital Market Authority, US AID, and the UN, and World Bank (See chapter seven, Section 12).

As a result of the establishment of the Egyptian Capital Market, professional groups were obliged to
follow International Accounting Standards [1]. In addition, the Egyptian Institute for Accountants and Auditors held a national conference in September 1987 to discuss and develop accounting principles and auditing standards for Egypt. The International Accounting and Auditing Standards were presented at the conference as the basis for discussion (27).

Douban (28) commented that whether these International Accounting or Auditing Standards are in the best interest of Egypt may be questioned. Therefore, there is an urgent need to rationalise this Egyptian movement towards the international harmonization of accounting standards by studying the specific environment and accounting needs of Egyptian society. This problem became apparent in Egypt when it was decided to adopt International Accounting Standards (the recommendations of the first International Conference on Accounting and Auditing, held in Cairo in December 1980). The adoption of the international harmonization of accounting standards will not make a fundamental contribution to the badly-needed improvement of national accounting statistics in Egypt. As a result, Egypt will continue to suffer from deficiencies in its national accounts (29). Moreover, the use of international standards in accounting and reporting statements for Egyptian public enterprises may not provide satisfactory information for preparing national plans and gross national income accounts.
1.9 Significance of the Study:

Nowhere in the current literature are there reports or evidence of a comprehensive discussion of the limitations that detract from the usefulness of national accounts.

These accounts directly influence the government in performing its planning and controlling functions. As the government both produces and uses this accounting information, the inherent deficiencies in both their preparation and presentation need to be identified. This may allow greater fulfilment of their designed objectives.

Those who work in the field of national economic statistics and economic analysis in both developed and developing nations may find that the identification of problem areas needs to be given greater consideration than was done in the past.

Should the deficiencies suggested in the research questions regarding the present structure and presentation of these accounts be proved to exist, the result could have a significant impact on the problem of improving national accounting statistics. This is a problem with which the National Statistical Authorities of many countries, as well as international organisations, have become actively concerned.

The limitations of these national accounts that may
emerge from this research could indicate possible areas for improvement.

Moreover, discussion of the experience of Egypt in the area of uniformity in accounting and her limited experience in gathering part of the data needed for national income accounts may be beneficial for similar developing countries which have not so far implemented such a system.

This research may be regarded as stimulating further thought and discussion on the design and dissemination of national accounts.

However, identification of their limitations, does not necessarily mean that these accounts and balances are valueless. On the contrary, identification of their limitations may strengthen their application for economic analysis and government policy. In this context, Samuels (30) writes:

"Frank recognition of the uses and limitations of national accounts can only strengthen their claim as a useful addition to our technical equipment for the analysis of social and economic phenomena"

It follows that the more thought that is put into identifying the limitations of these accounts, the greater the possibility of improving the design of the system and the greater the benefit of the information to
policy-makers and economic analysts.

The study of the Egyptian accounting system and its particular environment, may also be helpful for comparative accounting studies. This area is highlighted by Briston, who argues (31):

"A comparative study of the evolution of accounting under different environments should provide important lessons regarding the true nature of accounting and the extent to which it is possible to separate the fundamental truths from the historical accidents. The subject of comparative accounting could begin to evolve on a world-wide context as opposed to the predominantly western bias which it has so far received."

1.10 Purposes of the Study:

In short, the purpose of this study is to examine what accounting and economic information is highly desirable for economic and financial activities. Such need should first and foremost be analysed according to the requirements of the users of the accounting information, whether in the private or in the public sector, and to the economic functions involved. We also hope to determine how the accounting information provided by the Egyptian Uniform System is expected to satisfy these objectives in terms of recent changes in the accounting environment in Egypt.

1.11 Research Methodology:

The collection of data through a case study approach is guided by a protocol, which should include: (1) an
overview of the project, including a statement of the research issue; (2) field procedures; including the specification of sources of information; (3) a guide for the case study report, including its outline and format (32). Therefore, the protocol is designed to increase the reliability of the research process.

1.12 Methods of Compiling Data:

Two methods were used to gather the data for this research, namely, personal interview and literature review. The rationale for each is outlined below.

1.12.1- Personal Interviews:

There are many methods of obtaining unpublished data but those most widely used are mail questionnaires and personal interviews. Obviously, these can be combined in various prescriptions, but they seem to be the two basic methods of obtaining original empirical accounting data. Each method has its advantages and disadvantages. Questionnaires are often said to have advantages over interviews in terms of cost, and time.

Among the advantages of mail questionnaires is

"the possibility of greater coverage for minimum cost. Once a questionnaire is prepared, it can be mailed out on almost a wholesale basis, if desirable, with relatively little additional cost to the research project. Information can be obtained more effectively and cheaply with a questionnaire than by interview. An accompanying advantage to the respondents should be noted in that provisions
for approval of certain kinds of information can be included. A questionnaire can be turned over by the executive receiving it to an assistant to do the actual work. Upon completion of the questionnaire by the assistant, the executive can review all or any part of it... Thus, a questionnaire on a sensitive issue, as we found ours to be, may be answered and reviewed at a number of levels, thereby providing the responding company with more assurance that it has expressed itself accurately than would the case if the same kind of question were asked in an interview.

Yet another advantage is that a questionnaire makes it possible to obtain data that could not be obtained readily in an interview. If one needs a substantial amount of detailed data taken from the company's records, the company needs time to collect and organize these data. A questionnaire procedure permits this; an interview would not provide such an opportunity "(33).

On the subject of timescale, Moser and Kalton suggested that "... mail questionnaire is a particularly quick method of conducting a survey. It certainly takes little time to send out the questionnaire, and the bulk of the returns will probably be received within two weeks "(34).

However, they pointed out that time must be allowed for late returns and responses to follow-up attempts, so that a period of a month will probably be needed from the data of the initial mailing to the commencement of the final analysis (35).

However, the supposed advantages or disadvantages of one method or another must be seen in the context of the specific circumstances of each study. In our case,
interview seemed likely to be cost-effective and reliable, for the following reasons:

1- Cheap cost; the cost of typing, printing, sending and returning the questionnaires from Hull to Cairo would have had to be borne by the researcher, whereas the cost of a student's return ticket to Egypt, would be paid by the government of Egypt.

2- Giving respondents enough time to collect data, answer and review the questionnaire; if the time factor is under the control of the interviewer (as in our case), enough time can be allowed for each respondent to answer the questionnaire.

3- Time taken to obtain responses: in our case, the mail questionnaire would not have been a sufficiently quick method, as the survey was to be conducted in another country. Postal times would have been lengthy, and follow-up difficult. Under such constraints, the overall time period needed to collect the required information would be difficult to predict. Personal interviews provided the opportunity to collect data within a reasonably short-time, and follow-up would be facilitated.

In other words, all the advantages of a mail questionnaire could in this case be obtained by conducting the survey by personal interview, because of the special circumstances of our research.
In addition, personal interviews have the following advantages:

1- The interview is often an effective way to yield a high percentage of returns from respondents willing to co-operate (36).

2- The interview may take a long time, as a consequence of the respondent needing to become more oriented to the topic under investigation. In this matter, the "recall of relevant material is facilitated" (37). This could lead to improving the quality of data, hence, securing acceptable findings.

3- The greatest value of the personal interview is the depth and detail of information that can be secured. Also, there is more control over the personal interview than of other means of inquiring, such as a mail questionnaire (38).

4- Where a questionnaire may be answered inaccurately due to misunderstanding the questions, the interview can be managed effectively, as any worries, misapprehensions or difficulties experienced by the respondent can be countered by such explanation or clarification as seems necessary.

5- The researcher has the opportunity to observe the respondent's reaction, hence he "can change the subject if necessary or explain the survey problem further" (40).
Also, the researcher has the opportunity to ask more questions during the interview, to clarify a point or follow up a particular response.

To achieve these advantages, we must consider the necessary conditions for interview success.

Kahn and Cannell distinguish three broad concepts as necessary conditions for a successful interview, as follows (39):

"First, there is the accessibility of the required information to the respondent. Second, the understanding by the respondent of what is required of him. Third, the motivation on the part of the respondent to answer the question accurately."

To what extent were these conditions met in this research?

(i) The accessibility of the required information to the respondent; in order to carry out its duties, NASCO has to be provided with standardised financial reports prepared by the financial department. This provision is compulsory. Therefore, our respondents had access to the required information.

(ii) The understanding by the respondent of what is required; the interviews were conducted by the researcher, who took care to clarify to the respondent
what was being asked.

(iii) The motivation of the respondent to participate; the strong personal relationship between the researcher (interviewer) and the respondents, established during the researcher's time working as an accountant at NASCO, encouraged the respondents to provide information.

1.12.2 Literature Review:

An extensive reading programme was undertaken covering books, studies, articles and papers presented at conferences. This was essential so that useful facts and opinions were taken into consideration.

The literature review explored the following:

1) The economic planning and information requirements;

2) Managerial control systems;

3) Control system and information gathering;

4) The role of accounting in planning and control;

5) National income accounts as a source of national economic information;

6) Environmental influences on the adoption of the accounting system;

7) Planning budgeting;

8) Performance evaluation and its problems.
1.13 **Key Research Questions:**

Defining the research questions was the most important step to be taken in the research study (40). The research questions represent a basic framework for the required data. The major questions investigated in this research are as follows:

1- Does the present information disseminated in Egyptian public and private enterprises accounts fail to satisfy fully the basic needs of government from a company's financial reports?

2- To what extent does modification need to be made to the present form of the financial statements of public enterprises in Egypt in order to provide greater assistance to the government in performing its functions, including the compilation of national accounting statistics?

3- Do these modifications meet government and national accounting needs?

1.14 **Conduct of the Fieldwork:**

The fieldwork was conducted during a period of three months, from mid-September 1990 till the end of November 1990. It was arranged to start with El-Naser Company for Motor-Car Manufacturing (NASCO), and proceed to the Engineering Industries Organisation, and finally to the Ministry of Industry. This arrangement needed approval from the Egyptian authorities before going to Egypt. The
Egyptian Cultural Bureau in London was contacted, and a copy of the interview schedules was sent by them to the Mission Department in Cairo in March 1990. Initial approval, from the Security Department of the Ministry of Education, was not difficult to obtain before going to Egypt. However, approval was also necessary from the Central Agency for Public Mobilisation and Statistics (CAPMS) in Egypt. The procedure for obtaining this approval was long and complicated, taking five months. After approval was obtained the researcher obtained a letter from the Mission Department, which was forwarded by the Ministry of Education to the Engineering Industries Organisation, to gain permission from the Chairman of that organisation to conduct the research at NASCO.

The procedures for collecting the data were as follows:

1- Data were obtained through in-depth personal interviews with government officials in the Ministry of Planning, some staff members of the Central Accounting Agency and top management at the Engineering Industrial Organisation. At the company level, interviews were held regularly, mainly with staff members of the Financial Commercial Division. These interviews were conducted in order to obtain information about the role of accounting information in national development planning and the preparation of national income accounts.
The following areas were fully covered in the checklist:

**NASCO:**

1- The extent of government information influence on NASCO,
   a)- Financial planning procedures,
   b)- Control procedures,
   c)- Performance evaluation procedures.

2- Data were also gathered from published sources. The following were of particular interest to this study:
   a) Annual reports from the years 85/86 - 89/90;
   b) The application of funds statement for the same periods;
   c) Current operations account for the same periods;
   d) Company's organisation structure;
   e) Manual of the accounting and cost system;
   f) The methods of cost allocation;
   g) Forms of planning budgeting;
   h) Forms of company's reports at each level of the company;
i) Some informing relating to government influence on NASCO.

**Engineering Industries Organisation:**

1) The degree of harmony between the Engineering Industries Organisation and NASCO;

2) The influence of the Engineering Industries Organisation on NASCO;

3) The role of the Engineering Industries Organisation in following-up the performance of the company.

**Ministry of Planning:**

1) The target set for NASCO in terms of national objectives;

2) The role of the Ministry of Planning in financial planning procedures.

**Ministry of Industry:**

1) The relationship between the Ministry and NASCO's strategic objectives;

2) The influence of the Ministry on NASCO in setting financial goals and the policy of the company as a whole.

**Ministry of Finance:**

1) The role of the Ministry in financing the activities of NASCO;
2) The role of the Ministry in controlling the implementation of NASCO's budget.

1.15 Limitations of the Case Study:

Some difficulties were encountered by the researcher during the field work.

One of these difficulties was the lack of cooperation by respondents. This problem is related to the time required for investigation. The case study required much time on the parts of both the investigator and the interviewees, to obtain the required information. Moreover, management in Egypt are secretive and highly suspicious of outside inquiries. Additionally, the researcher also faced some difficulties with government offices, in obtaining data and published and unpublished reports.

1.16 Why Focus on NASCO?

The motor-car industry sector is one of the most successful industrial sectors in Egypt.

This sector was one of the main objectives of the first plan for industrialisation in Egypt in 1957.

The motor-car industry is particularly important to Egyptian society in economic terms, because of the change away from agriculture towards industrialisation, and in social terms because of the government's desire to make cheap cars to satisfy the increasing local demand and to export some of the production to Arab markets at
reasonable prices. Also, this industry may help Egypt to improve its balance of payments and increase the State's reserves of hard currency.

As a consequence, four motor-car companies are operating in Egypt at the present time. NASCO is the biggest of these. Also, NASCO applies the uniform accounting system, and can therefore be taken to demonstrate the effect of the uniform accounting system on national planning processes and the preparation of national income accounts.

1.17 **Summary and Conclusion:**

This chapter has been devoted to the importance of accounting information and its implications for the management of the economy. The nature, scope and objectives of this research were also described.

Accounting information is one of the major factors needed for successful international business relationships at both micro and macro economic levels, as well as the management of the economy. The increasing role of international organisations in financing development programmes, coupled with government intervention in economic activity, particularly in developing economies, has resulted in increased demand for accounting information.

The implication of accounting information in the management of the economy has been discussed. The role
played by cost accounting information was given as an example of how accounting and the information it generates can assist in national planning, control and decision-making.

Reference was made to the basic needs of government, including the compilers of national accounting statistics, from the published accounts of companies, particularly those under public ownership. Because accounting information may have a significant influence on the government when making decisions, the identification of its current limitations is a major focus for this thesis. However, the absence of an assessment of the recent developments in national income accounts and their relevance to developing nations, together with the very limited national experience in gathering data for national accounts purposes, constitute a serious deficiency. These considerations justify the selection of Egypt as a case study to describe, investigate and analyse her experience in these areas.

Footnote:

[1] The recommendations of the first International Conference on Accounting and Auditing, held in Cairo in December 1980, in which the international accounting firms took part, emphasized the adoption of the British and American systems and the enhancement of the position of the international firms in Egypt. This was confirmed at the second International Conference on Accounting and Auditing in Cairo in December 1986.
References:


26- Amr, Metwalli B., Ibid., p. 52.


38- Miller, D.C., Ibid., p.87.


Chapter Two

Economic Development Planning
2.1 Introduction:

The history of modern Egypt began after three centuries of Ottoman rule with the conquest by Napoleon Bonaparte in 1789. The French left in 1881, but French influence continued on the cultural level.

In the confusion following the departure of the French, Mohammed Ali became the ruler of Egypt (1805-49). However, he failed to transfer the Egyptian economic system from subsistence to a complex economy.

Pre-1914, British officials dominated economic decision making in Egypt. Egypt became an independent monarchy on 28 Feb. 1922. Following a revolution on 23 July 1952.

In 1952, the economic role of the state was virtually confined to investment in infrastructure and social services. The main productive sectors - agriculture and industry, internal and foreign trade, banking, insurance, urban transport and even a number of utilities, such as electricity and water - were in private hands. It is estimated that the public sector accounted for 13 percent of the gross domestic product while the private sector provided the remaining 87 percent (1).

During the first four years after the revolution, the government gave more attention to the private sector. Official policies were also intended to reassure private enterprise (e.g. lower taxes and higher protection by lowering customs duties on raw materials and capital
goods and raising tariffs). At the same time, some partial planning was introduced in 1953 through the creation of the Permanent Council for the Development of National Production, which consisted of representatives of both the government and the private sector.

The transition from a free private enterprise system to a planned economy with a dominant public sector took place between 1954 and the early 1960s.

The public sector expanded in 1957 through the nationalization of British and French economic interests, and planning became more comprehensive. In 1957 the Egyptian government launched two sectoral five-year plans, one for agriculture and one for industry, and in 1960 it adopted the Five-Year General Plan for Economic and Social Development (1960-61 to 1964-65) \(^2\).

Thus, in the decade after the Egyptian revolution, (1952-1961) the government moved through successive stages, from encouragement of the private sector, to gradually increased restrictions and controls.

After the war between Egypt and Israel in October 1973, the public sector played a crucial role, but experience had revealed some shortcomings. The public sector suffered from excessive bureaucracy and failed to carry out major projects, increasing production, and implementing Egypt's policy of full employment and stabilized prices. Moreover, the country continued to be a recipient of substantial amounts of foreign aid.

In the context of the changed economic and political
situation after the October war, the principles of a new economic strategy were set out in President Sadat's "October Working Paper". The most significant element in the statement was Sadat's announcement of a new economic policy- "El-Infitah " or Open Door Policy. The objectives of this policy were to stimulate a large inflow of foreign capital to help the economy to recover, to convert the country's short-term debt to longer terms and finance the trade gap. The private sector role in the domestic economy has improved somewhat since the introduction of the Open Door Policy.

2.2 The main Features of the Economy of Egypt Before 1952:

Under the rule of Mohammed Ali, (1805-1849), Egypt began to emerge from long centuries of decadence and oppression. In Crouchley's words, "Egypt in the Eighteen the century was a mere ruin of its former self"(3). It was in a state of arrested development. The stagnation in the Turkish period may have been due, at least in part, to changes in the routes and patterns of international commerce which may have deprived the economy of the benefits of transit trade in spices. Whatever the reasons, it is certainly true that Egypt in the eighteenth century was backward and impoverished and the anarchic and obscurantist Mamelukes regime achieved little economic development.

Between 1816 and the late 1830s, Mohammed Ali
attempted to establish a "modern Egypt", and although not entirely successful, within two decades, he made considerable changes, which played a large part in setting the course of the economy for years to come. It is important at this point to throw light on three types of economy: subsistence, export-oriented and complex.

The characteristics of a subsistence economy are that the proportion of output marketed is small, monetary transactions are few and foreign trade plays a very minor role. In an export-oriented economy, one sector - usually some form of mining or the production of a specialised crop - is developed far more intensively than the rest of the economy. A complex economy is characterised by the development of other sectors, notably manufacturing.

At the time of Mohammed Ali's accession, Egypt's economy was of the subsistence type. However, Ali introduced a programme of sweeping reforms, aiming to leap from a subsistence to a complex economy.

In the subsistence economy, there was a revolution in the system of land tenure; tax-farming was abolished and peasants paid their taxes directly to the government; large estates, often of uncultivated land, were granted to relatives or followers of Mohammed Ali. Another significant development was the undertaking of irrigation works, which increased the land under cultivation and, what is more important, made it possible to replace basin
irrigation by perennial irrigation and thus produce valuable crops that required summer water.

The planting of long-staple cotton was started on a commercial scale in 1921, and it found ready markets in Europe.

Communications were developed, mainly in order to facilitate foreign trade; especially notable were the improvement of the port of Alexandria and its linking by canal to the Nile.

Trade was conducted under a system of monopoly, which enabled the country to purchase major items of domestic production at low prices and to sell them to local merchants and consumers and to foreign export firms at great profits.

A similar monopoly was used in an attempt to build up a modern industry. Machinery was imported from Europe, together with technicians, and by 1930 factories were turning out cotton, woollen, silk and linen textiles, sugar, paper, glass, leather, sulphuric acid and other chemicals (5).

Mohammed Ali's attempted programme of forced industrialisation failed to achieve the leap from a subsistence to a complex economy. Instead, Egypt found itself on the road leading to an export-oriented economy, as the great development of the production and export of cotton converted the economy into a highly-specialised
Mohammed Ali's economic ambitions for Egypt were not realised, because resources were diverted to the military establishment, and industry suffered from labour shortages and financial constraints, even though it benefited in other ways from interdependencies with the army. Industry was competing with other schemes - agriculture, public works, education, - all equally important components of the modernization objective.

By the 1890s, about half a century after the end of Mohammed Ali's experiment, a small and narrowly-based industrial sector, began to emerge, but it was financed and owned almost exclusively by foreign companies and foreign residents. However in the second half of the nineteenth century, a huge foreign debt was contracted by the State to finance the vast irrigation and public works schemes necessary for cotton expansion and partly to pay for the extravagance of the Khedives Ismail (1863-79). Between 1884 and 1914, a balance of trade surplus was constantly wiped out by the payment of interest abroad (7). Also, Egypt's national income was taken away and little was left for domestic investment (8).

The experience of World War I persuaded Egyptians that the pre-1914 economic system was no longer satisfactory. British officials had dominated decision-making during that time, and such economic plans as they elaborated, were based on the notion that the world was
divided into economic regions, each trading in the products in which it had natural advantages. This view tended to serve the interests of Great Britain and Western Europe, which were seen as industrial centres, while countries like Egypt contributed vital agricultural products and raw materials. During World War I, however, Egyptians learned how vulnerable their economy was, and became increasingly desirous to achieve self-sufficiency. Because Egypt was unwilling to engage in state borrowing and reluctant to practise large-scale economic intervention, the political leaders looked to an emerging Egyptian bourgeoisie to stimulate the desired economic transformation (9).

The Egyptian Revolution of 1919 constituted an important turning point. New economic organisations and ideas accompanied and indeed grew out of the Revolution.

In 1920, wealthy landowners did what some Egyptians had been anticipating for four decades. They created a national bank - Bank Misr - the goal of which was to enable Egyptians to have more influence on their own economy and to diversify economic activities (10). Bank Misr group began as the nucleus of a national bourgeoisie, that is, an Egyptian and independent bourgeoisie, whose ideology was embodied in the doctrine of economic independence (11).

Egypt continued to subsist as an export-oriented economy until the 1930s; during most of that period,
exports grew fairly rapidly, but lack of investment prevented the achievement of parallel growth in other sectors. The passage from an export-oriented to a complex economy was greatly delayed, resulting in the accumulation of severe difficulties" (12).

"In 1951 Egypt was an overwhelmingly agrarian country, in which industry accounted for under 10 percent of GNP. It had a predominantly free-enterprise economy, with direct state activity restricted to such fields as irrigation and railways" (13).

2.3 The Influence on Accounting Before 1952:

2.3.1 Accounting Legislation Before 1952:

A - The first major development was the Decree of Commerce which was enacted in 1883. This obliged merchants to keep the following books:

- Journals: to record their daily transactions.
- Book of goods: to record the goods under their command at the end of every financial period.
- Record of correspondence: to keep copies of their correspondence to and from debtors and creditors" (14)

B - There were few legislative developments in the period from 1883 until 1939 when the Income Taxation Act was passed. This act did not have any direct effect on the accounting system, since it incorporated no specific provisions concerning accounting regulations. However, it
had an indirect impact in the sense that it obliged taxpayers to submit a tax report, which had to be ratified by a chartered accountant and supported by copies of the final accounts and balance sheet. It stipulated that these should be extracted from properly kept books—though exactly how the tax-payer was keep his books "properly" was not specified and it was left to accounting conventions and the accountant's individual judgement as to whether a firm kept books properly or otherwise (15).

C - In 1946, the first professional body of accountants in Egypt, the Egyptian Society of Chartered Accountants and Auditors, was created by special decree. The Society's stated objectives were to promote the interests of accounting and to control and regulate the profession in Egypt (16).

D - Law No.133 of 1951 on practice of accounting and auditing required students of commerce to be entered in the Register of Juniors. Those who graduated as Bachelors of Commerce specialising in accounting (or obtained an equivalent qualification) had to spend three years training in the office of a practising firm, at the end of which they were to receive a certificate of completion of that training, containing details of its make up. They could then be entered on the Register of Accountants and Auditors. They were allocated a number and thereafter entitled to practise under their own names. The same law
also stated that an accountant could not audit the balance sheet of a joint stock company within five years of joining the Register of Accountants and Auditors; this was to ensure he had adequate experience in the field (17).

2.3.2 Foreign Influence on Accounting Before 1952:

The first real influence of a developed country's culture on Egyptian culture occurred with the French invasion in 1798. Since then, Egypt has been exposed to, and learned from, the technological and cultural achievements of various developed countries.

Between 1881-1956 Egypt was a British colony. During this period, the organisation of the accounting profession and financial reporting practices in Egypt closely followed those of the U.K (18). Also, during this period, most foreign companies in Egypt recorded their transactions in English. Financial control of the Egyptian private sector was based upon accounting concepts laid down by the U.K.

British influence also operated via accounting education and training. Sending Egyptian students abroad has been customary, ever since Mohammed Ali set out to find qualified educators and suitable instructional materials for the building of modern Egypt. Since then, thousands of Egyptians have been sent abroad for education and training courses.
2.4 The Egyptian Private Sector After the Revolution:

2.4.1 The Period 1952-61:

During the early years of the Revolution, the government's references to relations between state and private enterprise seem to have been calculated to assuage any doubts businessmen might have entertained about the intentions of the new regime. It was the aim of the state to create a favourable atmosphere for the investment of national and foreign capital. Although it is difficult to gauge the reactions of the business community to the change of government, because their journals rarely commented upon economic policy, there was repeated stress on the need for stability, quietude and security.

The new regime established a definite plan of compromise between private and state efforts in order to achieve the desired economic and social objectives. While economic development did not receive the highest priority or urgency during the early years of the Revolution, nevertheless the whole emphasis of economic policy became directed towards helping industry to expand, and more specifically, to giving private investors every possible incentive to place their savings with manufacturing firms. Investors included foreigners as well as nationals, in order to attract more private capital from overseas. The Revolutionary government partially reversed the Egyptianization policy of the old regime by allowing foreign shareholders to possess a
majority interest and control in any domestic company. Under Law 138 of 1947, at least 51 per cent of the shares of a joint-stock company had to be set aside for Egyptians, while the new Law of July 1952 proclaimed that only 49 per cent had to be so reserved, and further stipulated that if the required proportion was not taken up by native citizens within a month, then the share issue would become open to public subscription regardless of nationality (19&20).

Private foreign capital was not, however, easily enticed into Egypt during the politically uncertain years following the Revolution. Changes in the Law relating to foreign capital had emerged from co-operation, and the new regime acceded to the Federation of Industry's reiterated demand for lower taxes and higher protection. Thus, tariffs were raised and customs duties on raw materials and capital goods lowered. The government granted new joint-stock companies a seven-year exemption from profits tax, and released profits accruing from new share issues by existing companies from the same tax for five years, while all undistributed dividends were exempted from 50 per cent of the profit tax.

Furthermore, companies found it easier to obtain finance needed for development, because when the government raised its guarantee of the loans made by the Industrial Bank to L.E. 5 million, the Bank became more venturesome in lending (21). It participated directly in founding new firms, covered subscriptions for extensions
of plant and guaranteed loans made to businessmen by commercial banks.

Finally, the Federation of Industry found itself strengthened by a government decree compelling all firms above a certain size to affiliate to industrial chambers which were the constituent parts of the Federation. The rest of manufacturing the state explicitly reserved for private endeavour, aided and encouraged by tax incentives and cheaper public credit, transport, and power supplies.

Thus, during the early years of the Revolution the state participated in the foundation and finance of several pioneer industrial ventures of a heavy or basic type; half the capital for an iron and steel plant at Helwan came from the government, the remainder from private firms including the Demange Steel Company of Germany. Egyptian State Railways contributed 20 per cent of the money required to establish a company to make railway equipment. The National Production Council also designed projects and encouraged the formation of two private companies to make electrical cables and rubber tyres. For other firms, the state guaranteed profits over an interim period or paid interest on their loans (22). In addition, every conceivable incentive, from higher protection and tax concessions to reform of company law, was afforded for higher levels of investment in industry.

On the other hand, the government took little direct action to raise the efficiency of industrialists. The government supported imaginative and ambitious plans
for extensions to the areas of cultivation and the cropped area but up to 1956 the High Dam and the New Valley remained paper projects, largely because of difficulties encountered by the government in negotiating to obtain foreign finance and technical co-operation.

"More radicalism and innovation is perhaps apparent in the regime's industrial policy. As their speeches so frequently emphasized, the Officers accepted whole-heartedly the case for rapid industrialization and also embraced the strategy outlined" (23).

Despite opposition from the Federation of Egyptian Industries, the government became directly involved in the finance and management of public projects, but it gave the private sector every encouragement to participate and in 1958 about thirty-one industrial firms were affiliated. Some were old-established public enterprises, such as petrol refineries. Others had been founded more recently, in combination with private capital. A third group represented former British and French assets sequestrated during the Suez War.

At the same time, all foreign banks, insurance companies and commercial agencies were compelled to convert themselves into domestically-owned joint-stock companies within five years. This policy was described by the government as a national measure designed to rid the country of foreign influence over its economic policies and give back to the citizens the right to direct their own capital or manage their own funds. The
nationalization of foreign companies gave the government sufficient powers to regulate and determine the allocation of resources throughout most of the economy.

2.4.2. The Period 1961-67:

Before the 1952 Revolution, public ownership of industrial establishments was limited to a petroleum refinery, the Government press, a few newly-established military factories, and a number of workshops belonging to various Ministries. After 1953-54 state ownership expanded by steps until 1961, when the big programmes to nationalize private firms placed a large segment of modern industry in the public sector. The relative sizes of private and public sectors in the late 1960s can be ascertained from data tabulated in CIP 1966/67 (see Table 2.1).

In 1967 the public sector generated some 90 per cent of gross value-added in manufacturing establishments employing more ten persons. However, its share of value-added in total manufacturing was smaller (64 per cent), as nearly all establishments in the 1-9 employee bracket were privately owned. The dominant position of the public sector does not seem to have changed significantly between 1967 and 1974. There was little new acquisition through expropriation as the nationalization waves subsided in 1964, and no transfer of ownership could now take place through investment. In the mid-1960s, the private sector's share in industrial investment seems to have been lower than the value-added share; it later
increased to 12-15 per cent. Given that the capital/output ratio was lower in private than in public enterprises, we may infer that the relative size of the private sector remained almost constant until 1967 and has tended to increase slightly in recent years (24).

The dominance of the public sector in industry varied across the size-structure of establishments. In 1966/67, 95 per cent of industrial establishments employing 500 persons or more were in the public sector, but this proportion declined to 65 per cent in the 100-499 employee bracket, to 49 per cent in the 50-99 bracket, and to a mere 7 per cent in establishments with 10-49 employees. The average public sector establishment was large because (a) nationalization was selective (b) public investment tended to create big plants, and (c) the employment policy led to overmanning in public companies.

Examination of the ownership structure by branches of manufacturing shows that the private sector was virtually excluded from all important activities, e.g. from the new intermediate and capital-goods industries (See Table 2.1) as well as the old consumer-goods industries. As a rule, private sector shares tended to be larger in branches of manufacturing where small workshops and small factories predominated, for example in the production of leather and wood articles, and, to some extent, in printing.

The private sector in Egyptian industry after 1963
or 1964 displayed all the characteristics of a residual sector left in control of small establishments and of five minor industries - leather, furniture, wood, clothing, and printing - some of which accounted for less than one per cent of value-added in total manufacturing (25).

Finally, the private sector developed links, mainly since 1967, with public enterprise. Some inter-industrial integration took place through subcontracting. The effects of these relationships were complex but the small capitalist sector endowed with monopoly power was able to make very large profits from cooperation with the public sector.
Table (2.1)
Public Sector Share of Gross Value-Added in Manufacturing, 1966/67. (Percentages)

<table>
<thead>
<tr>
<th>Industry</th>
<th>P.S. Share</th>
<th>Industry</th>
<th>P.S. Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petroleum</td>
<td>100</td>
<td>Petroleum</td>
<td>100</td>
</tr>
<tr>
<td>Electrical Machinery</td>
<td>97</td>
<td>Tobacco</td>
<td>94</td>
</tr>
<tr>
<td>Basic Metals</td>
<td>96</td>
<td>Basic Metals</td>
<td>94</td>
</tr>
<tr>
<td>Tobacco</td>
<td>96</td>
<td>Chemicals</td>
<td>94</td>
</tr>
<tr>
<td>Textiles</td>
<td>95</td>
<td>Rubber</td>
<td>93</td>
</tr>
<tr>
<td>Paper</td>
<td>95</td>
<td>Textile</td>
<td>92</td>
</tr>
<tr>
<td>Rubber</td>
<td>95</td>
<td>Paper</td>
<td>91</td>
</tr>
<tr>
<td>Chemical</td>
<td>95</td>
<td>Electrical M.</td>
<td>90</td>
</tr>
<tr>
<td>Beverages</td>
<td>91</td>
<td>Beverages</td>
<td>88</td>
</tr>
<tr>
<td>Transport Equipment</td>
<td>88</td>
<td>Non-Electrical M.</td>
<td>75</td>
</tr>
<tr>
<td>Non-Electrical M.</td>
<td>86</td>
<td>Non-Metal Products</td>
<td>65</td>
</tr>
<tr>
<td>Food</td>
<td>81</td>
<td>Food</td>
<td>60</td>
</tr>
<tr>
<td>Metal Products</td>
<td>79</td>
<td>Transport Equipment</td>
<td>59</td>
</tr>
<tr>
<td>Non-Metal Products</td>
<td>79</td>
<td>Metal Products</td>
<td>51</td>
</tr>
<tr>
<td>Furniture</td>
<td>72</td>
<td>Leather</td>
<td>20</td>
</tr>
<tr>
<td>Wood</td>
<td>68</td>
<td>Furniture</td>
<td>20</td>
</tr>
<tr>
<td>Wearing Apparel</td>
<td>66</td>
<td>Wood</td>
<td>20</td>
</tr>
<tr>
<td>Leather</td>
<td>47</td>
<td>Wearing Apparel</td>
<td>14</td>
</tr>
<tr>
<td>Printing</td>
<td>16</td>
<td>Printing</td>
<td>14</td>
</tr>
</tbody>
</table>

Note: M = Machinery.
Source: Computed from CIP, Cairo, Parts I and II.

2.4.3 The Open Door Policy:

In 1971 the government declared a new intention of attracting Arab and foreign investment to further Egypt's economic development and help the balance of payments. Hence, the First Foreign Investment Law promulgated in September 1971, which provided tax incentives, promised that foreign assets would not be nationalized, and created free zones. A new banking regulation (Law 2422 of
1971) allowed banks to compete for private sector deposits. A parallel foreign exchange market was legally recognized and institutionalized in 1973 (Decree 422). Foreign investors did not respond to overtures until after the October 1973 war, when the government took further steps to liberalize the economic system. The Foreign Investment Law was amended in 1974 for the creation of greater incentives.

Of importance was the increase in private investment, especially in the commodity sectors, indicating that these sectors had responded to the government's open-door policy.

The open door economic policy that was adopted by the Egyptian government after the October War, can be viewed as one of the most ambitious attempts designed to ameliorate the economic system of the country and restore the balance between its components. In fact, every effort was devoted to overcoming the consequences of economic stagnation that plagued Egypt due to the October war, that had lasted for about a quarter of a century. The peak of Egypt's economic crisis was reached in the early seventies, necessitating a new economic policy to check further deterioration in the general standard of living, and to establish a foundation upon which rapid social and economic development could be based.

This policy aimed to encourage and persuade foreign Arab and Egyptian capital to finance and establish different economic projects needed by the country in
accordance with certain designated plans. It was expected to bring into the country the most up-to-date technical skill and experience.

In order to attract Arab and foreign investment to Egypt, the government created a more attractive environment for foreign investment—1971 represented a significant turning point. Law No. 65 on the Investment of Arab Capital and Free Zones was passed. This Law included guarantees against sequestration, nationalization, or transfer to public use without fair compensation.

However, Law No. 43 of 1974, amended by Law 32, of 1977, was by far the most important step taken in the direction of restructuring the country's international economic relations. It contained seven main principles, outlined by Abdel-Khalek (26):

1- Ensuring mutual benefit for both the national economy and Arab and foreign investors.

2- Encouraging the investment of local capital, both public and private, in partnership with Arab and foreign capital.

3- Creating favourable conditions for the inflow of Arab capital.

4- Creating conditions conducive to the establishment of a financial and monetary centre in Egypt.

5- Providing enough guarantees against non-commercial risks as well as suitable incentives to encourage investment.

6- By-passing administrative and procedural
obstacles against the expansion of investment.

7- Giving priority to projects that help to increase the country's foreign exchange revenues and make available advanced technology for development."

During 1986/87, a total of 94 projects with a total capital of L.E. 526.7 million and an aggregate investment cost of L.E. 1093.1 million were approved by the Public Authority for Investment and Free Zones.

Accordingly, the total number of projects from the creation of the Authority up to June 30, 1987 reached 1930 with a total capital of L.E. 7.3 billion and total investment costs of some L.E. 14.3 billion. A Look at the distribution, by sector, of internally based projects, reveals that a total of 579 projects (43.7%) with a total capital of L.E. 25 billion were industrial projects. Financing projects ranked second (18.7%) with a total of 256 projects and an aggregate capital of some L.E. 1.7 billion. Services projects (225) came third (15.5% of the total), followed by 194 construction projects (14.2%). Finally, projects relating to agriculture and animal wealth numbered 108 (7.9%) (27).

As regards country participation in investment projects, the Egyptian side contributed some 70% of the total capital of projects approved for operation inside the country. Arab sources contributed 13.5%, followed by E.E.C. countries (6.3%) the U.S.A. (5.1%) and Other countries (4.6%) (28).
2.4.4. The Period 1977-82:

The planning bodies gave estimates of total investment over the period 1977 to 1982, split not only by economic sector but also as between public and private.

The rise of the private sector had been one of the features of economic development since 1973. In 1973-74 the public sector was responsible for 94.1 per cent of all fixed investment. In 1975, private sector investment jumped to almost 15 per cent of the total; in the next year it was up to 18 percent - a share which was then maintained over the succeeding Five-Year period. Private sector investment remained, however, unevenly distributed as between sectors. In petroleum, electricity and public utilities there was none; in the other commodity sectors the private sector share was 20-30 per cent; only in housing did it exceed the public sector contribution. Overall, the public sector's dominance was such that its pattern of investment largely determined the national pattern, which was roughly evenly split between the commodity and tertiary sectors (See Table 2.2).
### Table (2.2)
Total Fixed Investment 1977-1981/82
(LE mm. at Current Prices).

<table>
<thead>
<tr>
<th></th>
<th>Public Sector</th>
<th>Private Sector</th>
<th>Total</th>
<th>Sectoral Share</th>
<th>Private Sector Share %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PRIMARY:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture, 1,117</td>
<td>487</td>
<td></td>
<td>1,658</td>
<td>9.2</td>
<td>29.4</td>
</tr>
<tr>
<td>Irrigation &amp; Drainage</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>SECONDARY:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing &amp; Mining</td>
<td>3,902</td>
<td>967</td>
<td>4,869</td>
<td>27.0</td>
<td>19.9</td>
</tr>
<tr>
<td>Petroleum &amp; Products</td>
<td>1,476</td>
<td>-</td>
<td>1,476</td>
<td>2.6</td>
<td>-</td>
</tr>
<tr>
<td>Electricity</td>
<td>1,292</td>
<td>-</td>
<td>1,292</td>
<td>7.2</td>
<td>-</td>
</tr>
<tr>
<td>Construction</td>
<td>1,449</td>
<td>143</td>
<td>591</td>
<td>3.3</td>
<td>24.2</td>
</tr>
<tr>
<td><strong>Sub-Total</strong></td>
<td>6,119</td>
<td>1,110</td>
<td>7,228</td>
<td>40.1</td>
<td>44.1</td>
</tr>
<tr>
<td>Total Commodity</td>
<td>7,236</td>
<td>1,597</td>
<td>8,886</td>
<td>49.3</td>
<td>73.5</td>
</tr>
<tr>
<td><strong>TERTIARY – DISTRIBUTION:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade &amp; Finance</td>
<td>460</td>
<td>76</td>
<td>536</td>
<td>3.0</td>
<td>14.2</td>
</tr>
<tr>
<td><strong>TERTIARY SERVICES:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing Public Utilities</td>
<td>472</td>
<td>1,377</td>
<td>1,847</td>
<td>10.3</td>
<td>74.6</td>
</tr>
<tr>
<td>Housing Public Utilities</td>
<td>1,139</td>
<td>-</td>
<td>1,137</td>
<td>6.3</td>
<td>-</td>
</tr>
<tr>
<td>Other Services</td>
<td>1,230</td>
<td>259</td>
<td>1,489</td>
<td>8.2</td>
<td>17.4</td>
</tr>
</tbody>
</table>

(To be continued)
2.4.5. The Period 1982-87:

The volume of original investment in the Five-Year Plan amounted to L.E. 4.1bn., of which the public sector accounted for L.E. 25.8bn. or 75.6%, whilst the share of the private sector amounted to L.E. 8.3bn. or 24.4% of original investments. Of the original investment allocated to the public sector, 21.4% was directed to replacement and renewal projects and rehabilitation, whereas L.E. 20bn. was appropriated for the implementation of new projects and the completion of existing ones. In other words, about 77.5% of the quantitative volume of original investment within the public sector was allocated to projects which contributed to existing capacities. The private sector investments - estimated at 24.4% of the original plan's investments were considered in the light of that sector's development during the previous phase of the plan, beside the plan's

---

<table>
<thead>
<tr>
<th>Public Sector</th>
<th>2,841</th>
<th>Private Sector</th>
<th>1,636</th>
<th>Total Sectoral Share</th>
<th>4,473</th>
<th>Sectoral Private Share %</th>
<th>24.8</th>
<th>92.0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Tertiary</td>
<td>7,555</td>
<td>1,862</td>
<td>9,417</td>
<td></td>
<td>52.2</td>
<td>19.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grand Total</td>
<td>14,791</td>
<td>3,459</td>
<td>18,303</td>
<td></td>
<td>101.5</td>
<td>93.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less Land</td>
<td>115</td>
<td>151</td>
<td>266</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Fixed Investment</td>
<td>14,676</td>
<td>3,308</td>
<td>18,037</td>
<td>101.5</td>
<td>93.3</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Ministry of Planning, Egypt, Cairo, 1982/83.
potentialities and available financing, its anticipated success in tapping Arab and Foreign capital and finally, projected developments in domestic liquidity and foreign exchange (29).

2.5 The Private Sector in Egypt and the Accounting System:

The private sector in Egypt consists of sole traders, and limited liability and joint-stock companies. Government regulations have been dominant in shaping private sector accounting practices.

However, the accounting practices of sole traders, are not regulated and most of them use the single-entry method of book-keeping. On the other hand, Joint-Stock Companies use double entry with more detailed accounting requirements set out in government regulations. For these companies, tax authorities do not have specific tax regulations with regard to accounting. All that is done is to check on various figures in their final statements to ensure the reasonable accuracy of the reported profit or loss figures. However, it appears that this practice is not established by specific accounting requirements. Rather, it is based on experience, common sense, and certain routine checks. The researcher believes this weakness in the relationship between taxation and accounting in the private sector may perhaps be attributable to the tiny contribution of tax revenue to overall governmental revenues in Egypt. However, now the situation is changing because the private sector is
growing very rapidly, especially after the increase in interest and subsidies from the previous and present governments. Thus, the need for accounting data about the operations of private sector firms has increased, which means that they now need an accounting system able to provide more adequate accounting data than the present system.

In addition, government departments are beginning to demand more elaborate data on the operations of private sector firms. The Planning Ministry, for example, needs accounting data from the private system in order to ensure well-coordinated and balanced national plans, while the Central Agency for Public Mobilisation and Statistics (CAPMS) needs unified data to construct national accounts. The present accounting system in the private sector, comprising government regulations plus the suggestions of private sector accounting firms, is inadequate for the requirements of national planning and controlling agencies.

The growing size of these companies also increases their own need for improved accounting methods which can provide them with the type of accounting data they need to run efficient operations. In addition, they suffer from the diversity of legal directives issued through government legislation or by various governmental agencies and by staff and the companies's auditors.

The uniform accounting system may help in providing just one set of accounting procedures. The aim of a
uniform accounting system for the private sector is that the underlying practices and classifications of accounts are unified in the form of a chart of accounts. A complete plan or system, including uniform terminology and standardised methods and practices for identifying, measuring, and processing eco-financial data should be provided (30). Indeed, a uniform accounting system could remedy many of the current deficiencies in private sector accounting, and solve many shortcomings in preparing the national accounts and national planning in order to serve both macro and micro-economic purposes and to enhance the role played by these units in economic development (more details in Chapter Seven).

2.6 National Development Planning:

2.6.1. Transition to Comprehensive Planning:

In March 1955, a National Planning Committee (NPC) was formed and entrusted with the task of drafting a national comprehensive plan for social and economic development. The significance of this act was not so much in the establishment of the committee, but in the explicit mention, for the first time it seems, of a comprehensive plan.

In January 1957, the Egyptian Government was determined to reform the economy. The Council for National Production was ordered to draft a detailed and comprehensive Five-Year Plan initially scheduled for the calendar year 1960-64, later changed to fiscal years (1960/61 - 1964/65) as the first stage of a ten-year
programme. The NPC was thus given ample time to prepare
the planning document. This was surprising, given that
the revolutionary Government in 1952 demanded a
preliminary design for the High Dam within three months
and a development budget from the Permanent Council for
the Development of National Production (PCDNP) in the
first year of its existence. Partial planning was to
continue during the three-year interval between the
abolition of the PCDNP and the first comprehensive plan
in 1960/61 which consisted of two programmes, for
industry and for agriculture.

Paradoxically, the transition from the multisectoral
development budget of the PCDNP to the comprehensive plan
of the NPC was effected through uncoordinated investment
programmes prepared by agencies concerned more with their
sectional interest than with the broader requirements of
the economy. The forceful and ambitious Aziz Sedki, then
Minister of Industry, may have been largely responsible
for these developments as he was in search of a role both
for himself and for his newly founded department.
Although he may be credited with an industrialization
spurt, much harm was done.

First, the Ministry of Industry appears to have been
more interested in the number of projects it initiated
than in their quality. The First Industrial Plan was a
confused and hasty document responsible for a number of
disastrous ventures\(^{31}\). Second, sectoral programmes
tended to be inherently defective for the lack of a
macro-economic framework to ensure that the main interdependencies between the projects and the rest of the economy were taken into account. Third, the distribution of planning functions to the Ministries during this period had implications for the First Five-Year Plan as the NPC became restricted in their choice of projects to those listed and prioritised by the Ministries. With the First Five-Year Plan, comprehensive planning died in Egypt. One sad feature of these developments was that Egypt lost many of its ablest economists and planners in the 1960s. Many, either disheartened or enticed by the prospects of high earnings, took up appointments with international organisations or in rich Arab oil-producing countries. The learning process was discontinued and the country was not able to benefit very much from the experience gained by the first group of planners. The Second Five-Year Plan never materialized, though it is known that a draft was prepared. A provisional Three-Year Plan is supposed to have been in existence for 1965/66-1967/68, but the Arab-Israeli war in 1967 must have inhibited for a while any new attempt. In 1972 a ten-year plan was announced but it would be unwise to try at this stage to analyse the meagre information available on its contents.

2.6.2. The General Framework of the Five-Year Economic and Social Development Plan:

Comprehensive economic planning was espoused in Egypt during the Nasser years, and the first full-scale
plan (1960-65) was fairly successful in terms of both target attainment and economic growth.

The very success of this first plan encouraged the planners to subscribe to an over-ambitious Second Five-Year Plan to double real income by 1972 (an annual growth rate of over 10 percent). It had already been realised that this target was unattainable when the 1967 war precipitated the de facto suspension of medium-term targets and planning. Notwithstanding President Sadat’s declaration early in his presidency of a ten-year programme to double national income, detailed planning remained effectively in suspension until after the 1973 war.

However, before shedding some light on the second Five-Year Plan, it is necessary to consider the conditions and factors which have been associated with Egypt’s economic and social development planning since the beginning of the seventies. Since these realities have a strong impact on the path of the Egyptian economy. They were mainly represented in the acute scarcity of productive resources, which failed to match increasing demand during the period 1969/70-1973. The growth rate of commodity sectors’ output outpaced very slightly the population growth rate, while the agricultural growth rate was even lower than that of the population. Finally, consumption actually absorbed the whole value of the GDP, leaving no surplus for saving or investment.

During the period 1973-1981/82 the Egyptian economy
witnessed a relative change in prevailing conditions, as commodity output (agriculture and industry) increased, though at lower growth rates when compared to the service sectors. The outcome was a disequilibrium between the demand for commodity output and the supply thereof, leading to the fuelling of inflationary pressures.

This period also witnessed the emergence of incomes which were not generated by the domestic output, thus creating dimensions and patterns of consumption to which domestic productive forces were not adapted.

2.6.3. **Five Year Plan (1982/83 - 86-87):**

The general strategy of the plan was to stimulate development rates and to ensure the stability of these rates in the long run so as to meet the growth in population and raise the standard of living at a rate at least double the population growth rate, whilst realizing an appropriate and increasing rate of domestic saving to secure the continued process of development. The main reliance was on the commodity sector as being more capable of providing labour opportunities. This was complemented by the support given to the infrastructure as well as to the energy and construction sectors. The plan also aimed at adjusting the chronic deficit in the balance of payments by the pursuit of a coordinated package of export and protectionist procedures and policies, as well as the rationalization of imports and consumption, the efficient utilization of foreign loans, and the endeavour to promote saving.
Note: (1) In 1980 the National Investment Bank took over the Finance Ministry's investment budget functions.

2.7 The Planning Machinery:

In the same period (1982-87) many ministries, authorities, agencies and departments were involved in the planning process, as encapsulated by Figure 2.1. The Ministry of Planning was formally in charge of coordinating plans and investment throughout the economy. The plans consisted of lists of investment projects. The Ministry of Industry, through its Central Organisation for Industrialisation, controlled, under the 1978-82 plan, 32% of public sector investment. The Housing and Reconstruction Ministry was responsible for 14.6% (mainly the cement industry), military production for 6.2%, and supply for 2.4%. The latter controlled what were then referred to as strategic goods such as bread and cheap cloth. The rest was controlled by a range of other ministries and bodies. The Ministry of Planning obtained lists of project proposals and adjusted them by persuasion, negotiation and exclusion to fit an investment budget determined from a macro-economic model (32). The plan then went to the Cabinet and the President for approval. Individual projects were not subjected to a full social and economic evaluation; they simply passed through the bureaucratic channels (33).

Investment was not therefore determined by an overall plan; it was simply amalgamated into Five-Year programmes. If a particular project did not get into the Five-Year Plan then it might get into the annual plan and budget (see Figure 2.1).
2.8 Economic Planning and Management:

Under socialism, centralism in managing the economy takes the specific form of democratic centralism, due to the character of socialist society, where there are no monopolies operating independently at their own risk and where social ownership of the means of production is prevalent (35).

A single goal, a single directive and single collective owner, together with centralised management and centralised planning, are required for the precise and co-ordinated work of the whole vast, highly complex economic apparatus in a country which has thousands of production units owned by the entire people. Democratic centralism in economic management is closely linked with democratic centralism in planning. The latter is expressed in the combining of centralised forms of planning with planning by enterprises whose initiative lies in better fulfilment of the plans (35). Therefore centralised or direct planning reflecting the interests of the whole economy and society rests on the economic interests of the enterprises; the targets set by central agencies are not simply directives or orders from above, but a soundly-based programme whose fulfilment ultimately benefits every enterprise.

In 1960 the first Five-Year Plan for 1960-65 was drawn up for all Egyptian private and public sectors. Were these sectors merely to do as they were told by the centre? This first plan established the basis of
industrial practice today. On the basis of customers' orders, enterprises decided what range of goods to produce in terms of physical quantities and total value of sales, the amount of profit and the level of profitability, the size of the labour force, the average wage and total wages bill, production costs, the funds for providing material incentives and for expanding production and other economic strategies.

Under a regular planning procedure, the higher agency only endorses and hands down to enterprises assignments for the total volume of sales, the ratio of the wage bill to this volume, the size of profit including transfers to the budget, and the profitability indicator. The share of profits remaining for the enterprise to use as material incentives for the workers and for expanding production is fixed according to set norms established for five years. Planning and economic management bodies guide the work of enterprises in a particular sector and define the trend of their development, but in doing so do not fetter their economic initiative or intervene in petty matters, but give them a great deal of freedom to choose their own ways of organising work and raising profitability. At the same time, in a centralised economy an enterprise cannot operate solely in accordance with its own wishes without considering the interests of the state (36). It operates under the state plan.

The economic reform in Egypt has had the aim of
focusing the work of centralised planning away from the petty regulation of production at the enterprise level, towards solving basic questions of economic growth, establishing the basic structure and balance of the economy and setting the standard norms regulating enterprise-state relations. The close ties between different levels of management in the process of planning should be emphasised. In preparing the draft plans, economic agencies act in close contact with enterprises and their associations. The ministries, associations and enterprises together, after careful and thorough consideration of their respective interests, examine the orders and contracts with suppliers and customers, study the enterprises' production capacity, and decide on questions of expansion.

2.9 Accounting Information for the Planning Process:

The role of accounting information and economic development can be seen in the following guidelines:

1- The information should be about economic activities.

2- The supply of information should be available at the right time.

3- Information should be based on market values and also on historical cost where appropriate.

4- Information should be based on uniformity or standardised principles, methods, rules, and terminology.
5- Information should be responsive to the firms' needs and the needs of the economy.

6- Information produced by a flexible accounting system will link with economic development (37).

Accounting information can be provided to different standards in developed and developing countries. It should serve planning and control purposes for both macro- and micro-economic levels in the private and public sector. It should assist investors in planning and controlling their investments in the private sector. Accounting information has also played an effective role in creating large private sector capital markets in some countries.

2.9.1 The Requirements of Accounting Information:

2.9.1.1 The Impact of Ownership:

The type of ownership (whether private or public) will affect accounting information requirements. In some developing countries, ownership by government and by small groups of families have existed side by side. Wealth and capital were centralised in a small number of families, while the ownership of natural resources was in the hands of the state. The families held a dominant or monopolistic position in the country. Cartels among the owners of industry limited the opportunity for sound managerial accounting which is required under competition. Even where there was a capitalist-economic system, protection for domestic production gave limited
scope to the market. However, the government now requires information to control the growth of the economy, and information is also required to protect owners. Information is provided by financial reports or special statistics and evaluations. These reports are organised and specified in financial legislation passed by government for the purpose of organising and controlling economic growth (38).

2.9.2 Economic Planning And Information Requirements:

To understand a planned economic system and its information requirements, we may look at the principles of scientific management in a socialist economy:

"1-Democratic centralism is the basic principle guiding management and of course, the planning of a socialist economy.

2-A system-analysis approach is needed. Since the economy is a complex system with quite diverse interconnections and links containing numerous subsystems, it is important to solve major economic questions not in isolation, but in aggregate within the one system...

3-The aim is promotion of economic growth. This entails stimulating the production efforts of the working people...

4-There should be a combination of administrative and economic methods. Economic management and planning rest on the combination of scientifically concerted economic and administrative methods...

5- Efficiency is a primary principle of management and planning... (39)"

The information should meet central management's
needs and must be flexible and have a high standard of quality, clarity and detail. So accounting information is very important for the enterprise manager in order to obtain a correct evaluation of enterprise efficiency.

With a planned economy and central decision-making, Egyptian economists and enterprises have less flexibility to adapt any system for producing information in order to aid decision-making. The whole Egyptian economy must follow the same system for accounts and statistical data which provides information for planning and control.

"The adoption of the uniform accounting system by all enterprises facilitates the provision of standard information for the responsible administration of a district or any specific area, and permits comparison of information from different enterprises. The accounting control also provides a basis for control. Control is the measurement and correction of the activities of the organisation's sub-units. To ensure the accomplishment of overall plans, control standards are set, information is gathered for evaluation performance and success indicators are established (40) "

We may now turn to the state of accounting in Egypt. The Egyptian Uniform Accounting system (EUAS) was established by law and had to be practised by the whole business sector in Egypt, so as to provide information for the purpose of the National Plan. Most Egyptian enterprises use the EUAS to provide information to outside users, but they try to derive information for the use of management as well.

After the war of October 1973 the role of the
private sector increased in the Egyptian economy and at the same time the role of government control decreased because the planning bodies neglected the gathering of information from the private sector, and statistical information was provided by the private sector to the planning authority only for special surveys. These statistical reports were limited to a very narrow field. As time has passed, the private sector and MNC's seem to have become an increasingly powerful force in Egypt, especially in recent years. The private sector and MNC's are very important because they have a strong effect in developing the economy through centralised planning. The central authority has become one of the users and has considerable scope and power to modify its accounting system to make it relevant for the authority's use. The Egyptian Government freed private and foreign companies from following and applying the uniform accounting system, in spite of the fact that the accounting information of the private sector is very important for national planning and control.

Companies are grouped according to their type of business; nevertheless companies under the same ministry or even under one industry still often use different methods of accounting. There is a strong desire to find a single system for the purpose of supplying information for national planning. It is our conviction that more ambitious objectives would also require stronger means of enforcement. So the private sector must be compelled to
prepare at least its planning budgets and financial statements according to the uniform accounting system and to use its rules and regulations with few exceptions.

In other words, "an organisation which does not meet its economic objectives will eventually fail or be taken over - hence the central importance of accounting information (41)."

2.10 Summary and Conclusion:

The private sector played a leading role in the Egyptian economy before 1956, and the public sector was restricted to public utilities such as telephones, water, electricity and railroads. However, after 1956 the Egyptian economy underwent a structural transformation to public sector ownership at the expense of the private sector. These dramatic changes started with the nationalisation of the Suez Canal Company in 1956, continued with the Egyptianization of financial institutions in 1957, and ended with the nationalisation laws of 1961. July 1961, perhaps, marked the beginning of new era, in which the public sector was greatly expanded, and the government nationalised 80 percent of the nation's investments.

As a result, state-owned corporations played the dominant role in the economy, and the public sector in Egypt was extended to cover almost all industrial activities, banking and insurance, foreign trade, wholesale trade and a significant portion of retail trade. At present there are 375 large-scale state-owned corporations which have acquired 27000 million pounds of investment capital (42).

Comprehensive economic planning was introduced and pushed
through vigorously at the highest levels. In January 1957 a National Planning Committee was set up to prepare a long-term plan for social and economic development. The planned development effort began in 1960 and Five Year plans for the Years 1960/61-1964/65, 1975/76-1980, and 1981/82-1986/87 were produced. However, the increasing complexity of the economy and the adoption of the open-door policy prompted the government to elaborate a more comprehensive strategy to be incorporated into a five year plan covering 1987/88–1991/1992.

National planning has influenced the development of the accounting system in Egypt, for the whole economy is centrally planned. National planning requires an information machinery which supplies relevant data in an aggregatable and comparable pattern so that the process of resource allocation can be made more efficient. This can only be achieved if data are based on a uniform accounting system including uniformity at the planning phase, i.e. standard formats of plans sent to the planning agencies at the top level, and uniform accounting returns provided during the application period for checking on the smooth application of the plans.

References:


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21- Industrial Bank, "Development of Industrial Credit", Cairo, pp.21-27.


25- Ibid p.28.


28- Ibid., p. 15.


30- Enthoven, Adolf J.H., "The Internationalization and Harmonization of Accounting Standards, Practices and Education in Developing Countries", Paper presented in Second Cairo International Conference On Accounting and
Auditing, Cairo, 13-15 December 1986.

31- Industrial Ministry, "Industry After the Revolution", Cairo, 1957, pp.96-98. (In Arabic)


34- Branginsky B.I., "Planning and Management in Soviet Economy, Progress", Publishers, Moscow, 1974, pp.122. (In English)

35- Ibid, pp.122-123.

36- Ibid, p.126.


39- Braginsky B.I., "Planning and Management in Soviet Economy", op.cit., p.121.


Chapter Three

Public Enterprises in Egypt:

Problem of Control and Information Gathering
3.1 Introduction:

This chapter focuses on the public enterprise sector in Egypt.

The information provided to the governmental bodies on the activity of public enterprises is restricted by two important factors:

(I) deficiencies in their final accounts and balance sheets;

(II) the problems created for the public enterprises by the requirement of control and data collection bodies.

In this chapter, the problems of control and the information required from public enterprises will be discussed, in order to consider the possible effect of these problems on information flow to the governmental bodies in Egypt.

3.2 The Public Business Sector in Developed and Developing Economies:

A tendency toward government intervention in economic activities, especially after the Second War, is evident in many countries; both developed and developing. Government intervention in economic activities goes beyond merely regulating the business and maintaining economic and activities extends to direct participation in private industry (1).

Consequently, the public business sector at present
plays a substantial role in the national economy of these countries in terms of capital formation, market dominance, exports and imports, employment and industrial production (2).

In the UK, for example, the contribution of public corporations in 1980 in the Gross Domestic Product, employment, and Gross Domestic Fixed Capital Formation was 11%, 8.2% and 17% respectively. They accounted for 10% of the distribution of the national wealth of the total economy in 1975. They also contributed largely to output in certain industries (3).

In Finland, the role and size of the public sector, including public enterprises, has been greatly expanded and their contribution to value-added, employment, and share of final demand of GDP has been increased in the last few years (4). Douban (5) points out that the public enterprises in developed western countries are mainly concerned with energy, communication and transport. However, the expected role in some developing countries is quite different. In Egypt, for example, public enterprises contribute about 80% of industrial production as against 2% in Germany and France or 6% in Italy (6). This marks a clear difference between the role of public enterprise in industrialised western countries and some developing nations where public enterprise is a rapidly growing sector and a leading factor in the industrial economy. Douban adds that (8):
"...considering the importance of public enterprises in the economy of so many of the developing countries and the fact that reporting of information concerning the economy and efficiency of their operations would have a very significant development impact, their published accounts deserve to be kept more in the forefront in any discussion concerning the public business sector."

The experience of most countries suggests that there are many reasons for public ownership. These reasons may be practical considerations, because the private sector lacks entrepreneurial skills and technology or because it is unable or reluctant to engage in projects needed for national development. The need for quick economic development, mostly through industrialization, may be another reason for the establishment of public enterprises. Lastly, social and political considerations may constitute the motivating factor for government intervention or participation. In the former U.S.S.R. and other communist countries, for example, there was no private ownership of the means of production, and there is no private sector. On the other hand, in the U.S. and Canada, the role of the public sector is very limited. Between these two extremes there are many variations, such as members of the European Community (EC) and mixed economy countries, where the principal enterprises are mainly in private hands, but the government owns and controls basic and strategic industries. Adequate and effective financial reporting can provide the required
information not only for planning, but also to evaluate the results of planning and trigger actions to correct any deviations from the predetermined set of national goals.

The public enterprise sector in Egypt now includes every type of economic activity, such as industry, banking, air transport, railways, shipping, irrigation, external trade and other public utilities which are completely owned by the state. The organisational structure of the second stage of development was shaped by the public organisation and its affiliated units. Companies were grouped according to their type of business. Each group was put under the supervision of one specialised public organisation and each Minister was responsible, through the public organisations, for all the companies in his appointed sector. There were 46 such organisations, distributed unequally among 12 Ministries. By 1983, there were 26 public organisations, controlling 366 enterprises and supervised by 12 Ministries.

3.3 The Problem of Control Over the Public Sector in Egypt:

The previous section has shown the important role of the public sector in the National Planning of Egypt. This role depends on the efficiency of the public enterprises. In this connection, the serious problems facing them must be solved before they can be expected to achieve their objectives. It is proposed to confine the
analysis to one major problem which might influence the quality of information provided by the public enterprises. This is the problem of control over the public enterprises and the overlapping functions of data collection bodies.

Control over public enterprises in Egypt has been summarised as follows (9).

"i- Direct management at the level of the enterprise.

ii- Indirect administration by the specialists (public organisations) through supervision, auditing, planning and evaluation of performance; each (public) organisation being responsible for a clearly defined sector of economic activity.

iii- Supervision by Ministers, each being responsible for a group of (public) organisations.

The functions and the type of information required by each of these controlling and data collection agencies from the public enterprises are investigated below:

3.3.1 The Public Organisations:

The five years following the 1952 Revolution witnessed rapid growth of the public sector. During that period, the "Egyptianization Laws" (10) which were promulgated after the Suez crisis led to the acquisition by the state of substantial interests in several banks, insurance firms and commercial companies. This
necessitated a reconsideration of the methods of administering and supervising public enterprises.

Thus, in 1957, the government felt the need to establish a public body to control the state's interests in these various projects. In other words, the purpose of the creation of a new organisation was to entrust to a single body the task of laying down the policy for public investment in the various fields of economic activity, in order to ensure uniformity of purpose.

This inclination materialized in the creation of the Economic Development Organisation (EDO) which is essentially a holding enterprise owning interests in a very wide range of economic activities. The capital of the EDO consisted of government participation in various joint-stock companies, as well as public establishments designated by a Presidential Decision. In addition, it had the right to issue bonds in Egypt and abroad and to obtain loans from local and foreign governments and financial institutions. The organisation was charged with the supervision and control of other public institutions designated by a Presidential Decision without the transfer of their capital. In addition, it could set up new companies as well as own shares and debentures of existing ones.

The main tools of control were built into the following regulations of the Organisation (11).
(1) The Organisation was represented on the board of directors of the various companies in proportion to its participation in their capital. In any case, the Organisation had to be represented by at least one director whenever its participation was not less than 5 per cent of capital.

(2) If the Organisation owned at least 25 per cent of the capital of a company, the president of the board, the managing director or the director general of that institution was to be appointed by a Presidential Decision from three persons nominated by the institution after consulting the Organisation.

(3) Decisions taken by the board or the general assembly of companies or the boards of public institutions had to be reported by the representatives of the Organisation, within three days, to the president of the Organisation who could refer them for reconsideration within one week of notification.

(4) The accounts of the Organisation were to be audited by the State Audit Department at the end of each year.

In 1961 a presidential decree prevented the government, public organisations, and companies in which the government or public organisations participated to the extent of 25 per cent of the capital, from assigning general contracts and public work to companies other than
those in which the government and public organisations participated to the extent of at least 50 per cent of the capital, except by a decree from the president.

In order to ensure greater efficiency through specialization and closer supervision of each sector as a whole, it was decided to reorganise the public sector by creating specialized agencies, each one to supervise a definite sector of the economy, to replace the previous types of organisation. In December, 1961, 38 specialized public organisations were established to undertake this function. Each of these organisations was charged with the task of supervising several companies pursuing one type of economic activity. This helped to address targets in the plan to each one of these organisations.

All public enterprises are required to provide information on their activities to their public organisations. The information required by public organisations from their public enterprises is:

" (1) Information on the current operations which include current revenue and expenditure, each divided into its main components.

(2) Marketing information, which includes sales data (actual and planned), divided between local sales and exports, compared with the previous year. Similar information is also included in respect of the enterprises' purchases.

(3) Investment information, which includes information about investment projects (actual and estimated), together with a detailed
breakdown of the components of these investments.

(4) Financial and cost control information. This information covers many items which are usually included in the profit and loss account. These items are compared with the previous year"(12)

Appendix 1, Table (A.1) shows the actual forms on which this information has to be presented.

3.3.2 Ministerial Control:

The public organisations, as explained earlier, are headed by Ministers. Each Minister is responsible for the execution of that part of the National Plan relating to the public organisation under his supervision. At first, the Minister had the authority to supervise and control these public organisations to ensure the carry-out of the National Plan. However, by an Act of 1971 the Ministers' power of direction was abolished and replaced by one of approval (13). Decisions taken by public organisations must now be referred to the minister concerned for approval. Items requiring ministerial approval include: the annual budget; the balance sheets and financial accounts; investment; production; marketing; exporting; employment policies, creation of new enterprises or purchase of shares, training policies and the rules and regulations for the organisation's work. The above endorsement refers to the decisions of both the public enterprises and the public organisations.

Although the public enterprises are controlled by
their sponsoring Ministers, they are also subject to control by other Ministries without being under their direct supervision. For example, the Ministry of Planning is responsible for the preparation and monitoring of national plans. It has the right to ask for any information it needs from the public organisations and their affiliated enterprises. Hence, all business enterprises (public or private) are obliged to complete a special form sent to them by the Ministry of Planning known as "Planning Form No.40: Financial Follow-Up", see Appendix 1 Table (A.2).

The Minister of Finance is responsible for the allocation of funds to public enterprises after discussion of the National Plan in the Cabinet. He has been given the right to ask for reports and information during the year on how the enterprises are using their funds in order to determine their compliance with the assigned plan (14).

Moreover, all public enterprises are obliged to complete other forms prepared and sent to them by the Ministry of Finance. A specimen of the form used by the Ministry of Finance for public enterprises is shown in Appendix 1, Table (A.3). One of the functions of the Ministry of Finance in Egypt is to take part in the audit and use the final accounts of public enterprises for the construction of the State Budget.
3.3.3 The Central Accounting Agency:

One of the main functions of the Central Accounting Agency, (CAA), is to check the financial accounts of all public organisations and their affiliated companies. All enterprises where public ownership exceeds 25% of the capital, together with all government departments, are subject to audit by the CAA (18). Moreover, the function of the CAA in Egypt is to take part in the follow-up and to evaluate the activity of the public enterprise with the aim of ensuring that the enterprise's transactions are within the limits of the state budget estimates and, whenever necessary, to take corrective action.

Therefore, all public enterprises are obliged to provide their final accounts for inspection by the CAA's staff, at least two months before the annual general assembly (AGA). In addition to the annual accounts, each public enterprise is required to prepare forms designed by the CAA for the purpose of following-up and evaluating their activity. Appendix 1, Table (A.4) shows only part of the form, because the actual form consists of more than 40 pages.

3.3.4 The Taxation Authorities:

Private and public enterprises in Egypt are subject to commercial and industrial taxation laws. Each enterprise is obliged to provide the profit and loss account and the operations accounts to the tax authorities within three months of the end of the
enterprise's financial year. The tax inspector has the right to demand any detailed information regarding all financial aspects of the company. The accounting profit of a company is the starting-point in calculating profits for commercial and industrial taxation purposes. After the necessary adjustments have been made according to the tax laws, the prevailing rate of tax is used to calculate the tax liability of the company.

3.3.5 The Central Agency for Organisation and Management (CAOM):

The CAOM has the following authority over the public enterprises (15):

a) The control of managerial decisions of public organisations and their affiliated enterprises where those decisions concern production and productivity. The CAOM has to be informed in advance about any decisions regarding production processes or increases in productivity, other than those decisions related to the normal operations of the enterprise. Any decisions which may affect these normal operations should be discussed by CAOM with the public enterprises concerned.

b) Suggesting the most suitable organisational structure in the public enterprises, employment cadre, wage structure, and means of increasing productivity. A great number of public enterprises have, normally, accepted these suggestions.
c) Ensuring that the public enterprise regulations governing employment and wages are correctly applied within the laws and decrees in force.

d) Inspecting public organisations and enterprises, and demanding any information and statistics needed for the performance of its duties.

e) Checking the employment budgets of enterprises before their submission to the Ministry of Finance. It has been mentioned elsewhere, (16) that in reality, the CAOM performs many of the functions of the CAA, mainly in checking illegal financial and managerial decisions.

3.3.6 The Administrative Investigation Board:

The Administrative Investigation Board (AIB) was initially established in 1954 to oversee the legality of administrative actions taken by the government departments. With the expansion of the public enterprises, which has taken place since 1956, the AIB's functions were extended to include public enterprises(17). Its main functions are to reveal any illegal administrative actions, and to examine any complaint from either the company's staff or even a citizen who may consider that the management has acted illegally. The public enterprises are required to provide all the information demanded by the AIB.

3.3.7 Other Controlling and Data Collection Agencies:

In addition to the above major agencies controlling
and collecting information from public enterprises in Egypt, there are other agencies which perform other similar duties of control and the collection of information. Examples of these agencies are:

- The Companies Department, which requires, among other things, the final accounts of the enterprise.

- The Ministry of Industry; examples of the type of information required by this Ministry include goods and services produced by the entity, the main inputs to the production process, and financial and cost accounting information related to the enterprise’s activity, e.g. wages, materials used, maintenance, depreciation, profit/loss, and major components of inventories.

- The Central Agency for Public Mobilisation and Statistics. This agency demands all the information necessary to compile accounting and economic statistics for the national economy as a whole.

From the above discussion, the following conclusions can be reached:

1) The public enterprises in Egypt are subject to a comprehensive system of control performed by several controlling agencies.

2) The system of control contains defects in terms of overlapping functions and responsibility.
3) There is considerable overlap in the information required by the various data collection agencies. Almost all the data collection bodies request financial information from the public enterprise in a form designed by the agency concerned. The only information common to all these data collection bodies is the financial statements of the public enterprises.

Tables included in Appendix 1 provide evidence on the type of information required by these agencies.

3.4 Reports and Information Provided to Governmental Bodies Under the Present System of Control:

The aim of reports is to measure the performance and achievements of a company and to help the Minister or the government body to take appropriate action. The information provided to government must therefore be sound in order to enable the government agencies to assess the performance and productivity of the public undertakings in relation to their assigned targets. Also, the reports must identify potential obstacles and their causes, and determine the impediments which face the achievement of planned targets.

In Egypt the public enterprise's reports conveyed to various levels of management are becoming a necessary source of information for managing and controlling not only the public sector but also the national economy as a whole. The importance of these reports to government demands that they must, as far as possible, be
objective, trustworthy, accurate, timely, and frequently available to the sponsoring Ministries. Without objective and sound communication of factual information, the possibility of mismanaging the economy and wasting scarce economic resources is increased.

The present systems of controlling and gathering information from the public enterprises in Egypt, create many problems:

1) The executives of the enterprise could be demoralised by the excessive number of forms they have to complete and the interference in day-to-day activity by the controlling and data collection bodies.

2) Being faced with these numerous controlling and data collection agencies, public enterprises have no choice but to reply, fill in forms, and submit all the information required. It is important for them to reply, because if they do not, a penalty may be imposed upon the enterprise, or even the executive responsible.

3) The huge demand for information for controlling and planning purposes might well be unsustainable and hence, eventually decline.

4) The burden of meeting increasing requirements for information is such that the information supplied is unlikely to be accurate. The inaccurate information collected by multiple channels would be duplicated and
communicated to those who are interested in the companies' affairs. This duplicated error in information collected and communicated to the government may have harmful effects on the economy, especially in an economy like Egypt's, the major part of which consists of public enterprises.

5) The cost of supplying all the information required under the present system of supervisory and data collection bodies in Egypt is very high because the same information has to be supplied several times to different agencies.

6) The massive volume of data and/or information required by the control and data collection bodies has created such an administrative overload for public enterprises that managers of such enterprises find their attention drawn away from their original tasks.

3.5 Summary and Conclusion:

This chapter has shown the important role, and the character and organisational structure of the public organisations and their affiliated companies in Egypt. These organisations and public enterprises occupy a dominant role in the economy because almost all Egyptian large-scale enterprises are in the public sector, accounting for about 75 per cent of manufacturing contribution to GDP and providing a similar contribution to total industrial investment.
The problems of the demands made by higher authorities, control and data collection agencies on the public enterprises, together with the overlapping functions of these agencies, have been discussed and analysed. The specimen forms presented in Appendix 1 are evidence of the overload of information requests on public enterprises. The multiplicity of control and data collection agencies, all making demands upon public enterprises, is likely to have two outcomes: First, the efficiency of some public enterprise managers may be impaired. Second, the information contained in their reports may be inaccurate, unreliable and out of date.

Other problems, such as high cost, and lowered morale among managers, have also been identified.

However, the government hoped that improvements in the quality of information could be achieved by the introduction of a unified system of accounts for public enterprises. In fact, the unified system of accounts has overcome some of the constraints that detract from the value of the information reported to the users. This has been achieved by uniformity of terminology as well as presentation of the accounts of public enterprises. The extent to which the quantitative information disseminated in the financial accounts of public enterprises has helped to improve the flow of information for the government remains to be seen in the next chapter.
References


5- Douban, S. M., "The Effectiveness of Public Sector Accounts in Kuwait for National Accounting Purposes", op. cit, pp.3-5.

6- Douban, S. M., Ibid., p.1.

7- Douban, S. M., Ibid., p.6.


Chapter Four

Micro-Macro Accounting with
the Uniform System
4.1 Introduction:

There are similarities between micro and macro accounting, but also differences in concept, classification and methods of valuation. Such differences should be expected, since they are still considered two disciplines. Each of them deals with the same economic activities, but from different points of view - namely at different levels of the economy, as the terms micro and macro indicate.

The term macro-accounting is often employed interchangeably with social accounting, socio-economic accounting, national accounting, and national income accounting. Macro-accounting is based primarily on concepts of economic theory, but it still works with some micro-accounting concepts and classification.

Macro-accounting combines both an economic and accounting framework. This suggests that micro and macro-accounting could be integrated for the benefit of micro and macro accountants and also for decision makers at the level of individual enterprises.

As is generally known, accounting is not only a tool for internal users; it can also be used to solve some of the problems of macro-economics. It is generally accepted that macro accounting can be based on aggregations of micro-accounting. However, for this to be possible, it is desirable that the individual accounts of micro units are prepared on a unified basis.
The purpose of this chapter is to attempt to answer these questions: how will micro-macro accounting be affected by the dominant accounting system? and how relevant is the information provided by micro-accounting in Egypt from the national point of view?

4.2 The Differences Between Micro-and Macro Accounting:

As a starting point; the main areas of differences between micro-and macro-accounting may be shown in respect of classification, presentation and valuation, as follows:

First: differences in objectives of micro-and macro-accounting produce differences in classification and presentation. Individual firms within a capitalist system adopt their individual objectives, and a firm's accounting or costing system aims to provide the management and external bodies concerned with the information they need.

Macro-accounts deal with very important issues about aggregate figures describing economic activity from the national point of view. The economy as a whole is the accounting entity, and the concern is with such matters as the national output, standard of living, productivity and distribution of income and wealth.

For micro-accounting we may classify transactions by nature, for the purpose of preparation of traditional accounts, or we may extend our system to include sub-
classifications according to function and/or products for managerial purposes. At national level, a full description of economic activity requires a different classification; for example, a distinction between national product, expenditure and national income; and capital accounts. The subset of cost, profit or investment centres within the entity are extended at macro level to give "super sets" or economic groups for sectoral classifications, such as business, government, household and the rest of the world. Within each sector, functionally-based classifications are commonly used, distinguishing production, consumption and investment.

Macro-accounts, like micro-accounts, are maintained in double-entry form.

Differences between the two levels of classification may be cited, for example:

a) In addition to market transactions, non-market ones may be used in calculating national product.

(1) Wages paid in kind, the rent of buildings occupied by their owners and capital assets produced for their own use are aspects of imputation used in macro-accounts.

(2) Each of these is considered a part of the economic activities of a nation.

b) One-way transactions such as taxes and subsidies are
distinguishable in macro-accounts as a redistribution of income between sectors. Items of transfers are included in micro-classifications, but may be displayed under different classes, such as other expenses, non-operating expenses, miscellaneous... etc.

Second: valuation in micro-accounting is still often based on recorded historical transactions. In general, production is valued at factor cost. Such costs are calculated using costing methods which may differ widely between firms.

Macro-accounting is concerned, primarily, with measuring national income/product and expenditure. The accepted basis of valuation is current market value. Generally, national product is measured at market prices or at factor cost. Preference for one or other of these methods is based upon the fact that market prices under perfect competition give unequivocal prices for macro-accounting, since they reflect the real contribution of producers in a nation. The price of a commodity reflects at once the marginal cost of production and marginal utilities of final buyers. However, in a situation of imperfect competition, taxes and subsidies may influence the allocation of resources, and the price system cannot be relied on completely. In order to indicate the contribution of various producers we may prefer to use the factor cost basis. The allocation of resources among producers is measured correctly after the elimination of
indirect taxes and subsidies. (1)

At micro level there is discussion among accountants as to whether current or replacement value should be used. There are some differences between the accounting classifications and principles of valuation as applied by individual firms, and in macro accounting. The question thus arises as to whether firms should apply, in addition to their own systems, the specific classifications and principles of valuation to meet macro-accounting requirements. Is it practicable to adjust individual business accounting and costing systems to be adequate for both micro and macro levels?

It would seem that an adjustment of micro classification and principles of valuation to meet macro-accounting needs is more logical than having two sets of accounts at the firm level. The differences between micro and macro-accounting are not so wide as to require a special system at the firm level for macro-accounts.

A co-ordination of the micro-accounting system with macro-accountants' concepts would have benefits for macro-accountants, and also for decision-makers at micro level.

Items of accounts of individual firms are usable for macro-accounting, even when reclassified or adjusted to meet macro needs. Prof. Yu shows how conventional accounting concepts and principles are already applied in
"It may appear at first that macro accounting has no use of generally accepted accounting principles. This is true only to a certain extent. Such data are first recorded in the light of conventional accounting principles. Even with all the possible revisions and adjustments, some conventional accounting concepts and principles remain. This is not entirely undesirable, since some of the conventional accounting rules and processes are equally valid for and applicable to macro accounting. For example, the basic process of income determination is generally the same; and so is the accounting period. This also applies to the differentiation between capital and revenue expenditure. Consistency, comparability, materiality, and disclosure should prove equally useful in macro accounting" (2).

In certain cases micro-accounts might be modified for their own benefit towards macro principles of valuation. For example, current replacement values may be needed for adequate micro decisions. Dutch accountants believe that the use of replacement values makes managers and owners better able to predicate resource allocations and other decisions. It makes directors of Dutch companies aware of the implications of dividend decisions for long-run operations (3).

Reconciliation between the figures required for micro and macro-accounting may be achieved. Income or profit figures may be adjusted by deducting gains from capital transactions, or by estimating values for non-
monetary transactions, for macro-accounting purposes. To reconcile historical values according to macro principles of valuation, it is suggested that fixed assets and inventory could be adjusted to current replacement values, each separately. Replacement valuation adjustments should be treated in the balance sheet and the profit and loss account as well, as positive in a period of rising prices and negative in a period of falling prices.

Management not infrequently use the macro-accounting concept of value added. Adjustments may need to be made for the imputed values for rent of buildings, or for capital assets produced. Adjustment may also be required for wages paid in kind and for inventory valuation.

Macro-accounting seeks and should be able to obtain separate figures for capital transfers (purchases) and for additions to fixed capital formation (all other expenses of acquiring the assets). These two figures may well, of course, be combined in the micro-accounts.

Powelson sees the possibilities in unifying the accounting principles for each purpose:

"Both business and social accounts were born with the same intent, that of measuring income and indicating its relationship to net worth, or wealth. Because of these common purposes, it is no accident that the same accounting rules should be applied to each system and that the national income and product accounts should grow up as first cousins to business profit and
loss statements and balance sheets "(4).

If macro-accounts are satisfied, there is a possibility, however, that accounting progress at the micro level may be held up. A comprehensive code of rigid accounting rules for all conditions should not be imposed where there are different objectives and circumstances. However, at national level some uniformity of concepts and accounting classifications could bring together the information requirements of economists and accountants.

As a second stage, at micro level one might move towards establishing individual uniform accounting and costing plans derived from sets of accounting practice for definite circumstances. Informative disclosure of the accounting principles of valuation used by firms within a uniform plan is required at this stage. Thirdly, one would require macro accountants to adjust the data of those firms which apply different principles. The disclosure of accounting bases would help macro-accountants in their task.

4.3 Development of Macro-Accounting:

The idea of macro-accounting can be traced to the latter part of the seventeenth century when Sir William Petty of England developed the first clear concept of national income as an analytical tool.(5) Petty's contribution can be best apprised by the words of Joseph Schumpeter:
"Petty was no victim of the slogan: let facts speak for themselves. Petty was first and last a theorist. But he was one of those theorists for whom science is indeed measurement; who forge analytic tools that will work with numerical facts and heartily despise any others, whose generalizations are the joint products of figures and reasoning that are never allowed to part company." (6).

Petty's work was designed to show, with facts, the effect of the Cromwellian Revolution and various external wars on England's economic and military power (7).

As Petty was developing his ideas, Boisbuillebert and Vauban were engaged in parallel efforts in France. This work was motivated by a desire to reform the French tax system (8). It is interesting to note that their work was suppressed by royal order immediately upon its publication in 1707. Later on, in 1758, Quesnay of France developed the idea of the "tableau" for presentation of total annual output and its values in his publication "Tableau Economique".

With the early stimulus provided by Petty, England was the acknowledged leader in this line of inquiry up to the twentieth century. France was not far behind, but the main problem there was a paucity of reliable source materials.

While the early works on national income were admittedly crude, they did stimulate wide interest throughout the world. Other national income estimates
appeared in Austria, Russia, Switzerland, Greece, Italy and India throughout the eighteenth century.

4.4 Advent of Macro-Accounting:

During its early development, wars sparked progress in macro-accounting techniques. The longest practical step was taken during, and in connection with World War II. In England and the U.S., various significant developments took place. The first official British publication on national income compilation was published in 1941. This publication, commonly called the "White Paper", for the first time included the two terms "national income" and "expenditure", recognizing the two sides of the balance(9). The first American publication during World War II was published by Milton Gilbert (10).

In 1944, national income estimators from England, Canada, and the U.S. met in Washington to establish uniform procedures for this matter. The agreement they reached, which is the basis of modern macro-accounting was brought to the attention of researchers with the release of the American "National Income Supplement to the Survey of Current Business of 1947" (11).

The development of macro-accounting and national income statistics has become almost universally a government task. During and after World War II, macro-accounting began to be used more frequently for fiscal
policies and government planning, both for war and peace. Two factors that accelerated the speed of macro-accounting throughout the world were: (1) the action of the U.N. in assessing costs of support from its member nations according to their comparative national income, and (2) the establishment of the United Nations National Income Agency.

4.5 Conceptual Foundations of Macro-Accounting:

The development of macro-accounting was largely undertaken by economists without any significant contribution by accountants. The American Accounting Association commented on macro-accounting as follows:

"Economic accounting is a means of releasing scholarly accounts from the horizons of business firms which have long confined them. As a field it will not greatly affect the practices and traditions of certified public accounts and industrial accountants, and its impact on operations research and other types of microanalysis, will be a limited one. Instead, its effect is to expand the use of accounting (micro-accounting) procedures and tools, in their broadest sense, in a study of human behaviour" (12).

The dependence of economics on micro-accounting as an instrument of economic analysis is necessary. It is argued that a micro-accounting framework is a proper approach to a macro-accounting system for these reasons:

4.5.1 Classification of Transactions:

(a) An accounting (micro-accounting) approach provides a
powerful means of handling the problems of consistency in definitions when we pass from general theoretical definitions to detailed descriptions of their empirical correlates.

(b) An accounting approach provides a meeting place for economic theory and practical measurement. To be successful, a classification of transactions must satisfy as far as possible both theoretical and practical criteria at the same time. By means of an accounting approach the practical implications of any desired theoretical system can be readily worked out in detail.

4.5.2 A Basis for Collecting Economic Information:

(a) An accounting approach indicates what information must be collected and how it must be arranged in order to realize in numerical terms any particular theoretical system capable of such realization.

(b) An accounting approach provides a basis for collecting economic information by means of sampling surveys.

(c) An accounting approach enables the most efficient use to be made of the information available by bringing to light the many relationships connecting elements in a system of transactions thus providing a basis for adjustment of the observations.
4.5.3 The Presentation of Information on Economic Transactions:

(a) An accounting approach seems to provide the best means of showing the structure of the economy.

(b) An accounting approach provides a better means of describing and explaining national income statistics.

(c) In connection with government policy, an accounting approach is particularly useful in forecasting.

(d) In connection with international comparisons, a system of social accounting is helpful in showing how the economic structure of different countries is related and in providing a basis on which the statistical information of different countries can be improved in comparability (13).

4.6 Conceptual Differences Between Micro and Macro Accounting:

The accounting function was a primary adjuster of conflicts in economic interests. However, the relationship between micro- and macro-accounting has remained hazy. The present diversity between micro- and macro-accounting is a conceptual problem. This problem can be exemplified by the diverse perceptions of the concepts of value, income, entity, and consistency as follows:

4.6.1 Concept of Value:

Macro-accounting figures are largely based on
concepts of real value and current prices. Micro-accounting is largely based on concepts of money value and historical prices.

The defects of micro-accounting value concepts have been recognized by both accountants and economists. It is argued that micro-accounting concepts result in misleading information on the national level and even on a firm level. Many studies have been undertaken to improve concepts of value in micro-accounting. The most promising development is the American Accounting Association's recommendation in its publication "A Statement of Basic Accounting Theory" regarding the presentation of multi-valued financial statements based on both current and historical prices.

4.6.2 Concept of Income:

Income in general is a flow through a period of time. The problems concerning the nature of income have resulted mostly from the content of the flow rather than the idea of a flow. Divergence of income concepts between micro- and macro-accounting is, to a great degree, owing to differences in the notions of value, revenue/expense recognition and the limits of income receivers. Macro-accounting measures inputs and outputs at current prices, and recognizes as income all values added to inputs of intermediate products regardless of the recipients and the point of realization. Micro-accounting measures input at historical prices and measures output at current
prices only to the extent that output of goods or services is sold, otherwise output is usually measured at historical prices of inputs. Micro-accounting income excludes portions that are not realized, and includes all costs to factors of production other than owner capital(14).

4.6.3 Concept of Entity:

The entity in micro-accounting is an individual enterprise, firm or institution. The macro-accounting entity, however, has much broader boundaries and usually comprises the total economy of a nation or country. The more important problem of the macro-accounting entity relates to double counting of its items. To overcome this problem, macro-accountants have developed an input and output analysis.

4.6.4 The Consistency Concept And Uniformity:

Macro-accounting places much greater emphasis on uniformity and consistency than micro-accounting. Macro-accounting is regularly guided by a set of rules which can be applied with very small scope for personal judgement. In addition, the identical rules are usually consistently applied over time. This characteristic of macro-accounting stems from its underlying assumptions which rely heavily on considerations of economic theory.

From the above, it differs from micro-accounting, which is guided by business practices and legal
requirements.

4.7 **Measuring National Income:**

There are many terms closely associated with macro-accounting. Such terms as "gross national product" (GNP), "net national product" (NNP), "net national income at factor cost", "personal income" and "disposable income" are frequently employed, some more often than others, in the business environment. However, all are descriptive of the economic indicators needed for economic planning and control.

It has been suggested that income and product are really the same thing looked at from different viewpoints. Productive units bring together the factors of production. The factors of production make available output of goods and services. Incomes are distributed from the product and used to produce (15). This is known as the circular flow of income and product.

4.7.1 **Gross National Product:**

GNP is defined as the money value, at market prices, of all goods and services produced by a country's residents during a fiscal year. It covers not only these, but also consumption allowances of business firms for the annual depreciation or obsolescence of plant and equipment. The aggregate measuring of total production is of great significance for understanding the variations in the economy. It is an important tool for economic
planning and control.

4.7.2 **Net National Product**:

The NNP is simply GNP minus capital consumption allowances. It may also be obtained by adding up the value of the net product of the business sector, the government sector, the household sector and the foreign sector.

NNP is the last used aggregate in economic planning.

4.7.3 **Net National Income at Factor Cost**:

Net national income at factor cost is the sum of income originating in business, income originating from households and income originating in the foreign sector.

This aggregate is a measure of the incomes accruing to the factors of production for their contribution towards producing current output. It takes into consideration the difference between the valuation of net income and net product. This is due largely to the existence of indirect business taxes. Thus NNP exceeds income at factor cost by the amount of indirect taxes which are used to finance the government product.

4.7.4 **Personal Income**:

Personal income is the current income of persons from factors of production. It is the spendable income at current prices available to individuals, before personal taxes.
Personal income includes several elements which are not factor costs. These are the transfer payments of government and business, and the net interest paid on government debt.

4.7.5 Disposable Income:

This is simply personal income after taxes. It is known as disposable income because when all tax and related obligations are accounted for, the remainder can be allocated according to the presumed wants and needs of individuals.

4.8 Macro-Accounts with Uniform Micro-Accounts in Egypt:

The first attempt to formulate a comprehensive set of national income accounts in Egypt took place in 1955. The importance of macro-accounting has been recognized by Egyptian economic planners for many years. The framework of the first five-year economic plan states:

"It is a prime consideration in the choice of the social accounting framework that it is useful in analysing the consistency of individual investment projects with the general investment programme and the specified production targets. It is also useful for economic analysis necessary to choose optimum alternatives for the allocation of economic resources" (16).

An Egyptian integrated system of macro-accounting was designed as a tool for comprehensive economic development. The information provided by this system is used in:
(I) Co-ordinating economic development objectives and their integration with the national plan;

(II) Following-up the execution of economic development objectives;

(III) Highlighting the development of available resources and their uses;

(IV) Analysing the structural inter-dependence of the productive sectors; and the impact of expanding demand for their products and services to meet the requirements of the development plan;

(V) Studying the development of economic sectors; and

(VI) Analysing the position of borrowing and lending transactions; and the flow of funds between the economy's sectors and the financial institutions (17).

The micro-accounting system consists of (18):

(A) national income accounts recording transactions on a sectoral and functional basis. The economy is divided into four main sectors - business: household, government, and foreign.

The business sector includes all unincorporated private enterprises, farms, and housing, whether owner-occupied or leased to others. It includes also all private and public corporations and non-profit institutions serving business enterprises. Therefore, the
business sector includes all economic units engaged directly or indirectly in production of goods and services, whether they are publicly or privately owned.

The household sector includes all persons, in their capacity as consuming units, and non-profit institutions not rendering services for business enterprises. The government administration sector comprises all government agencies which provide collective services to society such as education, health, justice and defence. The outside world sector account includes export and import transactions.

The transactions carried out by the economic entities included in each sector are re-classified on three bases as follows:

(1) **Functional Classification:**

Transactions are classified under four heads, as follows:

1) Business sector:
   - public
   - private
   - government

2) Household sector

3) Government sector administration

4) Outside world sector
(II) **Natural Classification:**
Transactions are classified according to their nature, as follows:

1) Commodity transactions - involving commodities and services produced.
2) Income and transfer transactions - dealing with payments to factors of production, taxes, subsidies, and other transactions.
3) Lending and borrowing transaction.

(III) **Activities Classification:**
Transactions are classified according to the economic activities involved, as follows:

1) Transactions dealing with productive activities - recorded in the production account.
2) Transactions dealing with consumption activities - recorded in the appropriation account.
3) Transactions dealing the investment activities - recorded in the capital account.

The first classification defines the macro-accounting entities, while the second and third classifications determine the number of accounts and the amount of detail involved.

(B) There are input-output tables reflecting the commodity flows in physical terms. They show the total
available sources and uses for each commodity.

(C) Financial tables show borrowing and lending transactions between the economy's sectors and financial institutions. They also indicate funds available and changes in the financial assets and obligations of each sector as a basis for investment planning.

(D) National budgets are prepared from data provided by the national income accounts and the input-output tables adjusted accounting to estimates of the National Plan.

(E) Economic tables, revenue and expenditure for each of the economy's sectors are displayed. A summary economic table is prepared for the whole economy.

4.8.1 Micro and Macro-Accounting Before 1967:

Before the uniform accounting system there was no complete relationship between micro- and macro-accounting in Egypt. Data were collected by questionnaire from business, alongside periodic production censuses (19). With the questionnaires firms were given instructions on terms and concepts. All the evidence suggested the following:

1- There were no "generally accepted accounting principles", at the firms' level and between micro and macro level regarding the definitions, measurement base of transactions, unit of
measurement and the basis of the input data necessary for providing information to users.

2- There was no "comparability" between firms in the same sector for macro purposes.

3- There was no awareness by the enterprise managers of the great advantages of using macro aggregates for planning and control purposes.

Moreover, at the firm level, accountants did not fully understand the questionnaire’s instructions, and had difficulty in adjusting their figures to meet requirements. The figures produced were scarcely reliable.

The statisticians at central level had three difficulties. Often the data collected from different sources and under different methods did not correlate and were sometimes inconsistent. There was an increasing marginal error and difficulty in measuring it. Comprehensive sectoral accounts under these circumstances were very difficult and unreliable.

4.8.2 The Role of the Egyptian Uniform Accounting System:

The Egyptian uniform accounting system was largely aimed to overcome such difficulties, to establish a base for common understanding between the micro accountants, and to solve some of Egypt’s national accounting problems. Furthermore, information from the micro level to macro level would be provided according to a specific
framework already known to each level. Thus, Gorely explained that:

"The system was used for the collection and summarisation of the authorised range of national and equivalent value indicators for subsequent statistical processing. In these circumstances neither the form of organisation nor the methods of accounting were able to satisfy the new demand of planning and management for a systematic reflection of the results of economic and financial activities of enterprise, for their generalisation in value terms and for the implementation of control, analytical and other functions inherent in accounting" (20).

Accounting concepts and other terms are clarified and made uniform as between accountants and economists. Macro-accounting concepts are inserted in the uniform chart of accounts to facilitate the extraction of figures by macro-accountants.

All transactions are classified according to type, inducing main or sub-classes for consumption; capital formation; capital transfers; exports; imports; income and transactions...etc. Transactions are classified showing the relationships of enterprises with all other sectors. For example the main account of "Plant and Machinery" is analysed to sub-accounts for machinery purchased from the home market and imported machinery; this latter being analysed to purchase value, custom duties and other costs classified by sectors. Market and non-market transactions are given a place on the chart. Imputed rents, wages paid in kind and self-produced
capital assets have accounts reserved for them.

The Egyptian uniform system has been strongly influenced by macro-accounting requirements as follows:

- The distinction between capital investment and capital transfer; for instance, land improvement is treated as capital investment, land purchased is treated as capital transfer.

- The distinction between the purchase price of fixed assets and inventory, and their related taxes and tariffs is designed to serve the requirements of national financial planning, and to facilitate the computation of incremental capital output ratios.

- The distinction between foreign and local sources and application of funds is designed to facilitate the national imports and exports policy (21).

It may be said that the Egyptian classification of accounts serves macro-accounting very well. However, it is also useful for accountants at the micro level in a planned economy, for two reasons:

**First**: A firm's objectives are considered a delegation of certain macro objectives; and an imposition of macro-accountants' needs upon business accountants facilitates the task of the latter in providing decision makers at the firm level with relevant data.
Second: The provision of data to the central statisticians is based on an extension of a micro-accounts classification. Accountants aim to serve a wider range of data users than their counterparts in the capitalist countries. This places a greater burden on the accountants at micro level. The problems in adapting individual circumstances to national requirements are supposedly tackled by central bodies.

4.8.3 The Egyptian Uniform Accounting System and Methods of Valuation:

A question arises as to whether or not the information generated by the EUAS is relevant to the decisions which will facilitate allocation of the scarce resources of society. The answer to this question will determine the extent to which accounting information is consistent with economic principles and whether such information is able to satisfy the information needs of the Egyptian economic bodies.

Efficient allocation of economic resources is closely related to valuation concepts. Current economic principles indicate that the value of a thing at any moment in time can be fairly measured by its opportunity cost in the market. The opportunity cost has a wider meaning, since it relates to total sacrifice involved in making a choice to use resources to gain one end rather than another. For example, the opportunity cost of an article is here defined as the price currently obtainable
in the market for such an article. From a buyer’s point of view, the opportunity cost of an article is the minimum price to be paid in the market to acquire the article. From a seller’s point of view, the opportunity cost of the same article is the maximum price obtainable for it in the market (22).

The methods of valuation required by the EUA S for cost of production, the determination of income, and financial statements presentation are restricted to historical cost concepts. There are three primary factors which tend to explain why historical cost data are irrelevant, biased and unreliable for valuation purposes:

1- Discrepancy with economic principles.
2- Changes in prices are ignored.
3- Cost of capital is ignored.

If accounting methods in Egypt are to serve the purposes of both micro-and macro-accounting, they should be capable of providing information relevant to micro- and macro-decision-making. Decisions that are made in relation to economic resources are mainly of three types: utilization decisions, re-sell decisions, or replacement decisions. None of these decisions would be efficient if based on historical cost data.

If a decision is made to utilize resources in the production process, the use of historical cost tends to conceal the result of any inefficient decisions. To
evaluate utilization decisions, three categories should be distinguished: production decisions, holding decisions and distribution decisions. Production decisions involve the utilization of resources and the incurring of efforts in expectation of rewards. Holding decisions involve the sacrifice of the next best alternative return on resources held in expectation of higher return in the future. Distribution decisions result in the added utility of place and possession. When historical cost is used, a comparison of the relative efficiency of the various decision categories is impossible and the real causes of wasteful resources utilization will normally remain undiscovered.

If a re-sell decision is made, the relevant variable is share current selling prices in the market compared with the present value of expected net future selling prices. Historical cost is not a factor in the decision.

If a replacement decision is called for, the relevant factors are current and expected future cost of replacement. Again, historical cost is irrelevant.

It is argued that historical cost data reduce the bias involved in the subjectivity of alternative methods of measurement. There is adequate evidence in the literature supporting the fact that the bias of historical cost data might be much more dangerous than the bias which may result from the relative subjectivity of alternative methods of measurement. The bias of
historical cost data is especially acute under conditions of changing prices. Since changes in prices are unavoidable, the bias of the historical cost data is inescapable. The magnitude of such bias tends to be in proportion to the price change.

In developing nations, historical cost ignores the cost of capital - the most scarce and important factor of production. This is because historical cost does not take account of changes in the relative prices of factors of production after acquisition. The cost of capital is embodied in the current replacement cost since it takes into consideration the time value of money. The Egyptian uniform accounting system, moreover, is based upon a total performance concept and is not able to provide adequate information for evaluating the functional efficiency of individual economic units. Accountability is centred around an entity or a product rather than responsibility centres.

Three areas of valuation for macro-accounting are examined here as follows:

4.8.3.1 Inventory Valuation:

To calculate the value of gross national product at market prices, production should be calculated at sales prices. Net sales must then be adjusted by the market prices of any changes in the inventory of the finished product. Macro-accountants seek such an adjustment of the
inventory.

The EUAS states that the value of the inventory should be total production cost, unless the market value is lower. In this case, the difference must be a provision to eliminate the latter losses. The inventory evaluation and macro accountants require:

(I) an account for physical changes in the inventory of finished production at cost; and

(II) an account for inventory revaluation adjustment; to show the difference between sales value and the costs of opening and closing the inventory. By use of the inventory revaluation adjustment, and by adjusting for physical changes in the inventory, one arrives at the production for the period at market value. These adjustments are also made on the accounting profit to reconcile with the macro-accounting concept of income.

The Egyptian uniform system satisfies macro-accountants; but does not meet all micro needs with regard to price changes, since inventory revaluation adjustment is applied only for macro-accounting purposes. Thus, the figures of individual firms need not be comparable.

Sometimes conformity to macro needs will restrict the flexibility required by individual enterprises. The relevant recommendation No.22 of the ICA of England &
Wales stated:

"Circumstances vary so widely that no one basis of arriving at the amount is suitable for all types of business, nor even for all undertakings within a particular trade or industry. Unless the basis adopted is appropriate to the circumstances of particular undertaking and used consistently from period to period, the accounts will not give a true and fair view either of the state of affairs of the undertaking as on the balance sheet data or of the trend of its trading results from period to period. The need to give a true and fair view is the overriding consideration applicable in all circumstances (23).

Accountants, consequently, should look for a method adaptable to each circumstance. Total production cost may not be relevant for agriculture or mining products, since it is difficult to control their volume, and their market prices are affected by natural and economic circumstances. Instead of valuing inventory at cost, we may well use some percentage of net sales value or net realisable value, especially for products affected by fashion, for rejects, and by-products where costing is notoriously inaccurate.

4.8.3.2 Imputed Transactions:

As we have seen, macro-accounting is concerned with both market and non-market transactions. Cost value is normally applied. Four types of transaction are imputed in the Egyptian chart of accounts.

For capital assets produced for own use, the Uniform System values them at the cost of production. The current
operating account is credited with this cost. Thus, aggregated figures of expenditure and income of the business sector on capital formation are calculated easily.

Secondly, two accounts are reserved for rent adjustments. Each account shows the difference between imputed values and the depreciation of the buildings occupied. The imputed rent is calculated at the rate being charged for similar assets; and depreciation is calculated according to the straight line method.

Two accounts are maintained for interest, each showing the difference between actual and imputed interest. At the macro level the interest adjustment indicates the expenditure of the business firm on financing its capital by state funds. It also shows the revenue for the government sector which finances a large proportion of the firm's capital.

Finally, wages paid in kind are calculated at micro level to provide macro-accountants with figures on real income from employment and operating expenditure of the business sector.

Rent adjustment, interest adjustment and wages paid in kind facilitate the calculation of factor incomes or value added at macro and micro levels.

All these accounts may be apportioned to cost centres as appropriate. This is left to the costing
system of individual firms.

The previous uniform accounting rules facilitate comparable data for firms which rent or own buildings, which borrow their capital or provide services to their employees. Decision-makers at micro level may be helped in making and using such comparisons.

It should be kept in mind that the apportionment of interest or imputed rent should be for the purposes of inter-firm comparison; and not for calculating production costs. Interest and rent are a direct result of the firm’s management policy, which should not affect unit production costs.

4.8.3.3 Capital Consumption:

Depreciation should be deducted from gross national product to give net national product. The production of fixed assets represents a creation of wealth at the national level, and the depreciation of these assets may be considered a form of keeping national wealth intact.

The Egyptian accounting system makes uniform the base of valuation of fixed assets as cost, including costs of construction. Fixed capital accounts are charged with all capital expenses which enable such assets to work effectively, or which increase their capacity - i.e. cost of repairs and maintenance. To take price changes into account, the system requires that each enterprise should retain from its surplus enough money to replace
its fixed capital according to the trend of prices, in an account called the reserve for the replacement value of assets.

We see, thus, the adjustments required to reconcile micro-and macro-accounts. We have seen that depreciation is calculated on the historical value of fixed assets. The rules applied are considered a minimum, and are based on the following assumptions:

a) the number of working days per annum is 300 or less;
b) one shift per day is worked; and
c) the depreciable assets were new at the time of purchase.

Depreciation rates must be raised proportionately if the number of working days increases or the number of working hours per day increases. If the assets at the time of purchase were second-hand, the given rates should be doubled. If the assets are not used continually during the year, the rate may be halved. Depreciation is calculated from the date on which the asset is brought into use.

Undoubtedly, this uniform method does satisfy macro-accountants. However, these uniform depreciation rates may not reflect differences between enterprises in the type and use of assets, in labour efficiency and maintenance policy. Doubling such rates in the case of
second-hand assets assumes that all these assets will be similar in their efficiency at the time of purchase. The rate applied to these assets should be left to enterprises, which may be able to determine the degree of such efficiency. Again, differences in the time of operating an asset during a year between enterprises indicate the need for different rates for those assets which are not used continually during the year. Depreciation figures for obsolescence should really be related to the time of purchase rather than to the time an asset came into use.

4.9 **Summary and Conclusion:**

Macro-accounting is concerned with the basic relationships between expenditure, production, and income. "Expenditure" comprises consumption and investment and calls for "production" which yields "income". Income is either spent on consumption or saved, so making possible the formation of capital.

The processes of expenditure, production, and the disposal of income between consumption and saving are participated in by three sectors. The business sector is responsible for the major part of expenditure, production, and income-disposal. The government sector makes a substantial contribution to total expenditure on production of goods and services. Its power to tax and to pay cash social benefits enables it to make significant changes in the distribution of income within
the economy. The household sector is mainly a consumption and saving one; the decisions taken by the individuals comprising this sector are in response to their own private objectives.

The Egyptian macro-accounting system plays a significant role in economic planning and control. The socialist orientation of the economy requires some degree of integration between micro- and macro-accounting.

The Egyptian experience reveals that the integration between micro- and macro-accounting requires an active involvement on the part of the government in the direction and administration of economic activities either directly or through extensive regulations. The requirements of macro-accounting have been considered in the Egyptian uniform accounting system, but tend to limit the discretion of micro-accountants in some aspects of valuation.

The analysis which was undertaken in this chapter leads to the following conclusions and recommendations:

1- Accounting information is one of the most important sources of data to achieve economic and social goals at the national level.

2- Accounting, as a source for central statistics, delivers aggregated information to central authorities for the managing of the national
economy.

3- Uniformity at micro level is observed to exist in a planned economy rather than in market-oriented economies.

4- Uniformity at macro level is observed to be a governmental task.

5- The integration between micro- and macro-accounting is observed in planned economies rather than in market economies.

6- The successful integration between the various segments of macro-accounting is highly dependent on the degree of uniformity at micro-accounting level.

7- The information generated by the Egyptian uniform accounting system is based on historical cost methods and total performance concepts.

8- To serve the objectives of Egyptian economic organisation, accounting information should be based upon opportunity cost concepts and should integrate the principles of responsibility accounting.

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154


Chapter Five

National Income Accounts as a Source of National Economic Information: Their Uses and Deficiencies
5.1 Introduction:

National Income Accounts have many uses, but there seem to be two categories that are particularly important. One concerns the control of the economy, with the accounts used as a tool in analysis and prediction, since they are a convenient summary of the level of economic activity. The other main use of the accounts is to provide an indicator of economic welfare. Thus, the analysis of national income accounts is necessary for the formulation of successful economic policies. This is not to say that the accounts are the only necessary ingredient or an adequate solution to all economic problems. National income accounts are, by themselves, not a sufficient basis for formulating economic policy. However, they are of use in helping policy-makers to answer certain questions related to overall economic policies.

This chapter will discuss the major fundamental deficiencies in the present structure of national accounts, especially in developing countries. This investigation may disclose that the data or information generated by these accounts may not be ideally suited to the purpose assigned to them by economists. The deficiencies will be discussed to identify the extent to which these shortcomings in national income estimates have affected national economic policy making. It should also be clear that it is not intended at this point to suggest practical solutions for these deficiencies.
5.2 The Historical Development of National Accounts:

The concept of National Income Accounts (N.I.As) was first formulated in the seventeenth century by Sir William Petty in England and by Pierre le Peton, Sieur de Boisbouillebert in France\(^1\).

In their early stages national income accounts were not designed as a method of providing information and data relevant to general economics. The first investigations on the subject of national income accounts were carried out by academic economists and institutions. Their interest was the building up of a series of aggregates for successive time periods of the level of national income of the economy as a whole. Of course, it was natural that such investigations should also concern themselves with production and expenditure on goods and services since, when properly computed and adjusted these measures could be used to estimate indirectly the total amount of income payments. At this stage in the development of national income, however, there was no explicit attempt to construct a framework of the national accounts system for the economy as a whole.

At the time of the Great Depression, many economies suffered from economic problems, for example, relating to the wage rate and the disappearance of profit.

In this context, the use of national income accounts for economic policy and in economic analysis developed at an increasing rate.

During World War II, many countries were faced with
many economic problems which required intelligent decision-making to improve the position.

To facilitate such decision-making, information was required on the total income and expenditure of the economy as the whole. Under the wartime pressures, national income accounting was developed to provide a framework, with which it became possible to relate the amount of total available resources to the planned production and consumption for the war, and to examine the income payments and prices policy.

By the end of the war, national income accounts were used to supply information and became a vital tool in the formulation of economic policy.

At the present time, very many countries are using national accounts to assess their own current economic situations and to serve as a basis for designing realistic and consistent policies. The information provided by national income accounts is essential for achieving equilibrium between investments and consumption.

5.3 National Income Accounts Systems:

During World War II and the years immediately following it, tremendous developments took place in the national income accounts field. Some of these were:-

1- In 1947, the first system appeared as a report to the United Nations in Geneva under the title, "The Measurement of National Income and the Design of..."
2- In 1950, the second system was presented to the OECD in Cambridge under the title, "A Simple System of Social Accounting".

3- In 1952, the third system was presented to the OECD in Paris under the title, "A Standardized System of National Accounting". This system was a revised version of the second system.

4- In 1953, the fourth system was described by the United Nations and presented under the title "A System of National Accounts and Supporting Tables". That system was formally known as "The System of National Accounts (SNA)".(2).

5- In 1968, the fifth system, a revision of the fourth system SNA, was presented by the United Nations. This was formally known as "The Revised SNA".

In the new system, it should be noted that the first of the basic standard accounts dealing with gross domestic product and expenditure is further decomposed into accounts referring to the production, consumption, expenditure and capital formation of the system; another set of accounts deconsolidates the basic standard accounts on income, outlay and capital finance for the institutional sectors of the system.(3). Enthoven has added that:

"The UN. model gives a comprehensive and
detailed framework for the systematic and integrated recording of the flows and stocks of an economy. It brings together data ranging in degree of aggregation from the consolidated accounts of the nation... to detailed input-output and flow of funds tables into an articulated, coherent system".(4)

Nowadays, with the increasing realisation of the vital role of national accounts, the new system (SNA) gives consideration to the fact that the economic structures of developing and developed countries differ.

5.4 The Functions of National Income Accounts:

The national accounts now provide the framework within which economic performance and development are largely assessed. This framework of collecting and providing a historical record of a community's economic operations, makes it possible to measure the efficiency with which the community operates, and to provide a periodic inventory, i.e., an indication of the economic position of the community. On the basis of these data, policy-makers and economic analysts may formulate their decisions.

Stone stressed that national accountants constitute "a basis for collecting economic information"(5).

Ruggles and Ruggles have also argued that:

"National economic accounting has as its prime objective the creation of an information framework suitable for analysing the operation of the economic system"(6).

In addition, the national accounts framework can serve three functions as a tool for the co-ordination of
economic statistics: (i) They can serve as a basis for the establishment of standards, definitions and classifications of economic statistics. (ii) Another function, of great importance in a country like Egypt, is the possibility of using the national accounts as a basis for technical co-ordination in the production of statistics and for systematization of contents of records, or in other words, as a data bank. (iii) NIAs can be used for the indirect estimation of certain magnitudes which cannot be observed directly, or for quality control of data through alternative calculations (7).

At the very least, it can be said that the collection of economic information and its presentation in the form of national accounts is not only the concern of national accounts but also of government and the public.

From this prime objective of national income accounts, many modern developed countries make extensive use of them in the formulation of annual budgetary and fiscal policies. In essence, this involves forecasting the way in which the principal aggregates can be expected to change in the course of the financial year, in the absence of changes in tax rates and government expenditures.

In the post World War II era, many of the developing countries have become acutely aware of their relative poverty, and the governments of these countries are
expected to adopt policies which will bring about a more rapid industrialisation and accelerated economic performance. This requires reliable information detailed through a comprehensive framework of national income accounts. The absence of a NIAs system will create several impediments to achievement of national development plans. However, Mukherjee (et al) argue that (8):

"The quest is necessary because neither System of National Accounts (for all non-socialist) nor Material Product Systems (for socialist countries) can satisfy all the needs of developing countries, and in addition, these systems suggest collection and systematization of some bodies of data that are only remotely connected with the current problems of developing countries."

Moreover, they added that:

"The economic information system for these countries should not only permit the use of known methods but should also encourage research which may ultimately lead to a new type of development planning suited to these countries."

However, as Barkay (9) comments, the use of national income data in developing countries is determined by four factors:

(1) simplicity of the system;
(2) construction of the accounts;
(3) accuracy of the data provided;
(4) ability to be applied in a reasonably short period.

In a planned economy, such as the former USSR, the
national economy is a complex and centrally managed system required to fulfil the goals set on behalf of whole of society. The national accounts data occupy an important position amongst all the other instruments of economic management. They give information in respect of economic process, not simply by reporting passively, but in such ways that the information may facilitate the management of the economy, as a whole. One writer has argued that:

"National accounting provides information for the preparation of major managerial or planning decisions, as follows:

i) plan fulfilment is checked and analysed;

ii) the drawing up of economic plans is prepared and supervised;

iii) socialist competition and its results are monitored;

iv) the efficiency with which scientific and technological advances are used is checked;

v) economic developments are compared over longer periods to enable long-term decisions to be made by management and to draw meaningful conclusions for the period of the economic plans;

vi) comparisons are made on an international level."

5.5 The Role of Microdata in National Economic and Social Accounts:

Micro data are essential for the design and evaluation of a wide range of government programmes. To serve this purpose, however, the microdata set must be integrated with the aggregate accounts and with one
another. Enthoven mentions that (11):

"Generally a major portion of a nation's income and product account activities takes place in the business enterprises sector ".

Furthermore:

"Company laws in certain countries reflect the significance of financial reporting for social accounting, and these social accounting requirements affect micro accounting."

Yanovesky has added that there is a strong relationship between micro-accounting and national income accounts, because NIA information plays a vital role in drawing up successful economic policy at the micro level.

"The national accounts were drawn up with the view of helping the public authorities in formulating their economic and financial policies. The accounts constitute a framework which makes possible a continuous systematically interrelated and consistent record of data on the basic economic functions in the economy production, consumption and accumulation of capital."

Furthermore,

"The use of national accounts for the study of the economy and appropriate decision-making has also spread to the business world and to labour organisation "(12).

In order to achieve an integration of microdata with national economic accounts, it is essential to look at macro-accounting as a framework for national accounting systems, and micro-accounting as a subset of that system. This requires, first, adjustment of the sectors and economic construct in national economic accounts to form an appropriate framework into which the microdata sets
can be fitted. Second, techniques of aligning microdata sets with the micro accounts are needed to ensure consistency between the aggregates obtained from the microunit level and the economic constructs in the national accounts. Thirdly, techniques are needed to reconcile and integrate microdata from a variety of sources (13).

5.6 Enterprise Data Requirements:

The national income and product accounts can be designed so that the input-output tables become an integral part of the national accounts.

Much of the data required for the tables should be already available if the full national income and product accounts can be prepared at all (14). All that is required is the necessary cross-classification of the available data. The specific data required from enterprises are as follows:

1- Total output in physical and monetary terms, by type of commodity;

2- Change in the book value of inventories;

3- Distribution of sales by type of customer;

4- Total Imports and Exports (in physical and monetary units and by type of commodity);

5- Total inputs by type of supplier;

6- Employment by type of labour (unskilled, skilled,
7- Wages and salaries paid by type of labour and type of remuneration;

8- Plant and equipment by original source, age and gross and net book value.

The following observations may also be made with regard to the preparation of national income and product accounts via the input-output tables:

a) Since the use of census and annual survey data is unavoidable no matter how the national accounts are prepared, it will not necessarily be much more expensive for the governmental agencies to prepare input-output tables than to omit them, although the cost to the enterprises might be more if the required degree of data disaggregation (as outlined above) were enforced among them. The disaggregation here is no greater than that required in the statistical sections of the French or Polish uniform accounting plans and prior consideration of such macro-accounting data requirements at the design stage should not pose any great cost burden on the enterprise (15).

b) Cost structures may be identifiable for industries, but not for commodities. Arbitrary cost allocation rules may be applied by the enterprise to arrive at cost estimates for specific commodities. On the
other hand, output may be identifiable for commodities but not for industries. For this reason, the United Nations' System of National Accounts distinguishes between input tables and output tables. Complete input tables can be derived by suitable assumptions and mathematical manipulation\(^{(16)}\). The problem can also be partly overcome by gathering data from establishments (defined as plants, separate factories, etc.) rather than from enterprises (which may consist of more than one plant). In any case, this problem is of minimal importance in most developing countries where such complexities of industrial interdependencies are rare.

c) Certain data can be gathered from governmental sources and it may therefore seem wasteful also to gather them from enterprises. Examples are commodities imported and exported (available from external trade records kept by the Customs Department) and employment data (from the Ministry/Department of Labour). However, this kind of duplication is unavoidable if the necessary reliability of the primary source data is to be checked. In addition, subjective judgment is involved in determining which of the commodities can be considerably improved with such primary source data.

d) Commodity and other indirect taxes have to be
separated from manufacturer's prices to arrive at producer's basic value. It may be preferable to have such disaggregation done at the enterprise level if the rates are not uniform, and particularly if subsidies and other exemptions are given to enterprises for fulfilling certain objectives.

e) Similarly, transportation and insurance changes should be separated from the other input values.

The effect of (d) and (e) will be to enable value-added to be computed at producer’s basic values. (Note that conventional financial accounting may not necessarily make these distinctions and therefore, the value-added figure derived from the external financial statement will have to be corrected for the distortions created by the existence of indirect taxes).

5.7 Deficiencies of NIA as a Source of National Economic Information:

The generally inferior character of statistics in developing countries renders the task of estimating national income for these countries more difficult than for developed countries and yields less detailed and often less reliable results.

Generally, more than one factor affects the reliability of national accounts. These factors are:

1- The effect of delay in producing the accounts.
2- The unreliability of the basic statistics.
3- Lack of coverage of items within an account.
4- Deficiency in administrative statistics.

5- The absence of stock variables (financial and physical).

Each one of the above factors will be discussed and analysed in some detail.

5.7.1 The Effect of Delay in Producing the Accounts:

Delay in presenting the accounts is a problem which faces all countries attempting to use historical information as a basis for current policy. The delay in producing these national accounts may have a serious impact on developing countries, because their economies are small and the economic situation of these countries can change from year to year (17).

For the national income data to be more useful for policy makers, they should be produced and provided soon after the time period to which they relate.

The following table illustrates the extent of publication delay of national accounts of some developing countries:
Table 5.1
Publication Delay of National Income Accounts of Sixteen Developing Economies.

<table>
<thead>
<tr>
<th>Publication Delay</th>
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<td>I</td>
<td>Greece</td>
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Publication Delay: I indicates that the country presently releases its final national accounts estimates within eighteen months of the year to which they refer.

The above Table 5.1- illustrates that the majority of developing countries produce their national income accounts within longer periods than eighteen months of the year to which they refer.

Decisions based on prompt but inaccurate data might
have dangerous side effects. Moreover, Webster (18) comments:

"Because delay in producing the accounts limits their usefulness, it is likely that it also limits the resources which governments are prepared to devote to improving them".

It is likely that delay in publishing the national income accounts may limit their usefulness in respect of international comparability, and a consequence of this delay may be that the transfer of resources from one nation to another or the assistance offered by international organisations to developing regions is adversely affected. However, although it is important that data be produced at the appropriate time, this should not be achieved at the expense of accuracy. Arvay has stated that accuracy is not the only factor that influences the value of economic information. The value of the information depends on its use and effectiveness in decision making (19).

5.7.2 The Unreliability of the Basic Statistics:

National accounts are an aid to public decision-making and in the specific context of developing countries, an instrument in the planning process. Every planner in developing countries faces the problems of lack of essential planning data, and statistics which are incomplete, out of date and inaccurate. Many experts consider unreliability of the basic data a major stumbling block to effective planning. But the reliability of national accounts depends largely on the
accuracy of basic data. The lack of reliability of the basic data in many developing countries is overwhelming. According to Waterstone (20) they occur in many sectors and include:

a) absence of reliable statistics in respect of saving and investment;

b) unreliable data on the level of employment;

c) deficiency of agricultural statistics;

d) non-availability of estimates of depreciation;

e) unreliable information concerning the rate of population growth, even in countries which have a regular census

Therefore, the problem of unreliability of the basic data could mislead policy-makers and lead to failure to achieve the aims for which national income accounts are designed.

The data obtained will depend on the quality of the field work: training, logistics, instructions to the enumerators and supervision at the levels of programming and data processing. So, the unreliability of basic data in developing countries may be explained by two factors:

1- A shortage of qualified experts.

2- Non-recognition of the vital role of these data by many people.

In the absence of objective methods, the accuracy of
national accounts can be determined by estimating, mostly subjectively, the size of judgment and adjustment errors between the basic data and the national accounts estimated. Adjustment of basic national data to the concepts and definitions of national accounts constitutes a major source of errors, not only in developing, but also in developed countries. A paper published by Glejser and Schave (21) in the Review of Income and Wealth, September 74, analysed annual revisions of national income accounts data for 40 countries, of which 21 were developing and the rest developed.

Glejser and Schave mentioned at the outset of their paper that:

"One of the problems encountered in the use of statistical figures for economic studies is the provisional character of the last years' data: the series published by the various statistical institutes are revised annually and substantial differences may arise between the first and the last estimation."

The UK produces national income accounts statistics quarterly, with percentage revisions. The quarterly changes for the components, for example, stocks, work-in-progress, imports, exports and subsidies (inclusive of tax on expenditure) have been found to have large percentage errors. The large errors have affected quarterly changes in GDP and consumer expenditure (22).

On the other hand, in some developing countries, the estimating procedures of national accounts are sometimes so inadequate that these countries do not even make any
revisions when better data become available. Thus, agricultural production is often estimated on the basis of growth of population. The next revisions in population estimates may not even be reflected in the revision of national accounts (23).

It may be concluded that, although the presence of large revisions has some bearing on total reliability, the lack of revisions is not necessarily an indication of reliability. Keeping preliminary estimates in the final revisions may be justified because data are not available at the later date. One should remember that unless the accuracy of basic information of national income accounts is investigated by policy makers, the majority of the uses made possible by these accounts may not be achieved as hoped.

5.7.3 Lack of Coverage of Items Within an Account:

Developing countries quite naturally limit the number of national income accounts and additional tables they present.

Moreover, the present system of national accounts (SNA) of the United Nations is mainly concerned with transactions of goods and services which have occurred between the different sectors of the whole economy. Transactions in financial assets and liabilities which constitute enterprise level income and expenditure have no place in national income accounts. This could be considered one of the weaknesses of these accounts, both as a description of economic activity and as a source of
sufficient, meaningful economic information. Ignoring financial transactions that make possible the production of goods and services is not realistic. Such financial transactions play an important role in the economic activities of most countries, especially the developing countries (24). In these countries, financial transactions of many kinds, i.e. borrowing, lending and saving are becoming extensive, normal transactions of many economic units, including the government, at the present time.

In developed countries, financial transactions play a very important role in the economic activity (e.g. the UK.). This importance has been fostered by the Radcliffe Committee's call for more detailed financial statistics on financial instruments other than money (25).

Moreover, changes in the financial assets and liabilities held by the various economic sectors are of considerable significance to those who are interested in the financial aspect and behaviour of the various sectors in the economy. Therefore, national income accounts which lack such details cannot convey an adequate picture of the economic activity of a nation.

5.7.4 Deficiency in Administrative Statistics:

It is sometimes claimed that the basic data are not collected to serve the construction of national accounts, and that the deficiencies that do exist are primarily the results of deficiencies in the basic micro set data rather than in the statistical methodology (26).

The data required to present the national income
accounts are derived largely from those sectors which keep accounts, publish financial statements, prepare data for census of production and distribution and make tax returns. Other sectors (e.g. informal, such as barter and subsistence activities) do not keep any accounts, therefore imputation for their transactions is necessary. In other words, the national accounts represent a consolidation of the accounts of the formal sectors and the imputation for the transactions of the informal sectors.

Certainly, if the accounts at the micro levels of any one of the formal sectors are incomplete, unsystematic or give conflicting estimates, it would be expected that the sectoral accounts, and consequently the national income accounts, would show the same weakness, leading to decision-making or conclusions with harmful effects on the economy.

In the developing countries, the national accounts are handicapped by lack of adequate information, especially in the present stage of micro units accounts.

The by-product approach, used in the collection of statistics needed for presentation of national income, is a problem. In this respect, Morgenstern (27) has argued that the most common source of error is that economic and financial statistics are merely by-products of business organisations, households and government activities, and the user must accept them as they stand, even though they may not have been designed and presented for the user's
needs. Therefore, they often record, measure and disseminate economic events that are not exactly the facts in which the user is interested.

Although, in theory, the national accounts are no more than a consolidation of the accounts of individual enterprises (the micro units), in practice they are not built up in this manner, either in developing or in developed countries.

In the UK., national income accounts are built up from indirect sources. The sources are (28):

a) Inland revenue data for tax assessment

b) The census of production, distribution and inquiries carried out by the Department of Trade and Industry

c) Central and Local Government Accounts

d) Balance of Payments Accounts

In the USA, national income and expenditure accounts are built up from the following sources (29):

a) The Federal Income Tax Administration which provides information on corporate and non-corporate incomes

b) The Social Security Administration which provides the main sources of information on employment incomes

c) The Census of Manufacture, Business, and Agriculture

d) The Government's Accounts

Young, (30) has commented on these sources of information needed for the USA national accounts as follows:
"The system was not designed to meet the needs of national income accountants. The statistics available to national income accountants in the US are, by and large, data that over the years, have been designed to meet a variety of needs."

Because there are various sources of statistics (to meet different needs) there may be considerable problems both in achieving consistency and in finding missing data.

Thus the data used in national income accounts may be inaccurate and misleading.

In developing countries, the sources of data or information needed for preparation of their national accounts are almost similar to those of developed countries. These sources may present even greater shortcomings as regards the data covered, and in consequence may have adverse effects on the achievement of objectives.

It may be concluded that the administrative information used in the construction of national income accounts may not be of the necessary quality to enable them to achieve their objectives.

5.7.5 The Absence of Stock Variables (Financial and Physical):

The practical relevance of a set of national income accounts must be judged by reference to its ability to assist the formulation of a suitable economic policy and to furnish the requisite data for analysis of the national situation.

The flow of economic data within a specific period
and the components of assets and liabilities held by the economic sectors for that period have been considered the two basic variables that are needed by any economist who wishes to analyse, measure and explain the economic behaviour of a specific sector, or a nation as a whole. An economist or financial analyst who uses only one of these two basic variables to analyse economic phenomena or the operation of a specific sector will produce, at best, an incomplete analysis. Therefore, national income accounts may not convey effective information for the purpose of economic analysis and for understanding the working of the economy, unless they are also supplemented by balance sheet data explaining the assets and liabilities held by each economic sector.

In fact, the balance sheet is an essential and complementary part of the national accounts. However, this important role cannot be realised from the present structure of national accounts.

5.8 National Income and Product Estimates in Egypt: General Discussion:

There is a long history of national income estimates in Egypt, going back to 1922, when L'evi, estimated the income of the country to be LE 301 m (31). This figure was immediately attacked with the charge that it was almost 100 percent too high (i.e., that the correct figure was near to LE 150 m.), while others offered additional evidence to support L'evi (32). The debate has been carefully summarized by M.A.Anis, who came to the
predictable conclusion that the best estimate was somewhere in the middle, probably in the range LE 200-250 m (33). The wide margin of error rests in large measure on the weakness of basic statistical data, making it virtually impossible to improve much on them now.

There have also been a number of detailed studies of particular sectors which either include or can be used to derive estimates of value added in these specific sectors. Aside from these the next major study of the aggregate income of the country was that of Anis (34). Originally presented as a doctoral thesis at the University of London, this work first covered the year 1937-45, but was later extended to include one additional year; 1950. The estimates were presented following three different approaches: (i) income by factor shares; (ii) output by industrial origin, and (iii) output by final use. Anis made clear that these three estimates were not independent and hence provided no real means of cross-checking the different totals. The third of these approaches was in fact quite useless; capital formation is taken as a residual, while personal consumption is estimated by multiplying rough estimates of quantity of each commodity used for consumption purposes by average annual retail prices quoted at Cairo official markets. Out of the various varieties quoted the main variety was chosen (35). In some sectors (industry, for example), annual employment data were to be added to those for the base year, adjusting for changes in wholesale prices of
the output of the sector; in the services, employment data were combined with rough estimates of wage rate, in some cases with a fixed markup to cover the non-wage component. On the distributive shares side, the weakest element was profits. "The method of estimate consisted of adding up incomes from different sources in the Cairo area as representing about 50 percent of the taxable capacity of the whole country" (36). All in all, the figures gave only a rough idea of the order of magnitude of gross national product.

The next major contribution to study of Egypt's income was contained in the doctoral thesis of S.H. Abdel Rahman (37). This estimate, which covered the years 1943-45, was designed to provide a comparable series with that of Anis. Abdel Rahman presented value added at market prices, while Anis's figures were at factor cost, so that direct comparison of individual sectors was not possible, although total indirect tax and subsidy figures made possible the presentation of a continuous series for the aggregate. The figures were estimated only from the output point of view.

Official interest in the preparation of national accounts dates from the mid-1950's, when the Statistical and Census Department of the Ministry of Finance and Economy undertook the task of making estimates of the income of the country. After some preliminary work on the year 1948, detailed estimates were made of the national income of the country in 1953, following both
sectoral value added and distributive shares approaches (38). This estimate was later extended back to 1950 and forward to 1954 by the Statistical and Census Department. The same department made further estimates covering 1957-60, which purported to be comparable with the earlier series (38).

For the earlier years, estimates were based heavily on an analysis of profit and loss statements of a small number of companies, along with data taken from tax returns. In later years, when the basic data had become a great deal more complete, experimentation with different classifications and methods of estimation occurred, so that the series is not easy to use as it stands. The estimates were also presented at constant (1954) prices for the period 1950-53 and were rather weak for the later years. During this later period, all services were deflated by the official cost-of-living index; trade was deflated by the price of 16 commodities, construction by the price of building materials. Mining and manufacturing were more satisfactorily handled, being deflated by the price of 28 major products, while in agriculture the figures were derived from the competent study of the Department of Statistics and Census evaluating both inputs and outputs at constant 1954 prices (40). With the passage of time and the accumulation of experience, the figures were expected to improve, although constantly changing personnel was identified as a continuing problem.
The great important step in the development of a national income account in Egypt came with the important work in this area by the National Planning Committee. In the first instance, this was centred around the year 1945; for that year, there is available a most impressive abundance of data on many different aspects of the economy. The most basic work of this intensive data-gathering effort was in the form of commodity flow studies; for each of some 303 commodities, estimates were made of the quantity and value of output, as well as the costs of production, broken down among intermediate inputs (specified among the same 300 commodities) and different components of value added. A circular was sent to all government departments, asking them to specify how much of each of these 300 commodities they had used during the year; special studies were made in the area of capital formation. A great deal of effort was expended to make sure that the data were consistent and comprehensive. The outcome was that all necessary data were at hand for estimating income, output, and expenditure, at least in the commodity-producing sectors of the economy. The service figures were clearly compiled on much shakier grounds. Although for some, such as commerce, the commodity statistics—which in principle tell the value of a commodity when it is sold by the producer as well as when it is bought by the user—were of great help in making the estimates. For others, such as household services, the data involved a large measure...
of guess-work.

In 1963, the National Planning Committee published a series of national income estimates covering the period 1952-53 to 1962-63 (41). There has been no published discussion as to how these estimates were derived, but they agree with the figures for 1959-60 in the Plan frame, as well as the figures for 1954 in Memo No.95 and Memo 1 (42).

In September 1964, a Presidential Decree was issued for the creation of the Central Agency for Public Mobilization and Statistics (CAPMS), as an independent organisation. All principal statistical work in the Republic was concentrated in this new organisation, in accordance with policy of grouping all identical activities, thus avoiding duplication.

One of the main tasks of the CAPMS is to collect, process and publish financial and national statistics covering the economic activity in Egypt as a whole. These statistics are prepared by the economic units and published according to the kind of economic activity, institutional sector and sub-sector.

In 1970, Egypt adopted the new SNA as recommended by the U.Ns.

5.9 Summary and Conclusion:

The rapid development of national income accounting since World War II has resulted in the concurrent use of many different systems of national income accounts for
different purposes.

At the present time, a large number of countries are using national income accounting to appraise their own current economic situations and to serve as a basis for socio-economic development planning especially in developing countries.

The present complicated framework of national accounts inhibits the limited statistical resources of developing countries in preparing the necessary statistics badly needed for national economic policy. Moreover, the deficiencies embodied in these accounts may render them of little use in achieving most of their objectives.

There is a long history of national income estimates in Egypt, going back to 1922 when L'evi estimated the income of the country. The first major study of aggregate income of Egypt is contained in the doctoral thesis of Anis, a study which covered the years 1937-45. The second major contribution to study of Egypt income was contained in the doctoral thesis of S.H. Abd El-Rahman, whose work covered the years 1945-54.

Official interest in the preparation of national accounts dates from the mid-1950, when studies were undertaken by the Statistical and Census department.

In 1964, a Presidential Decree was issues for the creation of CAPMS. One of the main tasks of the CAPMS is to collect, process and publish financial and national statistics.
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Chapter Six

Uniformity in Accounting:

Environmental Influences
6.1 Introduction:

It is well-known that the accounting system in any country must fulfil at least two functions: 1-giving a measurement of the entity's various activities over a specific period of time, and 2-offering a guide for control and decision-making.

The effectiveness of the information provided by an entity's accounting system is affected by the environment (economic, organisational, legal, institutional, and political aspects). Therefore its accounting system must be designed to reflect its existing environment.

However, most accounting authors do not define accounting in relation to overall environment; more usually they mention only part of the accounting environment (e.g. the entity's management or its shareholders or both) while ignoring other important influences (e.g. the government).

This chapter discusses in section one, where and when the idea of uniformity originated.

In section two we present definitions of uniformity according to different authors. This section also discusses the main types of uniformity.

The final section concentrates on the advantages and problems of uniformity and shows the significance of uniformity in accounting.

6.2 The History of the Uniform Accounting System:

The first attempt at uniform accounting took place about a century ago, in the US, in a form of a uniform
scheme in the private sector. The National Federation of Stone Manufacturers developed a uniform approach for ascertaining the costs of individual articles in 1889.

The second attempt was made among the printers. The local Typotheta Associations were concerned with problems of cost finding and interested in the development of a uniform scheme. The Standard Uniform Costs Finding System for Printers, however, was not applied by the United Typotheta of America until 1910 (1).

In the UK, E.J. Smith, who was a trade association secretary, in a series of articles published in the Birmingham Daily Post in 1895 and in his book published in 1899, set out his scheme of uniform systems. Smith at that early stage argued that "when you find uniform cost accounting systems, you find uniform figures" (2).

Kitchen and Parker, however point out that Edwin Guthrie (1841-1904), an English member of (ICAEW), argued in the early 1880s for uniformity, his first article on the subject being "The Want of Uniformity in the Modes of Stating Accounts" (3).

By the early 1930s, many supporters and needs for uniformity had appeared in the US (4).

In the UK, between 1913 and 1950, twenty-six uniform accounting systems were developed and used by the Federations and Associations, and by 1960 the figure reached about thirty uniform systems (5).

In US (up to 1950), about one hundred and fifty uniform schemes appeared (6).
In the European countries, however, a different philosophy of uniform accounting was developed. In Germany, Professor Eugene Schmalenbach of Cologne University invented a uniform accounting chart in the late 1920's.

Schmalenbach laid the basis, not only for all subsequent developments in uniform accounting in Germany, but also for the corresponding efforts in other countries including the USSR and other Eastern Bloc countries. Furthermore, Schmalenbach's uniform chart was introduced by Nazi Germany into occupied France, Belgium, Holland and many other countries during World War II. This was then transmitted to many developing countries, e.g. Egypt.

Unlike the Anglo Saxon approach, uniformity on the continent is not concerned only with one form of accounting: either cost accounting (to increase industrial efficiency, and reduce price competition on fixed pricing policy) or financial accounting, but rather with both. The main reason for adopting a comprehensive approach is that the governments of many countries on the continent are involved in planning and controlling their economic activities. In other words, such an approach is very important for national control and planning.

Having discussed briefly the history of uniform accounting, now we turn to define what uniformity means and what types of uniformity are practised in various countries.
6.3 Definition and Types of Uniformity:

6.3.1. Definition of Accounting:

There seems to be a general agreement that some accounting principles and practices are similarly applied internationally. Examples are: the use of double entry bookkeeping, the adoption of FIFO method for inventory, the application of the historical cost convention. On the other hand, uniformity in accounting has been practised differently from one country to another and basically depends on several environmental factors, e.g. ownerships; the nature of economic systems; business organisations; the influence of taxation laws and the strength and effectiveness of the accounting profession. As a result, many accounting writers give different definitions, according to the different approaches practised in different countries:

Al-hashim (7), who considers uniformity as purposive uniformity, also gives a definition which implies that uniformity can be identified regardless of the segment of the accounting domain to which it is applied, or of the specific objectives of its application. He stated that:

"The concept of purposive uniformity is a system of accounting control in which the interpretations of economic events and prescription of accounting methods and reports are purposive user's need"

Mueller for instance (8) defined uniformity as

"the uniform treatment of all accounting methods, procedures and concepts. It includes standardization of valuation applicable to accounting and specified treatment of
accountable events like business combinations, inceptions of private pension plans, or receipt of governmental subsidies or tax concessions"

Enthoven (9) considers that
"the principles, standards, chart of accounts, procedures, policies, methods and reporting are each uniform"

Bailey (10) follows a different approach. He distinguishes between a uniform accounting system and a standardised accounting system. In a uniform accounting system, Bailey recognises four degrees of uniformity:
1- Uniform system applied in cost accounting.
2- Uniform system applied in a specific industry.
3- Uniform system applied voluntarily.
4- Uniform system applied with flexibility.

For a standardised accounting system, Bailey identified four characteristics:
1- Standardised accounting system applied compulsorily.
2- Standardised accounting system applied universally to all units at the micro level.
3- Standardised accounting system applied as comprehensive coverage of the principal accounting records.
4- Uniformity of accounting procedure.

It seems that Bailey is rather confused. He describes a uniform accounting system as being flexible and then argues that a standardised accounting system has
uniformity of accounting procedures. He regards a standardised accounting system as being non-flexible and embracing all accounting regardless of its rigidity or flexibility and the area of accounting field, which uniformity covers.

Edey (10) takes a different line by including uniformity under the umbrella of standard requirements. However, his argument is restricted to the area of external financial reporting. For Edey, standards or standardisation do not always mean, or lead to, uniformity, as is the case with Enthoven. Edey suggests four types of standards:

Type 1 is to disclose methods and assumptions.

Type 2 is to achieve some kind of uniformity in presenting accounting statements.

Type 3 is to give attention to certain specific items.

Type 4 is to specify methods, criteria, measurement and choice among alternatives of some factors.

In Parker's words(12), there are three types of uniformity, as follows:

"Firstly, the chart of accounts approach found in Germany and in the current EEC harmonisation proposals, where the emphasis is on standardising the content and presentation of financial statements, as well as the main principles and certain practices of measurement and valuation' this still allows a limited degree of flexibility when applying the relevant practices and procedures to implement these principles, Secondly, the plan of
accounting approach, mainly found in France, where both private and public enterprise accounting processes (content, principles, and practices) are legislated for. This might be called standardised accounting with very little flexibility allowed; Thirdly, uniform accounting where everything in the accounting process has been standardised with no flexibility allowed at all."

Parker did not mention where the last approach is to be found; presumably the Soviet Union and the Eastern Bloc would provide examples.

Choi and Mueller(13) categorise various uniform accounting systems within three approaches.

The first is the business approach which uses the nature and environment of the business to determine the nature of uniformity. This approach is oriented specifically to particular users of accounting information and is employed in the design of sectoral uniform charts of accounts, e.g. a uniform accounting system for a specific industry will be based on the procedures which are already used by various entities within that industry.

The second is the economic approach, which gives priority to the needs of the national economy before technical matters. This approach is a macro approach, which links accounting to public policy. Hitler's regime between 1937 and 1945 is said to be an example.

The third approach is the technical or academic approach, which possesses three characteristics: It is analytical, in that it seeks to derive a uniform system from the basic conventions of double entry bookkeeping,
meaning that it gives consideration to specific characteristics of accounting procedures in an industry as a whole. It is a general approach, because it gives attention to specific business characteristics of accounting transactions or processes. It is theoretical, because it attempts to establish links between accounts of the same type in order that they will be treated consistently, e.g. Schmaelembach's chart of accounts for Germany.

These approaches are very interesting, but unfortunately, none of these writers has defined how they were arrived at, what methodology was used, or what data employed.

The above definitions of uniformity suggested by various accounting writers suffer from certain defects. These defects are:

1) Most English language writers on the uniformity concept in accounting do not make it clear that uniformity can have a methodological approach through which objectivity and rationality in the adoption of accounting methods can be achieved. Uniformity could be defined as the application of accounting methods and procedures at any organisational level. Its application could cover certain accounting methods and procedures from all accounting fields, certain accounting methods and procedures from some accounting fields, and certain accounting methods and procedures from a single field. That is, if uniformity for a specific accounting object
cannot be applied at the national level, then an attempt must be made to find out whether it is possible to apply it at the sectoral level, e.g. the industrial sector, and if it is found that uniformity cannot be applied at a sectoral level, an attempt must be made to find out whether it is possible to apply it at the industry level, e.g. tourism, the motor industry etc.

2) The definition of uniformity is usually restricted to (a) either the writer's national environment, e.g. Edey and Choi who restrict their definition of uniformity to the area of external financial reporting research in the UK and the USA, (b) or to the writer's own field of interest, e.g. Bailey who is particularly interested in accounting in the Soviet Union, so that his definition of uniformity is restricted mainly to the Soviet uniform accounting system. Although Enthoven, and Choi and Mueller attempt a wider definition, their analysis lacks depth.

3) The objectives of applying uniformity in each area of accounting or in each organisational system are given little attention in accounting literature. Overlooking the true objectives of uniformity in each area of application may well give the impression that uniformity is desirable for its own sake.

In general, it is possible to arrive at a comprehensive definition of uniformity, which would meet the needs of developing countries. It should incorporate
all branches of accounting, all accounting variables (methods, rules, standards, and procedures), all levels of the economy (micro and macro) into one uniform accounting framework.

Based on the above, we may derive the following definition:

A uniform set of rules and procedures to facilitate the gathering recording, classifying presentation and publication of accounting information. The uniform system consists of: A chart of accounts; definitions of accounting terms; specified valuation and measurement rules; and a uniform financial year. It provides regulations for preparing financial statements through a uniform content and format and is considered as an extensive tool for providing information for planning and control bodies.

6.3.2 Degree (Types) of Uniformity:

In spite of the above differences in definitions of uniformity in accounting, there seems to be a general agreement (Mueller, 1967; Parker, 1972; and Enthoven, 1973) that internationally there are three degrees of uniformity in accounting.

6.3.2.1 Uniform Principles or Standard of Accounts:

This type includes accounting concepts, principles and external reporting. This type of uniformity is weak, because it may be applied to valuation of fixed assets, inventory valuation and the recognition of revenues and expenses (14).
The objective of this type is to issue rules for external reporting only (15), in order to facilitate compatibility (16), (17).

Moreover, it limits unnecessary managerial discretion over the choice of accounting principles.

In the UK and USA, accounting standards for external financial reporting are set by professional accounting bodies and companies. From those currently applicable, we can say that both the UK and US are far from uniformity. It appears that managements use the available diversity of accounting principles, standards, and methods to enhance their firms' activities, rather than to provide the necessary information to the users.

At this point, it seems appropriate to give an idea of the full extent of diversity in accounting practices. Chambers calculated that there are at least four methods of revenue recognition, eight methods of taxation, seventy-two ways of forming an aggregate set of depreciable assets, one hundred and thirty-two methods of inventory valuation calculation and at least thirty-two ways of stating miscellaneous expenses in accounting statements. Chambers, in his conclusion expects over thirty million possible variations in any financial statement, according to generally accepted accounting standards (18). The evidence suggests that these countries apply considerable diversity of accounting principles and standards, and choose, from the methods available, those suited to their own needs, rather than to satisfy the
needs of users. It may be doubted, therefore, whether an approach which allows such diversity should be considered as a type of uniformity.

6.3.2.2 Uniform Chart of Accounts:

This type of Uniformity is mainly concerned with financial external reporting at micro level\(^{19}\). A uniform chart of accounts is one of the very important elements of uniformity and it is mainly concerned to classify accounting information, enabling the users to have classified, up-to-date and quick access to data for different purposes.

The chart of accounts can be set at micro level (e.g. the Swedish M-Chart for Metalworks Industries \(^{20}\), the macro level (as in the case of Germany today) and at the international level (e.g. the EEC). However, Parker has pointed out that:

"... the chart of accounts approach, found in Germany and in the current EEC harmonisation proposals, where the emphasis is on standardising the content and presentation of financial statements, as well as the main principles and certain practices of measurement and valuation, still allowed a limited degree of flexibility when applying the relevant practices and procedures to implement these principles"\(^{21}\).

In addition, this type of uniformity is still financial and micro-oriented and little concerned with national planning purposes. It would be much more useful if developing countries were to give more consideration to macro-orientation and national economic planning as a
vital step in the move towards a complete uniform accounting system.

6.3.2.3 Uniform Plan of Account (Uniform Accounting System):

Increased government involvement in control of economic activity has resulted in greater need for accounting information, mainly for planning and control purposes. The earlier accounting systems became irrelevant for the newly-established trade, industrial, and agricultural state organisations. Difficulties were faced in the production of various accounting systems, methods and procedures. In addition, valuation rules, terminology and measurements were used differently from one state company to another and even differently from year to year in the same company. Consequently, comparison between similar state companies became difficult and the linkage between enterprise accounting and national accounting, necessary for planning and control, was also difficult to achieve.

In order to produce more relevant data to help central planning and control, governments have become concerned to improve the information systems in their countries.

Uniformity was sought as a solution to the problems which were facing central planners and controllers as a result of the use of different accounting systems.

The uniform plan of accounts is a comprehensive system of identification, collection, measurement,
processing of data in lay-out of accounts and tables, summarisation and reporting of data. This may be applied to all economic units in a country (e.g. former USSR), to all enterprises above a certain size (e.g. France); or to the public sector alone (e.g. Egypt).

One might infer that uniformity has had an effect on accounting systems throughout the world, yet nothing would be further from the truth. Despite some similarities, there are many systems in many countries, but no two systems are exactly alike. Such diversity can be attributed to the differences in the stage of economic development and the regulations governing the content and format of accounts.

Brinton (1978) and Mueller (1968) argued that due to the unique cultural, political, social and economic environment of each country, a national uniform accounting system based on the particular requirements of each country should be pursued.

6.4 Appraisal of Uniformity in Accounting:

This section addresses the advantages and problems of uniformity.

6.4.1 Advantages of Establishing a U A S:

6.4.1.1 Comparability:

The main reason for uniformity is that it allows comparability between financial information of various companies and various industries, as an aid to policy-setting and implementation.

This helps investors when making choices among
investment alternatives, and government in a planned economy to choose among alternative projects.

Uniformity would help users to understand, compare, evaluate and analyse financial statements in decision-making on the allocation of economic resources.

At the national level, comparability of information is necessary to planners in choosing investment alternatives, and for cost-benefit analysis.

It is not only investors, governments and national planners who need comparability of information, but also managements of enterprises. For management, information must be comparable within the firm, and between their own firms and others, to help them maximise efficiency.

6.4.1.2 Development of Accounting Theory:

Some writers argue that uniformity in accounting would help to develop accounting theory in a uniform and more rational way. If the procedures and methods of accounting are uniformly designed, then major attention can be focused on theoretical aspects rather than on the practical matters of accounting(29).

6.4.1.3 Helping Economic Affairs:

Most governments are increasingly involved in economic affairs, in both developed and developing countries. To provide the necessary financial and other information in a uniform manner for those governments, uniformity is designed to facilitate collection, classification, summarisation, consolidation and integration, and storage of accounting information in a
uniform manner.

Weakness in current national accounting statistics in many developing countries may create a need for uniformity in the accounting and reporting of their public and private sectors. Further, uniformity also helps with price control, especially in circumstances of economic stress (e.g. strikes, riots, and wars) by providing information for inter-company comparisons between similar organisations. Uniformity is not only urgently needed for economic development by a central government, but it is also necessary for the capital market as a supply of useful comparable information. Furthermore, uniform accounting information is very useful for many other groups, e.g. trade unions, taxation authorities, MNCs and the World Bank.

6.4.1.4 Helping in the Better Allocation and Training of Accounting Staff:

Uniformity would simplify transfer of accounting staff from one company to another, or from one industry to another, as those transferring would be met by a uniform accounting system with which they are already familiar. In addition, a uniform system could shorten the time and reduce the costs needed for the training of accounting staff and help in lecturing at the different levels of accounting education.

Advocates of uniformity argue that it would be of major benefit to many developing countries, which suffer from the lack of qualified personnel. In this regard,
Enthoven has argued that:

"In developing countries in particular the lack of good accounting personnel poses a serious problem and uniform procedures would facilitate the training process and transfer of know-how and skill" (23).

Furthermore, in developing countries where there is a shortage of qualified accounting staff, weak professional bodies and rapid economic expansion, a mandatory system would help improve the overall usefulness of accounting information. In addition, uniformity would make the work of accountants much easier, because the selection of an accounting method may be time-consuming and difficult.

6.4.1.5 Improving Internal and External Auditing:

Advocates of uniformity argue that internal and external auditing are greatly facilitated within a uniform accounting system, because rules and codes are simple and clear.

In the researcher's view, uniformity would help to confirm the acceptability and reliability of published financial figures. In the late 1960s in the UK and US, doubts were expressed in the press respecting the reliability and credibility of financial statements (24).

This situation led to the creation of bodies such as the Accounting Standards Committee (ASC) in the UK and the Accounting Principles Board (APB) and the Financial Accounting Standards Board (FASB) in the US.
6.4.1.6 Improving the Role of Government in Accounting Activities:

Usually, uniform accounting systems are introduced by law; decrees or Companies Acts. This means that central government is involved in controlling all aspects of accounting activities, directly or indirectly. A uniform accounting system might therefore improve taxation rules as accounting and taxation are closely linked, and any change in one will be followed, in consequence, by effects on the other.

6.4.1.7 Computerised Accountancy:

Other arguments are that uniformity would facilitate the adoption and introduction of computerised accounting and that it is very necessary for many developing countries for improving the accounting practice of small companies.

The above listed advantages and arguments for uniformity are general. However, it may be said that there are other advantages:

1- It would reduce the load on external auditors because this would make the job of the internal auditor more straightforward.

2- It would facilitate the design of development policies and plans.

3- Small organisations could be more effective and efficient if information were better unified.

4- It would facilitate the formulation of fiscal policy
(including budgeting) and administration.

6.4.2 Reasons for and Problems Associated with Uniformity:

6.4.2.1 Reasons for Uniformity in Accounting:

The degree of uniformity and its nature differs from one country to another. This difference depends on many elements influencing accounting including the structure of the economic systems and the nature of ownership of business organisations. For example in the UK and US, standardisation is adopted primarily to protect public interest (investors, creditors) through companies legislation.

In France, uniformity is basically undertaken to serve the government by providing the required uniform information for national planning and control. This is achieved by requiring companies of a certain size to adopt the accounting plan, while in smaller companies its use is optional.

In the former Soviet Union the uniform accounting system is mainly adopted to supply the data required by national planners, and controllers at all levels of the economy.

In the cases of France and the Soviet Union, one finds that the objectives of uniformity vary, even though uniformity is basically adopted to supply the required data for planning and control in both countries. Specified companies in France are required to follow the accounting plan, by which they have to supply the government with various accounting data and information.
for different purposes, including those for planning and control of the economy. However these companies themselves are responsible for planning and control of their own activities. The case in the former Soviet Union is different; every enterprise is obliged to apply a rigid uniform accounting system. The planning and control of the economy and the operations of each enterprise are the responsibility of the central government.

From the above, it can be seen that reasons for adopting uniformity differ even with respect to government power to regulate the economy.

6.4.2.2 Problems of Uniformity:

Having discussed the advantages of uniformity, it is useful now to illustrate the following arguments against uniformity.

6.4.2.2.1 It Hinders the Development of Accounting Theory:

Uniformity would hinder the development of accounting theory and practice. It becomes a strait-jacket for accounting information for accountants. As uniformity means the uniform treatment of all methods, procedures and practice, it would be difficult to make changes or modify practices or procedures under a uniform system. This argument may be valid if rigid uniformity is adopted. On the other hand, Spacek has argued that diversity has been used as a cover-up for irregularities and has prevented real and efficient progress\(^{(25)}\). In other words, the accusation that uniformity prevents
progress is only a theoretical argument not supported by any empirical evidence.

If a uniform system is well designed, then more theoretical progress is to be expected. At the same time, greater interest would be given to theoretical matters than to practical aspects of accounting, as practice would be determined by uniformity in accounting procedures and methods, saving time and effort, as compared with the situation under diversity (26).

6.4.2.2.2 The Sophism of Comparability:

Opponents of uniformity often claim that the argument that uniformity facilitates comparability is a sophism, since comparability itself is a false notion. They argue that, as there are many different kinds of industry and activity, it would be difficult to design a single system that would meet all needs. Consequently, it might be preferable to allow accounting to follow diverse paths, to fit different requirements. The counter to this argument is that, for investment decisions, comparability is of vital importance, so that the investors can make up their minds as to where and when to invest. It is therefore suggested that accounting diversity is used, not so much to reflect varying economic circumstances, as to allow management to use accounting alternatives for their own purposes. For financial and economic decision-making, a degree of comparability is required which is best achieved by accounting uniformity.
6.4.2.2.3. The Difficulty of Implementing Uniformity in a Short Time:

Before uniformity can be applied in any country, many changes are necessary. The different accounting laws were created as a guide in providing various types of information to meet the needs of different users of the information and, unless existing legislation can be modified, it would be rather difficult to implement uniformity. In fact the process of designing a uniform system takes a long time and great care. One cannot expect to change accounting rules and regulations overnight. One has to take the environmental factors and the practices of accounting into account, so that the desired changes can be achieved.

6.4.2.2.4 The Cost of Uniformity:

Uniformity is normally concerned with big companies. For small companies, the cost of implementing uniformity may be excessive. Moreover, government control over the system may also be costly.

In fact, the adoption of uniformity is no more costly than diversity, because the uniform system at national, sectoral or individual level, should reduce the number of accounting systems to be implemented. Whereas an industry comprising 100 firms could, under diversity, have 100 different accounting systems, in the case of uniformity only one system is needed. Frequently the cost of training will be less than with diverse systems.

Moreover, shareholders can benefit from obtaining information at a lower cost (27). This is because the
uniform accounting system can be more easily understood than diverse accounting systems. The same argument of cost reduction can be found in respect of auditing fees.

6.4.2.2.5 Restriction of Management Freedom:

In the case of compulsory adoption of uniformity, management is left with no freedom to choose among accounting alternatives which might suit them better. Opponents of uniformity also argue that giving management the freedom to select from diverse accounting principles would allow it to choose the right alternative to reflect economic conditions.

They also suggest that imposing uniform methods and rules for every set of circumstances would hamper the use of prudent and professional intelligence by rational management.

It can be seen from the above that the advantages of uniformity outweigh the problems associated with it, as many of the latter are superficial. Uniform accounting is of great benefit to many users, including investors, shareholders, governmental bodies, lenders and financial analysts as well as accounting firms.

6.5 Summary and Conclusion:

This chapter has shown that uniformity in accounting appears to have advantages both in a centrally-planned economy and in a free market economy. A uniform accounting system could be designed to serve private and public sector users. A comprehensive uniform accounting system covers uniform definition of accounting terms,
principles, standards, procedures, a standard chart of accounts, and standardised models for financial reporting. Uniform accounting could be equally applicable for small firms or large scale enterprises.

Uniformity has many advantages, which far outweigh its disadvantages, as has been shown in the previous sections. In particular, it is very useful for developed and developing countries which are adopting central planning as a policy of economic development and where the public sector is dominant.

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2- Ibid., pp.239-240.


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Chapter Seven

Effectiveness of Uniform Accounting System: The Egyptian Experience
7.1 Introduction:

In the previous chapter the researcher discussed uniformity in accounting in general. This chapter sets out to investigate the organisation, structure, and environment of the Egyptian accounting system. At the same time it highlights the major problems that affect the effectiveness of the disseminated information and try to suggest solutions. These problems will be classified into these categories: structural, organisational, and environmental. The researcher has made use of data gathered from personal interviews with some specialists on uniform accounting and economic planning, as well as literature on the subject of uniform accounting in Egypt.

7.2 The Organisation of the UAS:

The Egyptian Uniform System is documented in a Manual organised in three parts. The first part is divided into two sub-parts, the first of which deals with the objectives of the system, the methodology used in preparing the system and the economic units to which the UAS applies. The second sub-part consists of four chapters covering (1) the chart of accounts; (2) the principles, rules, procedures; (3) terminology and definitions to be followed; the number and format of the financial and cash budgeting reports; and (4) the rules to be used. The second part contains five appendices as follows:

1- Depreciation rates
2- Rules of financial control
3- Detailed and periodic information

4- Special registers to be kept by public sector enterprises

5- Documents concerning the preparation, authorisation, and publication of the UAS

7.2.1 The Main Features Of The UAS In Egypt:

The outstanding features of the UAS can be summarised as follows:

(1) The uniform system of accounting affects all public enterprises except banks and insurance companies.

(2) The accounting systems are classified to provide information for planning and control at all levels in the economy, including data needed for the construction of national income accounts.

(3) The system contains a general framework for cost accounting, mainly depreciation and inventory valuation, leaving specific details to be determined by each enterprise.

(4) Each public enterprise is required to present a financial report which includes:

a) Report of the Board of Directors;

b) Financial statements and final accounts;

c) Auditor's report;
d) Report on the efficiency of the enterprise's management.

(5) Footnotes, as such, are not permitted in the Uniform System of Accounts. Any supplementary accounting information has to be included in the report of the Board of Directors.

7.2.2 Application of the System:

Public economic sector units have had to adopt the UAS since 9th July 1967 (the beginning of the financial year 1967/68), with the exception of the banks and insurance companies which are regulated by special laws. The application of the system in the private sector was left to the relevant Minister, who decided whether or not the system was to be applied according to the importance of the activity concerned for national planning and control. The public economic units which must adopt the system are nominated by the CAA, and may take one or other of the following forms (1):

- A public organisation or institution.

- A public company;

- A co-operative or an establishment attached to the public organisation.

7.2.3 The Development of the Egyptian Accounting System:

The modern history of Egypt has witnessed a series of regulations which have affected, directly or indirectly, book-keeping by the business sector. Special
reference should be made here to:

(I) The High Decree promulgating the Commerce Act on 13th November 1883;

(II) The Taxation Act No.14 for 1939;

(III) Act No.26 for 1954 concerning "Certain Rules for Joint Stock Companies and Limited Liability Companies".

The first of these Acts required businessmen to keep the following book and journals (2):

1- Correspondence Book: to keep copies of their correspondence with debtors and creditors.

2- Journals: to record their transactions, using the double-entry system.

Usually, various daily transactions were entered in original and subsidiary "Journals" and then posted to general and auxiliary ledgers, where personal and nominal accounts are sorted out. These established traditions were taken into consideration when the UAS was formulated.

3- Book of Goods: to record the goods under their command at the end of every fiscal year.

Although the types of books currently used to record transactions were the outcome of both legislation and tradition, the determination of accounting principles, terms, concepts and definitions was left entirely to
different business practices, leading to wide variations.

The declared "Balance Sheets" and "Profit and Loss Accounts" often failed to reflect the true position of the enterprise.

Act No.14 for 1939, required companies to prepare financial statements making their profit or loss clear for tax purposes. The Act did not have any direct affect on the accounting system, since it included no specific provisions concerning accounting regulations, but asked for profit and loss accounts showing a true and fair profit figure. Certain expenses were identified as acceptable for setting against tax, and the straight line method for depreciation of assets was required. That Act obliged tax-payers to support their tax report with copies of final accounts and the balance sheet, ratified by a chartered accountant, according to the requirements of tax legislation.

"Although the aim of that rule was to encourage the tax-payer to keep his books properly, the way in which this was to be done was not specified, it was instead left to accounting conventions and the accountant's opinion as to whether a firm kept books properly or otherwise (3)."

"Act No.388 for 1953, concerning commercial books (which was amended by Act No.58 for 1954) stipulated that, the journal, correspondence book, and inventory register were regarded as minimum books to be kept by each firm whose capital is more than one thousand pounds (4)."

Act No.26 for 1954 concerned disclosure in
corporations and limited companies. This Act gave Companies the discretion to choose a book-keeping method, provided that the requirements of the Act were fulfilled. The Act also required the employment of an auditor and laid down conditions for ensuring his competence and independence. It also required the auditor's report to include his opinion of the company's bookkeeping system, and the correctness or otherwise of its accounts.

Act No.26 for 1954 remained in force until 1981, when the Capital Market Authority, in its attempts to reactivate the capital market, adopted a draft law with a view to its amendment. These amendments were effected in the law No.157 of 1981, which included almost the same articles as Companies Act No.26 of 1954 regarding the company auditor, but added a new article recognising the auditor's responsibility towards the company, shareholders and third party beneficiaries for any damage resulting from mistakes in his audit. In addition, the auditor was required to comply with auditing standards attached to the law, which were prepared by a special committee established in May 1980 from the accounting profession.

7.3 General Objectives of the UAS:

Although several requirements for information have been met by the formulation of the UAS, it must be admitted that certain demands, emerging from both the economic units themselves and other institutions, can
hardly be satisfied unless the UAS is supplemented by a uniform cost accounting system for each kind of activity. However, the general objectives of the UAS may be summarized as follows:

7.3.a Provision of a "Chart of Accounts" embracing a wide range of comparable basic information, as well as several accounting statements which are required for planning and control at all levels of organisational structure.

For example, at the level of the economic unit (at micro-level), the enterprises must prepare three budgets:

Physical budget, financial budget and cash budget. This will enable the enterprises to co-ordinate their plans in physical terms with their financial plans. This co-ordination is essential for achieving economic balance at the micro level. The system provides the necessary information for the decision-making process and the analysis of the financial statements.

At the macro-level, the system serves the Ministry of Planning by facilitating the co-ordination of the individual (micro-level) financial and cash budgets, with the national plan. Also, the system provides uniform information to enable the Ministry to follow up the plan at all levels. The system supplies the information needed by the Ministry of Treasury and the Ministry of Economics by co-ordinating the accounts of economic units with the national budget and the Foreign currency budget. The uniform accounting system facilitates the function of the
Central Auditing Agency in carrying out financial control and performance evaluation through the provision of uniform information. Moreover, it supplies the Central Agency for Public Mobilisation and Statistics with uniform information which facilitates the process of tabulating and storing information.

7.3.b Provision of necessary links between micro-accounting on the one hand and macro-accounting on the other, thus contributing to the accuracy of NIAs based on business accounts of economic units.

Tignon (8) argues that: "Micro-accounting would provide an effective data base for macro-accounting if the following factors prevail:

(1) An agreement between micro-accounting and macro-accounting regarding the definitions, the measurement base, the unit of measurement and the basis of accounting, of the input data necessary for obtaining information on certain economic constructs that would be needed for evaluating the country's economic performance or for monitoring the progress of a development plan.

(2) An agreement between micro-accounting and macro-accounting regarding the qualitative characteristics, classifications and degree of detail of micro-accounting data for macro-accounting purpose.

(3) An awareness by accountants, at the micro-level, that the accounting measurements they perform could have a significant impact upon policy-making at the macro-level. Such an awareness is necessary to induce accountants to broaden the scope of their accounting work and to accept the challenge of their new role in the development process.

(4) An awareness by management of micro units of the application of certain macro aggregates.
in planning and controlling their operations effectively. Such an awareness is necessary to stimulate the support needed for the creation of micro-accounting systems that are comparable with the needed macro-accounting system."

In fact, the UAS in Egypt has met the first and second requirements by unifying the definitions, the base and the unit of measurement of accounting information, classifications and the qualitative characteristics. However the third requirement has not yet been met. There is a need for in-depth training for both accountants and managements to increase their awareness of their new role in the development process.

7.3.c Facilitating the collection, tabulation and assimilation of standardised data.

The tabulation of data in a unified manner would:

1- improve the process of collecting information needed by the state;

2- provide the government with accurate data;

3- enable data to be collected from all economic activities in the country in a short time;

4- enable the government to measure accurately the performance of a particular public enterprise and make appropriate comparisons with similar enterprises (9).

In relation to the above, it is worth making the following points:
1- The significant role of the system in society is to provide useful information about economic entities, which can be used to facilitate planning. The provision of uniform accounting information, the links between micro-accounting and macro-accounting and tabulation of the stored uniform data could serve the purposes of economic decision-making at the micro and macro levels.

2- The users of the financial reports produced as a result of the application of the system have been classified into internal users (management at the micro-level) and external users (governmental organisations, e.g. Ministry of Planning, Ministry of Treasury, The Central Auditing Agency and Central Agency of Public Mobilisation and Statistics). In Egypt governmental bodies head the list of users of accounting information.

3- Internal users of accounting information need it for planning, control and decision-making. External users need it for national planning and control.

4- Economic units must meet users needs by preparing the following budgets:\(^{10}\):

- Physical budget
- Financial budget
- Cash budget

These budgets enable the management to co-ordinate their plans in physical terms with their financial plans...
and to achieve control of the organisation's operations (For more detail, see section 7.9).

In addition, economic units must prepare the following statements and accounts:

a) Balance sheet, b) Statement of Sources and Applications of Funds, c) Current Operations Account,

d) Production and Trading Account, e) Profit and Loss Account, and f) Cash Statement. (See more detail in section 7.8)

"Apart from the traditional types (a, d, e), the above statements and accounts include other types (b, c, f) which were introduced to serve the purposes of national planning and control (11)"

7.4 Economic Units to Implement The System:

Basically, the uniform accounting system applies to all economic units of the public sector, except banks and insurance companies. However, since comprehensive national planning in Egypt requires information from both public and private sectors of the economy, the scope of the UAS may be extended to cover the economic units of the latter sector. This can be arranged through decisions by the authorities concerned.

"The "economic unit" referred to in the UAS may be defined as 'that unit engaged in an economic activity whether in industry, commerce, agriculture, real estate or otherwise, including public organisations and institutions, which is legally asked to prepare
commercial balance sheets and income and expenditure account even though it is not engaged directly in any of the indicated activities (12).

Public sector economic units may take one of the following forms: I) a public organisation or institution, II) a public company, III) a co-operative or establishment attached to a public organisation.

7.5 General Criteria Underlying The Formulation Of The UAS:

The main criteria behind the formulation of the UAS are (13):

I) simplicity, clarity and flexibility;

II) agreement with widely accepted accounting principles;

III) practicability, and

IV) ability to meet demands for information emerging from both the economic units and other institutions.

According to the first criterion, the "chart of accounts" has been supplemented by sufficiently detailed explanations and interpretations. Moreover, the UAS is mainly limited to financial accounting without detailed coverage of cost accounting. As to flexibility, it may be noted that the "Chart of Accounts" included in the UAS is regarded as a minimum, and the CAA allows public sector enterprises to add such additional items as the management consider necessary, though they must first consult the relevant minister and obtain the approval of the CAA. For the sake of flexibility, the UA law of 1966 established the Permanent Special Committee (PSC), which
continuously reviews and evaluates the UAS and suggests revisions if the need arises.

Briston and El-Ashker added that (14).

"The flexibility of the system is of great importance, for it enables the system to respond to changing circumstances and the development of new ones, and new ideas. As a consequence there is less fear that a standardised system might lead to a superfinancial appearance of uniformity and result in inflexible and unresponsive accounting procedures."

Concerning the second criterion, it may be noted that the UAS has for the most part maintained those accounting principles, terms, concepts and definitions which are generally accepted in current practice in Egypt. This is justified on the grounds that the introduction of substantial changes might cause inordinate confusion and distortion.

As regards the remaining criteria, it is worth pointing out that the formulation of the UAS allows it to meet the present and potential requirements of the economic units, as well as requirements emerging for various other bodies.

7.6 The Approach Adopted in the Preparation of the System:

The process of preparing the UAS is outlined below (15) and illustrated in Figure (7.1).
FIGURE 7.1: Organization Chart of the United Accountant System Preparatory Process

(I) After preparing a draft project in the light of practical experience, the CAA submitted a suggested programme for its examination by producers and users of accounting data.

(II) Presidential Decree No. 2125 for 1966 (issued on May 1966) established the High Committee for supervising the formulation of the UAS under the chairmanship of the Vice-President of the Republic and Head of the CAA. This High Committee was assisted by the Central Technical Committee. The Vice President of the Republic was authorised to appraise the project and suggest programmes for its formulation and implementation. According to the Presidential Decree indicated above, a period of six months was determined for the preparation of the UAS.

(III) Together with the formation of the Central Technical Committee (Decree No. 16 for 1966), a Technical Secretariat and several Sectoral-Sub-Committees were established to assist in examining the suggested project.

(IV) The project was carefully edited and revised by a Drafting and Co-Ordinating Group which was appointed by the Central Technical Committee. The Group consisted of six experts who were members of the latter Committee and/or the Technical Secretariat.

(V) After the High Committee had approved the project in
its final form, Presidential Decree No. 4723 (dated 10 December 1966) was issued promulgating the UAS.

Additionally, "according to the Presidential Act No. 4723 for 1966, the Vice-President of the Republic and Head of the CAA is authorised to form a "Standing Committee on Clarification and Amendment of UAS"). The purpose of the Committee (and its Sub-Committee) is two-fold: First, it provides answers to questions that may be raised by both producer and users of accounting information included in the US. All interpretations and clarifications of the system must emerge from this Standing Committee. Secondly it is entrusted with all modifications in both form and substance of the system" (16)

On the basis of the above, it can be concluded that the approach which was adopted in the preparation and clarification of the system had the following characteristics:

(1) In the preparation of the system, a combination of inductive and deductive approaches was achieved. For example, the draft project which was prepared by the Central Auditing Agency included a clear statement of the system's objectives, a number of assumptions about the environment in which the system was to function and the development of a number of principles derived from the objectives (deductive approach). The observation process (inductive approach) was conducted by various committees.
(2) It is both autocratic and democratic: the system's objectives were autocratically imposed, and the system itself was issued by legislation. However in the process of developing the system, the users and preparers of accounting data were represented in the different committees (democratic approach). Moreover, through their questions and representations to the Standing Committee on Clarification and Amendment of the System, preparers and users may influence its modification.

7.7 The Elements of Financial Statements:

7.7.1 Chart of Accounts:

The classification and coding of accounts and the definitions are essential features of the Egyptian uniform accounting system. In fact, when a country seeks to standardise its accounting, a code of accounts is usually first prescribed. A uniform chart of accounts makes it easy to classify accounting information, enabling government or central authorities to have classified, up-to-date and quick access to data for different purposes. So the code of accounts is considered to be the main element of uniform accounting.

The requirements of a good standard chart of accounts are (17):

" A - Flexibility :

The chart of accounts must be flexible, adaptable to the circumstances and adaptable with equal ease by all economic units."

235
B - Lucidity and Distinctness:

The chart must be simple and logical, easily understood and readily fixed in the memory. The terms and concepts must be defined in an unambiguous manner. The scope of each class, each group and each account must be defined clearly. The borderlines should be drawn in such a manner that the sums or balance of cases and groups are significant and important figures.

C - The Classification Symbols:

The use of symbols for all accounts is necessary... to allow the giving of precise titles to the accounts..."

The question now arises: does the Egyptian Uniform Chart of Accounts fulfil the above criteria?

Let us look at each criterion in turn. Concerning flexibility: the code is regarded as a minimum to ensure ability to meet future demands for information for both central bodies and the state organisation. Moreover, the uniform accounting law of 1966 set up a Permanent Special Committee (PSC) to provide a continuing review and evaluation of the UAS and to suggest revisions when necessary, and public sector units have the right to add additional items, depending upon their needs, provided that they consult the relevant authority and acquire the approval of the CAA(18).

Concerning lucidity and distinctness, in order to avoid confusion in classification, accounts are not only headed and numerically identified, but are also clearly described in sufficient detail. These explanations and clarifications of the chart of accounts are intended to
ensure precise understanding of what these accounts actually mean. The system proceeds to the standardisation of definitions, since these are the backbone of any uniform system. In the field of financial accounting, terms and definitions which vary in current practice have been standardised. Generally, standardisation has kept faithfully to the principle of maintaining those terms and definitions which are most accepted in practice.(19)

Concerning classification symbols, "Notations in the chart of accounts" are made in terms of numbers (with the exception of zero). This national system meets the requirements of economic units using mechanical processing of accounting data and provides a means whereby the classification can be expanded. Accounts included in the chart are classified into three main categories, namely (1) balance-sheet accounts, (2) operating accounts, and (3) control accounts. The Egyptian uniform code classifies the accounts into four main classes: assets, equities, uses of resources, and sources. The first two classes constitute the balance sheet accounts. The last two classes constitute the operating and result account.

The structure of the uniform chart of accounts is easily described. Classes 1 and 2 are the balance sheet accounts. Classes 3 and 4 are reserved for the reporting of operating results, while 5 and 6 deal with the cost accounting system at the production level. Class 7 relates to the marketing department, class 8 to general
organisation expenses and class 9 to financial expenses. In classes 1 and 2, the second digit has special significance: 4 deals with long term, while 6 deals with financial relationships with trade overtones (e.g. supplier, customer relationships). In classes 3 and 4, no such special significance is attached to their second place digits, and they are therefore class-specific. The second-place digits of classes 5 to 8 are functional cost allocations based on the cost classifications of class 3. This system of notation is illustrated in the framework of the chart of accounts, Figure (7.2) (20). This uniform chart is used to guide financial accounting and the preparation of final statements. It also helps prepare national accounts.
### Balance-Sheet Accounts

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
<th>Operating Accounts</th>
<th>Distribution of Uses by Control Centre of</th>
<th>Capital Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Assets</td>
<td>2 Liabilities</td>
<td>3 Uses</td>
<td>4 Sources</td>
<td>5 Production</td>
</tr>
<tr>
<td>11 Fixed Assets</td>
<td>21 Capital</td>
<td>31 Wages</td>
<td>41 Sales</td>
<td>531 Wages</td>
</tr>
<tr>
<td>12 Projects Under Construction</td>
<td>22 Reserves &amp; Surplus</td>
<td>32 Commodity Inputs</td>
<td>42 Subsidies</td>
<td>532 Commodity Inputs</td>
</tr>
<tr>
<td>13 Inventories &amp; Work in Progress</td>
<td>23 Provisions</td>
<td>33 Non-Commodity Inputs</td>
<td>43 Income of Securities</td>
<td>533 Non-Commodity Inputs</td>
</tr>
<tr>
<td>14 Long-Term Debt</td>
<td>24 Long-Term Liabilities</td>
<td>34 Purchases for Re-Sale</td>
<td>44 Transfer Receipts</td>
<td>534 Purchases for Re-Sale</td>
</tr>
<tr>
<td>16 Debtors</td>
<td>26 Creditors</td>
<td>36 Current Specified Transfers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>17 Miscellaneous Debt Accounts</td>
<td>27 Miscellaneous Credit Accounts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18 Cash in Hand And at Banks</td>
<td>28 Current Surplus or Deficit</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: The Uniform Accounting System, pp. 24-25.
7.8 **Accounting Report:**

The Egyptian uniform accounting system requires enterprises to prepare the following financial statements and final accounts:

1- a balance sheet
2- a sources and uses of capital funds statement
3- a current operations account
4- a production and trading account
5- a profit and loss account
6- a cash flow statement

Each of these statements should be presented in a form supplied by the CAA to the company. In addition to the normal information disseminated in these statements, they should include:

a) current year transactions
b) CAA year transactions
c) (a) as % of (b) for each item in the financial statements.

This information is no different in substance from that required by the public organisation, Ministry of Finance, and the final accounts and balance sheet of the company.

In addition to the statements and accounts mentioned above, each economic unit is required to prepare three different types of budget (physical, financial, and cash budget).

The main features of these statements and accounts
are discussed below.

7.8.1 The Balance-Sheet:

The objective of the balance sheet according to the uniform system is to present fairly the final position of the company. Before the uniform accounting system, assets were classified into three main groups: fixed assets, followed by current assets and then intangible assets. On the equity side, there were two main groups: share capital, provisions and retained earning first, followed by other liabilities distributed among fixed liabilities, current liabilities and other credit balances.

In the uniform accounting system, the balance sheet is prepared in a standard two-sided format with assets and liabilities arranged to reflect a decreasing degree of liquidity. The main characteristics of the Egyptian balance sheet can be summarised as follows:

The assets have been classified into four main groups: fixed assets which express the available capacity under the control of the economic unit; projects in progress, which express the productive capacity under construction; inventories, which express stock capacity, and finally, long-term debts, financial investment, debtors, miscellaneous accounts receivable, and cash in hand and at the bank, which express the financial rights and lending sections. On the equity side, liabilities are classified to reflect the different sources of finance. Under that section a new capital account has been introduced, representing the capital contributions
repayable to the government. Long-term liabilities, comprise two accounts: long-term debt and long-term foreign debt. Generally, the uniform system has developed the balance sheet classification to reflect the economic significance of various groups of items.

Under the uniform system all valuation is on the historical cost basis. Once historical cost is fully depreciated, even though an asset is still in use, it appears at "zero" value on the balance sheet.

Before the uniform accounting system, land was usually treated as a fixed asset, but sometimes as a current asset, depending on the purpose for which it was used and the economic unit's activity. Under the uniform accounting system land is always shown as a fixed asset because the land is considered a part of the fixed national wealth from the national economic point of view. Moreover, the purchase price of the land is kept distinct from other expenditures incurred in the process of acquiring and preparing its intended use. The purpose behind this treatment is to distinguish between transfer of capital (purchase price) and the addition to the invested capital (other expenditure) (21).

Organisation costs and expenses incurred prior to operation, research costs and cost of technical documents are also treated as fixed assets, as these items are regarded as part of national investment contributing to the creation of productive activities. However, before the uniform accounting system, these items were treated
as intangible assets.

Projects in progress, according to the uniform accounting system, are separated from the fixed asset group and appear in a separate group. This treatment facilitates control over investment projects. Before the uniform system, this item was treated as a category under the fixed asset group. With respect to the appropriations for increase in prices of assets, the uniform accounting system requires that replacement cost should be considered by an enterprise in order to maintain the integrity of invested capital. For this purpose, appreciation in the value of assets needs to be established before the distribution of any profit. However, assets are reported on the basis of historical cost (22).

7.8.2 The Sources and Uses of Capital Funds Statement:

This statement, which shows the sources and uses of capital, is based on changes in balance sheet items.

There are three main categories of sources: internal financing (self financing), changes in working capital (liquidity), and capital contribution (borrowed capital) and loans. Self financing includes increases in all reserves, all provisions and surplus. Liquidity includes cost of assets sold, decrease in investments, debtors and cash. External financing includes increases in long-term foreign and domestic loans government participation and increases and bank(s) credit.

There are two main categories of uses of funds:
investment and capital transfers. The latter include the purchase price of second hand assets, cost of purchasing land, pre-production interest, increase in financial investment, increase in long term lending, increase in debtors, increase in cash in hand and at bank, decrease in creditors, in provisions and reserves.

The statement of sources and uses of funds can provide the following information:

1- The distinction between capital transfer and the use of funds for investment. This distinction reflects the requirements of social accounting, for instance, in excluding the purchase price of land and second hand assets from gross capital formation because these items do not constitute an actual increase in the national need in the country. Also, pre-production interest is excluded from the gross capital formation because this item relates to the statement. This treatment can serve the government in its analysis of financial policy.

2- The distinction between gross capital formation (which includes increase in all fixed asset items except purchase price of land, increase in deferred revenue-expenditure, customs and duties on investment components) and projects in progress (including all costs except the cost of purchasing land).

3- The distinction between self financing (internal
financing) and other sources of funds (external financing).

4- The distinction between domestic (local) and foreign financing.

From the above it may be suggested that the statement of sources and uses of funds is more important for decision making than the balance sheet, because it is comprehensive and reliable, covering changes during two financial periods and including current year prices, not historical cost information.

7.8.3 The Current Operations Account:

This account is considered to be the most important final account in Egypt because it serves as a link between micro-accounting and macro accounting.

It is divided into three main sections. The first shows the value of the gross product at market prices and its related commodity input requirements; the second includes the surplus (or deficit) balance from the first section, current transfer appropriations, and transfer revenues; the third section includes the adjusted surplus (or deficit) balance from the second section distributed between the appropriated provisions and the forwarded surplus (or deficit).

The classification of that account shows the difference between the income generated from normal operation (taxes and customs are separated from other expenses) to determine the value-added (23) and other
revenues like receipts from securities and transfer receipts.

This is information that is meaningful for national decisions.

"The current operations account is a quick and efficient tool for calculating value added in such a way as to satisfy the needs of the social accountant (macro-accounting) without sacrificing the needs of the financial accountant (micro-accounting) (24)"

In order to achieve this objective the uniform system has created "opposite twin accounts". These accounts appear, at the same value, on both sides of the current operations account.

These opposite twin accounts are for example:

-- Variance of imputed rent (account No. 44 and account No. 354)

-- Variance of imputed interest. (account No. 448 and No. 357)

-- Valuation difference of finished inventory. (account No. 413 and 358)

-- Valuation difference of finished goods purchased for sale. (account No. 4183 and No. 359)

These accounts have a significant role in linking the requirements of micro-accounting and macro-accounting.
-- Variance of imputed rent: (difference between actual and imputed rent). Account No. 354 on the expenses side and account No. 447 on the revenues side. The objective of these two accounts is to calculate the actual rent as a component of the national value added, regardless of whether the economic unit owns or leases the property.

"Account No. 354 represents the difference between the depreciation on assets and the rent that would have been paid if the assets were leased. There is a corresponding contra account (No. 447) on the final net income figure with the accounting income reported on the profit and loss account (25)."

-- Variance of imputed interest: (difference between actual and imputed interest). Account No.357 on the expenses side and Account No.448 on the receipts side.

"Account No. 357 reports the difference between the actual interest on invested capital based on interest rates provided by the Ministry of finance. Account No.448 is the corresponding contra on the revenue side (26)."

The objective of these two accounts is to calculate the actual interest as a component of national value added, regardless of whether the economic unit owns or borrows the invested capital.

In addition, accounts 413 and 4183 assist in calculating the value of production at the selling price in accordance with national accounting requirements. At the same time, the opposite accounts, 358 and 359, cancel the effect of these accounts and provide the accountant at the micro level with figures for the valuation of the...
inventory at cost or market price, whichever is lower.

From the above example, it is clear that the current operations account has considered the needs of accountants at both micro and macro levels.

7.8.4 **Production and Trade Account:**

The purpose of the production and trading account is to evaluate the performance of functions of production and marketing in the economic unit.

The following might be noted about the account:

(1) According to the uniform system, the production and trading account is divided into three sections:

The first section summarises the production costs. This balance is obtained by deducting the cost of inventories of unfinished production from the total of production costs and the cost of production services.

The second section reflects the gross production surplus (or gross production deficit). This balance comes from adding the cost of purchases for re-sale, the production cost of purchases for re-sale to the production costs and matching the total against sales of finished production, changes in inventories of finished production at cost prices, cost of producing capital assets for own use, receipts of work done for others, sales of services, sales of goods for re-sale, and changes in inventories of
goods for resale at cost price. Also the changes in inventories revaluation adjustments (difference between sales prices and cost prices) appear on both sides of the account and do not affect the balance of this section.

The third section shows the gross production and trading surplus (or deficit). This balance comes from adding subsidies to gross production surplus and matching the total against of this section is carried over to the profit and loss account.

2- Functional classification is adopted (production cost of production services and cost of marketing services). In each function, expenses are classified according to their nature into four groups: wages, commodity inputs, non-commodity inputs and current transfer expenses. This classification is very important because it facilitates the process of control by the economic unit's management.

7.8.5 The Profit and Loss Account:

The main purpose of this account is to determine the surplus available for distribution. This account is divided into two sections:

1-The first section's output is the current surplus or deficit before income taxes. This balance comes from adding the transfer receipts and the miscellaneous receipts to the total surplus of production and
trading and receipts from services and matching the total against the sum of administrative and financing cost and current ear-marked transfers. The second section's output is the surplus available for distribution. This balance comes from deducting income taxes from current surplus.

2- The classification of this account is functional (The administrative and financing function). Also the items have been classified according to their nature (wages, commodity inputs, service inputs and current transfer expenses)

3- The balance of this account (surplus available for distribution) is carried over to the distribution account.

7.8.6 Cash Flow Statement:

The concept of cash flow statement in economic units has emerged as a result of the deficiency of the traditional profit and loss account and balance sheet for disclosing information on the source of funds receipts and how these funds have been used. The cash flow statement, then, is a method of displaying inflows and outflows of funds within an economic unit. It gives a complete analysis of cash receipts and disbursements during an accounting period. The following features of the statement should be noted:

1- The cash flow statements form consists of three
sections: the first section for current payments, the second section for capital and other payments, and the third section for receipts.

2- The items are classified according to the classification in the current operations account and the statement of sources and uses of funds. In addition, there is a separation between the current year’s activity and the previous year’s – activities concerning the items of payments and receipts.

3- Enterprises which deal with the economic units are classified into domestic enterprises and foreign enterprises. Domestic enterprises are sub-classified into: administrative services – public sector, business public sector, and private sector. Foreign enterprises are classified into those from countries which have payment arrangements with Egypt and those from hard currency countries.

4- One of the main advantages of the cash flow statement is its ability to provide useful information, in particular with regard to sectoral classification, which can help in the construction of national cash flow tables. It can be used to:

   a) identify major changes in the types of resources held by the economic unit and important changes in its financial structure;

   b) identify the financial strengths and weakness of the
c) identify the importance of retained profit as a source of finance;
d) contribute to the understanding of the financial policy being considered, helping to reveal any defects that may impede the execution of this policy;
e) provide useful information to the external users of the company's financial reports, especially those who are interested in the financial status of the company.

7.9 Planning Budget (27):

In addition to the previous statements, the economic unit must prepare the following budgets:

a) **Physical Budget**: which shows the production programme in relation to capacity; requirements of commodity and non-commodity inputs, including manpower, for the fulfilment of production targets;

b) **Financial Budget**: which is the financial expression of the physical budget, and which reflects the financing plan of the economic unit and;

c) **Cash Budget**: which shows the prospective receipts and payments of cash.

The system lays down the following general guidelines (28) for the preparation of these budgets:
1- The uniform accounting system requires that all activities of the economic unit should be budgeted as far as possible. It requires a distinction to be made, in preparing the budgets, between current and capital expenditure.

2- The economic units of the public sector must combine the budgets with cost accounts, and classify the cost centres into I- production centres, II- production services centres, III- marketing centres, IV- administrative and financial centres, and V- capital expenditure centres.

3- The uniform system of budgeting requires the budgets to be presented annually, though they must show monthly and quarterly divisions. Classification should be by activity, according to the "Arab Standard Classification of Economic Activities";

4- The annual budgets should be classified on a geographical basis, reflecting the share of branches in the major activity in which the economic unit is engaged.

Moreover, the economic unit must be aware that without real co-operation and consultation at all management levels, motivation will be lacking. They are expected to ensure the participation of all concerned.

7.10 The Problems That Influence the Effectiveness of the Egyptian Uniform System:

These problems are classified, and described along
three dimensions: structural, organisational, and environmental.

7.10.1 Structural Problems:

7.10.1.1 Objectives of The Uniform Accounting System:

The uniform accounting system aims to achieve financial accounting objectives and national accounting objectives with the same set of reports. Although the Egyptian public enterprises' accounts and balance sheets are purposely designed and classified to provide information relevant to official needs, including the compilation of national accounting statistics, they omit other data which could be very useful for economic management and the sectoral balance sheet. Examples of missing data, include:

a) purchase of imported goods;

b) sales of goods and services to non-residents (exports);

c) domestic investment;

d) overseas investment;

e) physical assets at current cost;

f) detailed transaction in financial assets and liabilities, divided between national and overseas.

These data could be useful for the purpose of:

I) financial analysis;

II) assessing the efficiency of the economic units;

III) furnishing essential data for national data for
national accounting statics.

To illustrate the potential value of such information, let us consider the advantages of including data on import and export activities, and domestic and foreign investments in the accounts of public economic units:

1) The state could assess the contribution made by public economic units to the balance of payments.

2) The compiler of national accounting statistics could use this information to prepare a comprehensive balance of payments account.

3) The government would be able to measure, rather than simply estimate or infer, the flow of payments between this sector and the overseas sector within a specific period. Domestic and overseas investments would enable government to assess management's policy distributing the public economic unit's funds between home and the rest of the world.

Not only are there still gaps in the information provided, but it is not always timely. One Official (interview with a member of financial manager, NASCO, Egypt, Oct. 1990) believed that the reason for this is that the producers of accounting information at the public economic units lack awareness of the potential significance of accounting information for policy making at the macro (state). Some producers do not fully
understand how to complete the uniform system's forms. Moreover some are unable to distinguish the information needed by the management of the economic units and the governmental agents. Similar problems exist at management level also. The management of some public economic units lack understanding of the significant role of the uniform accounting system for national decisions, and therefore submit their financial reports late or incomplete, limiting their usefulness.

To address these problems, it is suggested that there is a need to plan detailed training programmes for the producers and the management of the public economic units, to increase their awareness of the important role of uniform accounting information.

7.10.1.2 Delay in Providing Accounting Information:

It goes without saying that there should not be undue delay between the end of the financial year and the reporting of accounting information. The annual report and accounts of enterprises must be put at the disposal of users very shortly after the period to which they relate, or at the time when the users need them. The situation in the public economic units in Egypt is that the provision accounting information is often ill-timed. Officials have suggested the following reasons for this deficiency (interview with a member of ENPI, Oct.1990):

1- Lack of interest on the part of producers of accounting information;
2- The length of time taken for auditing and approval by the Central Auditing Agency, without which the final accounts cannot be sent to users;

3- A shortage of qualified producers of accounting information caused by poor accounting education, lack of practical training, and loss of qualified accountants to the private sector or overseas where salaries are higher. The following suggestions have been put forward to overcome these problems:

1- The economic units could send a draft version of the final accounts before auditing by the Central Auditing Agency, to be followed later by the audited accounts and the audit report.

2- A time-limit could be determined within which financial reports must be sent. Those sending reports after expiry of the time-limit would be subject to sanctions. Sanctions should also be applied against the economic units which try to hide information.

3- The accounting education system in Egyptian universities must be reviewed with the aim of producing more accounting graduates, of a higher quality. Also, co-operation between the universities and practitioners must be considered.

7.10.1.3 Elements Of Financial Statements:
Although the Egyptian uniform chart of accounts is
intended to be both flexible and lucid, one official (interview with financial manager, NASCO, Egypt, Oct. 1990) has asserted that confusion in current practices still exists. He believes this arises because public sector units come under the supervision and control of many government bodies, e.g. Ministry of Planning, Ministry of Treasury, Ministry of Economics and Central Auditing Agency. These bodies insist on applying certain rigid definitions and forms which differ slightly from those introduced in the Egyptian uniform accounting system. This contradiction lessens the benefits from the standardised definitions and confuses both the producers and users of accounting information.

It has been suggested that as a step towards overcoming this problem, representatives of the different interested governmental bodies should meet to discuss the reasons for this contradiction and try to achieve complete standardisation. Also, the Standing Committee on Clarification and Amendment of the Uniform Accounting System should keep abreast of changes and establish a complete classification to meet all users' needs.

7.10.1.4 Recognition Criteria:

The uniform accounting system recognises, and incorporates in the financial statement, items relevant for both macro-accounting (government and other parties) and micro-accounting (enterprise). Since macro- and micro-accounting are different in purpose, in nature, in measurement, and in organisation, it is expected that the
attempt to combine them will result in broad recognition criteria. One official (interview with financial manager, NASCO, Egypt, Oct.1990) claims that these broad criteria create excessive work and difficulty in preparing the financial statements, so that they are sometimes incomplete or cannot be produced on time. It may be that producers of financial statements at micro-level lack sufficient training, accounting education and awareness of the role of recognition criteria in producing information useful for decision making. The suggested solution is more training programmes for producers of accounting information.

7.10.1.5 Measurement Criteria:

One official (interview with member of ENPI, Egypt, November 1990) pointed out that Egyptian public enterprises use the historical cost basis when presenting their physical assets. This could mislead those who manage and control the public enterprises if they use earnings criteria as a measure of the efficiency of the enterprise. The presentation of physical assets on the current cost basis would not only overcome this problem but would also help to furnish information which may be useful for making national decisions.

7.10.1.6 Financial Reporting:

The financial statements of the public enterprises' accounts should not only indicate the financial position of the economic unit concerned, but should also provide insight into management's performance and give a true and
comprehensive indication of the circumstances of the enterprise (interview with member of CAA, Egypt, Oct. 1990). Therefore, all the above mentioned problems have serious implications. Obviously, the inadequacy of the information disclosed in financial reporting could exert an influence on the quality of managerial performance of both the State and public enterprise.

One of the main deficiencies in the present practice of measuring the efficient allocation and use of resources entrusted to public undertakings, is the use of the final result of the profit and loss account as one of the main criteria of success.

To arrive at the actual entrepreneurial profit of the public undertaking, its profit and loss account should be adjusted by the payments or receipts which are related to the social and/or development process, as well as by any sacrifice of profit resulting from the government's policy of price restraint. The figure resulting after these adjustments have been carried out should be used as a basis for assessing the quality of financial management of a public enterprise. This figure could also be used to compare performance, either between similar public enterprises or with companies in the private sector.

7.10.2 Organisational Problems:

One official (interview with member of CAA, Egypt, Oct. 1990) stated that the Standing Committee on Clarification and Amendment of Uniform Accounting System
does not always inform the users of accounting information of the answers and interpretations it has given in response to questions raised by the producers of accounting information. He suggested that the economic units (producers) should attach a copy of the clarifications, (given by the Standing Committee) with their financial reports, and that strong channels of communication should be created between the committee and the producers and users of accounting information.

The committee has also been accused of lacking the will to provide a new statement to satisfy the users' needs and improve the existing system. This problem could be addressed by giving the users and producers of accounting information an active role in the Standing Committee.

Another problem is that the economic units' planning offices (which provide the Ministry of Planning with information and studies it requires) do not play an effective role in the planning process.

The official who expressed these views suggested that the accounting departments need to co-operate with planning offices in preparing the financial reports, especially budgets.

7.10.3 Environmental Problems:

One official (interview with member of CAA, Egypt, CAA, Oct.1990) stated that different environments will lead to different accounting objectives and, therefore, different standards. During the 1970s, the environment
in Egypt changed dramatically as a result of the introduction of the Open-Door Policy in 1973 and the consequent encouragement of the private sector and foreign investment. New pressure groups developed. The professional accounting organisations grew rapidly in importance and stature, leading to the introduction of modern accounting systems and increasing the differences between the various systems in the same country. After Sadat's assassination Egypt moved toward the capitalist system and western ideas seemed threatened. Islamic ideas regarding banking and money increased in importance. The economic crises and lower salaries caused most of the qualified accountants to leave the public sector and the CAA, to work in other Arab countries and the new investment projects, where they could earn higher salaries. These developments probably impeded the growth of the uniform accounting system.

The official suggested that a continuous revision is a prime necessity to keep the uniform accounting system in operation. The Standing Committee on Clarification and Amendment of Uniform accounting system must revise the system from time to time (for instance every five years) according to environmental changes because the adoption of international accounting or other western accounting systems by Egypt may not only be irrelevant to the problems of Egypt but may be harmful.
Accounting Education and the Uniform Accounting System in Egypt:

"Egypt is the largest Arab country in many respects, including the size of its business and accounting education system. Egypt provides a large percentage of the practicing accountants in the Arab world and an even higher percentage of the accounting faculties in this area"(29).

In Egypt, the first Commercial Higher School was founded in 1911 under the name, "Fouad First Higher School of Commerce of the Cairo University". The main object of the School was to teach bookkeeping and to develop double-entry recording. The courses, however, were dominated by law, economics, and management, with little room for accounting(30).

Since 1962, tuition has been free at all levels of education.

Now, there are fifteen universities, each with a Faculty of Commerce, which teach and offer various degrees in accounting.

The undergraduate system of accounting education at the university level is uniform across the country and under the supervision of the Ministry of Education. The undergraduate programme lasts for four academic years. The first three years of the programme is a general core for all majors in the Faculty of Commerce. The remaining one-year programme comprises the accounting major requirements. The courses are offered every academic year and there are no summer schools. Students in Assiut
university have to take 33 courses, divided among accounting and other related subjects (See Figure 7.3). All courses are compulsory; there are no electives.

The first point to note from Figure 7.1, is that a heavy weighting is given to accounting courses (30.3%) as compared with other related subjects. This percentage is equal to that recommended by the American Accounting Association (31).

Second, is that more emphasis on accounting is given in the fourth year to the students specialising in accounting.

Third, there is a good coverage of nearly all aspects of accounting and the curriculum is comparable to its counterparts in many western universities.

Fourth, of more importance, although not reflected in the curriculum, are the environment-oriented accounting courses, such as agricultural accounting, Islamic accounting or Islamic economics and computers. The importance of environmental factors in shaping the accounting of a certain society has been emphasised in the accounting literature (32).
Figure (7.3)
Accounting Curriculum in
Assiut University.

<table>
<thead>
<tr>
<th>First Academic Year</th>
<th>Second Academic Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subject</td>
<td>Subject</td>
</tr>
<tr>
<td>- Business Administration.</td>
<td>- Accounting.</td>
</tr>
<tr>
<td>- Principles of Economic.</td>
<td>- Public Administration.</td>
</tr>
<tr>
<td>- Economic Resources.</td>
<td>- Marketing &amp; Sales Mang.</td>
</tr>
<tr>
<td>- Accounting.</td>
<td>- Economic ( Money, Banks and Foreign Trade ).</td>
</tr>
<tr>
<td>- Mathematics.</td>
<td>- Commercial Law.</td>
</tr>
<tr>
<td>- Foreign Language.</td>
<td>- Production Organisation and Management.</td>
</tr>
<tr>
<td>- Social Studies.</td>
<td>- Foreign Language.</td>
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</tbody>
</table>

<table>
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<tr>
<th>Third Academic Year</th>
<th>Forth Academic Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subject</td>
<td>Subject</td>
</tr>
<tr>
<td>- Insurance.</td>
<td>- Accounting Systems.</td>
</tr>
<tr>
<td>- Cost Accounting.</td>
<td>- Tax Accounting.</td>
</tr>
<tr>
<td>- Public Finance.</td>
<td>- Financial Institutions Accounting.</td>
</tr>
<tr>
<td>- Development of Economic System.</td>
<td></td>
</tr>
<tr>
<td>- Public Finance.</td>
<td></td>
</tr>
</tbody>
</table>
In general, accounting education in Egypt tends to emphasise accounting techniques and procedures at the expense of broad concepts and theory. Education at the university level has been influenced by the education systems of western countries, e.g. the UK and the USA. Therefore, accounting text books are either British or American books translated into Arabic, or text books written by Egyptian faculty members who were educated in the UK or the USA. Similarly, the material taught at the Faculties of Commerce is based upon the Anglo-American background, with little modification to meet the problems of society. Further, out-of-date texts are usually used. Research by academic staff is of little value compared, for example, with British research standards, because most available research, is general and technically-oriented. Accounting academics usually carry out writing and research merely because it is required for promotion; (33) Egypt lacks a suitable and encouraging environment for accounting research and there is a shortage of journals and up-to-date books. Low salaries encourage university staff to hold several jobs. Under these circumstances, they have little time to carry out research or to improve teaching.

Hence, accounting research in Egypt must be changed to be related the needs of the rapid economic development and the current problems, such as the framework of a uniform system related to the needs of the Egyptian economy, computerised accounting and data processing,
accounting for multinational companies and control, current cost accounting and treatment of foreign exchange.

All in all, accounting education at the university level in Egypt could be improved by putting more emphasis on the teaching of technical and professional matters such as accounting and auditing standards. The theory underlying uniformity should be taught by emphasising its evolutionary development in various societies to produce well-qualified people who believe in uniformity and are able to improve it. Also, students should be required to spend a certain period of their faculty time (one term) in training in public sector firms, which would allow them to gain some practical experience. Additionally, strong links between accounting postgraduate students, academics and practitioners should be established. This could be done through part-time teaching and open meetings by practitioners, which would give them the opportunity to introduce their experience to the students and to discuss practical problems with the academics, who should also participate in the training programmes and seminars and lectures conducted by accounting departments within the public sector firms.

7.12 Current Pressures Threatening the Uniform Accounting System:

The transition from a free, private enterprise system to a planned economy with a dominant public sector took from 1954 and early 1960s. The main step was the
government's decision to establish the Central Accounting Organisation (CAO). The result of that was a substantial reduction in the amount and quality of work available for private sector accountants. The Big Eight firms left Egypt in 1965. As a consequence, the number of professional accounting firms was reduced to a handful (34).

Since the war of October 1973, conditions in the region, and internationally, changed dramatically, and to take advantage of the new environment, a fresh economic strategy needed to be articulated. This is what President Sadat did with the Open Door Policy in 1974, to encourage and persuade foreign, Arab and Egyptian capital to finance and establish the different economic projects needed by the country (See Chapter Two).

At the same time, the demand for new professional accounting firms increased, and international accounting firms attempted to establish or re-establish a presence in Egypt. As a result, pressure groups developed: the accounting profession, international accounting firms, international accounting bodies, and international political groups.

As a result of the establishment of the capital market, there has been pressure on the Egyptian government to accept international accounting standards in preparing financial statements and reports for projects financed by the bank. Briston adds that the World Bank and other development institutions usually
insist upon the use of an international firm of accountants to audit the projects which they finance(35). Also, more than one international organisation has been involved in attempting to harmonise accounting practice since the early seventies, for example, the International Federation of Accounting (IFAC) and the International Accounting Standards Committee (IASC). Egypt has been a member of the IASC since 1980 and its professional groups are obliged to follow the International Accounting Standards. The Capital Market Authority (CMA) was established on December 15, 1979, according to decree No.520. The development of the stock exchange and the other financial markets led to greater demand for the complete range of services which professional accountants provide, so that accounting firms continued to grow. All this increased the need to regulate and organise the accounting profession in Egypt to enable it to provide all the information needed by investors.

On 15th November 1981, the Union of Arab Stock Exchanges held a conference in Cairo, under the auspices of the Cairo Stock Exchange. The conference recommended the speedy establishment of a Uniform Accounting System to be used by the Arab World. The conference made an urgent request to joint-stock companies, auditors, and Arab Stock Exchanges to provide all useful financial information and disclosure systems for the promotion and enhancement of securities markets in the Arab World.

As the Egyptian economy has attracted multinational
corporations, so the large international accounting firms have tended to follow to provide audit and other services such as taxation, management advice, executive selection, etc. It is clear that the international accounting firms are now attempting to enhance their presence in Egypt. It is interesting to note that the first and second international conferences on Accounting and Auditing in Cairo in December 1980 and 1988, included speakers from Peat Marwick Mitchell, Andersen, Coopers and Lybrand, Binder Hamlyn Fry, Robson Rhodes, Jolliffe Coke and Inter Conseil (Paris)(36).

Suggestions resulted from these conferences that Egyptian accountants be encouraged to adopt the British and American pattern and the professional offices be allowed to participate in the audit of public sector enterprises.

Further pressure comes from the international agencies. The World Bank, the United Nations Centre on Transnational Corporations (UNCTC) and the Organisation for Economic Co-operation and Development (OECD) have in recent years involved themselves in the harmonisation of accounting standards. For example, there has been indirect pressure on the Egyptian government by the World Bank to accept international accounting standards in preparing financial statements and reports for projects financed by the Bank. Briston has also argued that the World Bank insists upon the use of an international firm of accountants to audit projects that might be financed
Summary and Conclusion:

This chapter has discussed the most important factors affecting the process of establishing the uniform system in Egypt.

The most important factor in the emergence of uniformity was the nationalisation of the Egyptian economy, which resulted in immediate changes in the structure of the state organisation, which consists of a number of economic sectors. Each of these consists of a number of public organisations which in turn supervise and control a number of economic units.

The Egyptian government adopted uniform accounting to enable the National Planning Board to control the operations of the public sector under its jurisdiction. This can only be achieved if data are based on a uniform accounting system, including uniformity at the planning stage.

An examination of the Egyptian uniform accounting system's conceptual framework for financial accounting and reporting revealed the following characteristics:

1- Organisational characteristics: In the process of developing the system, the users and preparers of accounting data were represented in the different committees (democratic approach). However, the system's objectives were autocratically imposed. The system itself was issued by legislation. It
might be supposed that in the prevailing environment in Egypt, the legal requirements relating to financial accounts would provide an appropriate approach to establishing an accounting system in Egypt.

2- Structural characteristics: The basic objective of the system is to provide the necessary accounting information for planning and control at all levels of the economy. One might question how well the information provided as result of the application of the uniform accounting system meets the objectives of the system. The Egyptian uniform accounting system is considered to meet most of the qualitative requirements of accounting information. A question can be raised how well the produced information meets these requirements in actual practice.

3-Elements of financial statements: Classification and coding of accounts and their definitions are an essential part of the Egyptian uniform accounting system. Each code has been defined in detail and an example of how and where it is to be used is given. The standardised definitions of the elements of financial statements are intended to provide maximum clarity as to what the elements mean and to increase the effectiveness of accounting communication to the users. However, doubt may be expressed as to how well the different standardised definitions increase
the effectiveness of accounting communication in actual practice.

4- Recognition criteria: The uniform system has recognised and incorporated in the financial statements items which can satisfy the needs of micro and macro accounting. This raises the question of the success of these broad recognition criteria in actual practice.

5- Measurement criteria: In Egypt, valuation of assets is based on historical cost. Replacement value accounting is well known, but nevertheless hardly used. The system, however, recognises the deficiency of historical cost in an inflationary environment and requires that an appropriation of profits should be made to provide for the difference between historical cost and replacement cost of assets. One might, therefore, question what proportion of the produced annual financial reports succeeds in declaring current value accounting information.

6- Financial reporting: The main annual reports are a balance sheet, production and profit and loss account, and profit distribution account. In addition to the traditional statement, the economic units must prepare other statements which were introduced by the uniform system to serve the purposes of national planning and control (statement of sources and application account). It
is worth considering whether the quality of the information generated as a result of the introduction of the statement serves users' needs in practice.

This chapter has also drawn attention to some important problems that impede the effectiveness of the Egyptian uniform system and some suggested solutions have been outlined.

Because Egypt's public sector accounting information constitutes a large proportion of the data used by the government as a basis for policy-making, reform and modification of the current structure are due, to ensure that the system provides the necessary information to fulfil the objectives of the economic units themselves, and of the economy as a whole.

Accounting is a product of its political, social and economic environments and the educational system should be designed to ensure that its graduates have a broad and basic understanding of these influences. The accounting courses should emphasise information needed for economic planning at the macro level. In Egypt, where government ownership of at least a portion of economic activities is common, the accounting courses should focus on uniformity in accounting, efficiency measures in public sector firms, and input/output relationships.

The Egyptian accounting education system follows traditional accounting courses. Moreover, the academics in all universities do not seem aware of the need of
Egyptian society for uniformity in accounting. Egyptian universities are not producing graduates who comprehend the advantages of uniformity, though all universities teach uniformity purely as a set of techniques. As a result, we can say Egyptian accounting education does not meet the needs of economic development. Therefore, more emphasis should be placed on managerial accounting and operational auditing, project appraisal, behavioural sciences, and financial management of multinationals, to meet the economic, social, and cultural needs of Egyptian society. Additionally, students should be more actively engaged in the learning process, for example, by independent study, case material, better evaluation methods, and distinguishing between relevant and non-relevant knowledge.

The researcher recommends also that developing countries should create their own education system, and not merely copy from the developed countries, because the imported education systems have often failed to provide graduates who can meet the needs of their societies.

This chapter has also shown that Egypt, like many other developing countries, is under pressure from western countries, especially the U.S. and the U.K. This pressure takes various forms, including the influence of a powerful accounting profession, multinational companies as well as the Big Eight and the World Bank. Moreover, there is now a strong lobby in Egypt for the adoption of International Accounting
Standards (IAS) and the strengthening of the accounting profession.

Thus, the pressure has two aspects: a professional one exercised through accounting methods and procedures applied by accounting firms and multinational corporations, and a theoretical one exercised through accounting books and education.

References:


3- Ibid., p 2.

4- Central Auditing Agency, "A Note On The Unified Accounting System In Egypt", Central Research Department, Cairo, 1970, p.2.


19- Ibid.,p.16.

20- Ibid.,pp.13-14.

22- Ibid., p.129.
23- Ibid., p.130.
26- Ibid. p.130.
28- Ibid., p.37.

Chapter Eight

El-Naser Company for Motor-Car Manufacturing (NASCO):
A Case Study
8.1 *Introduction:*

Since 1961, national planning has become a way of life in Egypt. The ability to formulate plans realistically and to implement them is dependent, to a large degree, upon the availability of reliable accounting information at both the micro and macro levels of the economy. It is essential to obtain the information about projected plans and, for control purposes, to evaluate how effectively plans are being executed. This evaluation is also an important aid to future planning. Therefore, the Egyptian Government realised that an accounting system should be designed to achieve the following objectives:

1- To provide the basic accounting information for planning, implementation and control at all levels of the economy on both an internal and external basis. Internally, to provide management at the company levels with reliable information and to provide the Ministry of planning and Ministry of Industry with the required information for the purpose of planning and control at the state level.

2- Provision of links between financial accounting at the enterprise (micro) level to social accounting (macro-level). In order to achieve that goal, the enterprise accounts would be designed in such a way as to meet the need of social accountants as well as enterprise accountants.
3- To facilitate the process of collecting, tabulating, and storing accounting information.

4- To enable the government to measure explicitly the performance of public sector enterprises and make comparison with regard to financial or other similar targets.

To evaluate the extent to which these objectives have been achieved in practice, I now present a case study of a specific company, El-Naser Company for Motor-Car Manufacturing (NASCO), which has applied the uniform accounting system since 9th July 1967 (the beginning of the financial year 1967/68).

The Egyptian car sector is one of the major sectors upon which the achievement of plan goals relies. For example the second year of the national plan (1988/89) anticipated 7% annual rate of production growth, and 6.7 rate of growth in Gross Industrial Production (GIP) in respect of cars, buses and tractors (CAPMS, 1988, pp.78,80). Production targets are usually suggested by the planning Ministry, based on a combination of rough estimations and actual performance for the preceding three years. The final target usually is imposed on NASCO as part of the national plan.

Presentation of the case study which follows is structured in three parts.

The first part examines the Egyptian motor car industry in terms of its present structure, product mix and nature. This description is followed by an account
of the historical background of the industry.

The second part examines the impact of government policies on NASCO's performance. These policies fall into four areas, namely (1) Financial management policies; (2) Pricing policy; (3) Exchange rate policy; (4) Trade policy.

The third part examines planning and control in NASCO and the relevant holding company Engineering Industries Organisation (E.I.O.). These are viewed in relation to the main objectives of the Uniform Accounting System in Egypt, i.e. development of the economic unit accounts into an "Information System" in order to provide data for planning and control at all levels and to satisfy demands emerging from both the management of the economic unit itself and the users of accounting information who are entrusted with planning and control. Particular emphasis is placed on the necessary linkage between micro-accounts on the one hand and macro-accounts on the other, to improve the national accounts.

The study was undertaken in NASCO itself, and in its controlling bodies.

Part One:

8.2 Motor Car Industries In Egypt:

8.2.1 The Main Categories of Motor Car Industry

Processing:

The motor car industry is usually divided into two main categories. The first is the production of several
thousand components and parts from a large variety of materials (e.g. steel, iron, aluminium and other metals, rubber, plastics, glass and textiles etc.). The second category is the absorption of all these components in the final product at the assembly line (1).

More specifically the first category covers the following three basic industrial activities: (2)

a) Casting: performed in foundries, this is the primary stage of engine and axle parts building. It is the process of casting parts (pouring molten metals in moulds) such as engine blocks, crank-shafts, pistons and cylinder heads.

b) Machining: this is the process of adding the fine precision finish (through a series of fine drilling and forging operations) required by the internal combustion engine parts produced from the casting stage.

C) Stamping: a parallel stage to the first two operations. This is the process of shaping metal sheets by application of heavy pressure and mating dyes. In this stage the outer and inner parts of the vehicle's body such as body roof, door panels, hood fenders, fuel tank, and exhaust are pressed."

The second category (assembly) is the final stage when all components and parts produced in the previous production stages or bought from the ancillary industries are assembled, fitted, and tested for final use.

It is noted that the developing countries play a relatively minor role in the industry, being mainly concentrated around the assembly stage.

8.3 The History of Egypt's Motor Vehicles Industry:

The historical evolution of Egypt's vehicle industry
is related to the emergence of industrialization through the import substitution policy in the inter-wars period, i.e. 1920-1939.

Most research work covering this period – particularly Radwan (3) and Metwali (4) argues that three basic factors contributed to the spurt in industrial investment after World War I: first was the crisis in the export sector as manifested in the collapse of cotton prices in the years 1920, 1921, 1926, and ultimately in the Great Depression. This collapse emphasised the necessity for an alternative to Egypt’s monocultural system (5). Secondly, this approach began to be put into practice by the maturing Egyptian entrepreneurs, mainly represented by the founders of Banque Misr (6).

The formation of Banque Misr in 1920 initiated, in a period of 20 years, the setting up of 17 subsidiary companies with a variety of business activities and objectives (7). It is noteworthy that most of these subsidiaries were formed after 1927, when the Egyptian government promised, under pressure from the newly formed Federation of Egyptian Industries, to provide adequate tariff protection. The third factor was the government’s fulfilment of its promise by Law 2/1930 in which comprehensive tariff schedules were introduced; the first sign of Egypt’s fiscal independence from the colonial power after the 1922 independence declaration. In 1937, according to Crouchley (8), there was a plan to assemble passenger cars (P.C’s) and commercial vehicles. This
project was postponed until the early fifties, because of World War II.

The second world war created pressure from the allied forces for industrial products. Furthermore, the disruption of trading links which barred cotton exports on one hand and essential fertilizer imports on the other, compelled the landowners to join ranks with the emerging industrial entrepreneurs on technical and commercial grounds. Entrepreneurs and naturalized Egyptians started in the forties to engage in the manufacture of automobile parts and other new industries, like consumer durables. Examples of this phenomenon include M. Schafferman (an Egyptian Jew of unknown origin) the founder of the Lead Batteries company in 1946, W. Sa’ad (an Egyptian-Lebanese Christian), the founder of the tyre factory (ELTRENCO) in the same year, and G Hawey (an Egyptian-Lebanese Christian), who co-founded the vehicles section of the Egyptian Light Transport Manufacturing Company (ELTARAMCO) in 1958 under its original name, Ramses. The impact of overseas foreign investment on the industry is represented by Ford (Egypt), the first vehicle producer to prepare for operation in Egypt and the Middle East in 1950.

The revolution of 1952 was an important point of departure for the Egyptian economy as a whole, with a move to what Nasser called "controlled capitalist economy", eventually a comprehensively planned capitalist system.
The tools used to fulfil these policies were the Permanent Council for National Production (PCNP), and the National Planning Committee (NPC).

With the help of foreign experts, the NPC forwarded a draft of the first five year plan, which covered the manufacture of commercial vehicles. ELTARMACO and ELYAYAT (springs and brake linings manufacturers) were established as private sector companies in 1958 and, in the mid-sixties, were nationalized and became part of the public sector. Production of trucks was taking place in a military factory No. 36 in 1959; this was later transferred to NASCO.

8.4 The Demand for Passenger Cars And Commercial Vehicles:

Increased demand for private and commercial motor vehicles may be attributed to income growth in the Egyptian economy in the 1970s and early 1980s, as well as to general contributory causes like the liberalization of foreign trade with the advent of the open door policy and increased remittances from Arab petrol-dollars. Additionally, it was a policy of the Sadat administration, particularly after 1977, to encourage ownership of PC's amongst army and police officers. Other reasons include the production of suitably priced models by NASCO (e.g. SEAT 133).

Table 8.1 shows that Egypt in 1984, 85 and 86 respectively spent 204.5%, 103.15%, and 57.71% of its cotton export earnings on automotive imports, which were
necessary in the absence of a national industry.

Demand for passenger cars and commercial vehicles (CV's) in the near future is expected to grow (see Table 8.1).

Table 8.2 shows the predicted demand for motor vehicles in the period 1995-2000, classified by total demand and that for replacement. The table shows that high demand levels for both passenger cars and commercial vehicles offer Egypt the opportunity for full production of vehicles, rather than assembly.
### Table 8.1

**Egyptian Automotive Imports 1984 To 1986.**

(Values in US $ millions)

<table>
<thead>
<tr>
<th>Item</th>
<th>1984</th>
<th>1985</th>
<th>1986</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>value</td>
<td>units</td>
<td>value</td>
</tr>
<tr>
<td>Passenger Cars</td>
<td>237.80</td>
<td>80,361</td>
<td>87.8</td>
</tr>
<tr>
<td>Trucks</td>
<td>308.80</td>
<td>98,040</td>
<td>127.7</td>
</tr>
<tr>
<td>Vans</td>
<td>40.00</td>
<td>558,000</td>
<td>18.8</td>
</tr>
<tr>
<td>Buses</td>
<td>37.70</td>
<td>171,000</td>
<td>13.9</td>
</tr>
<tr>
<td>Microbuses</td>
<td>24.80</td>
<td>4,024</td>
<td>18.2</td>
</tr>
<tr>
<td>Ambulance</td>
<td>1.30</td>
<td>162,000</td>
<td>2.7</td>
</tr>
<tr>
<td>Motorcycles</td>
<td>10.10</td>
<td>20,912</td>
<td>4.5</td>
</tr>
<tr>
<td>Bicycles</td>
<td>2.40</td>
<td>79,439</td>
<td>1.0</td>
</tr>
<tr>
<td>Motorcycles and Bicycles</td>
<td>.04</td>
<td>271,000</td>
<td>0.1</td>
</tr>
<tr>
<td>Ambulance for Handicapped</td>
<td>-----</td>
<td>------</td>
<td>------</td>
</tr>
<tr>
<td>Total</td>
<td>662.94</td>
<td>274.7</td>
<td>137.9</td>
</tr>
<tr>
<td>Cotton Export</td>
<td>324.0</td>
<td>266.3</td>
<td>239</td>
</tr>
<tr>
<td>Percentage</td>
<td>204.5</td>
<td>103.15</td>
<td>57.71</td>
</tr>
</tbody>
</table>


### Table 8.2

**Anticipated Demand Level: Ford's And Commercial Vehicles, 1995-2000.**

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual Demand</th>
<th>Dep. Stock</th>
<th>Buses</th>
<th>Year</th>
<th>Annual Demand</th>
<th>Dep. Stock</th>
<th>Tractors</th>
</tr>
</thead>
<tbody>
<tr>
<td>PC's</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>138.9</td>
<td>55.5</td>
<td>1470.2</td>
<td>1995</td>
<td>9.9</td>
<td>5.2</td>
<td>63.0</td>
</tr>
<tr>
<td>2000</td>
<td>210.8</td>
<td>87.8</td>
<td>1879.8</td>
<td>2000</td>
<td>13.2</td>
<td>7.4</td>
<td>88.3</td>
</tr>
<tr>
<td>Trucks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>48.9</td>
<td>27.5</td>
<td>327.0</td>
<td>1995</td>
<td>n.a</td>
<td>n.a</td>
<td>n.a</td>
</tr>
<tr>
<td>2000</td>
<td>68.8</td>
<td>38.7</td>
<td>460.0</td>
<td>2000</td>
<td>n.a</td>
<td>n.a</td>
<td>n.a</td>
</tr>
</tbody>
</table>

Note: n.a not available.

Source: Specialized Councils, 1984, pp.75/91, selected years.
8.5 Egypt's Motor Industry Companies:

8.5.1 Ford Company (Egypt):

Ford was the first major foreign company to establish an agency in Egypt, in 1926. Its agency in Alexandria was the sales and maintenance headquarters for Egypt and the Middle East. The Ford agency also undertook engine-handling (re-conditioning) at a daily capacity of between 18 and 25 engines (10&11). In 1950, the Ford Company established a factory for a new assembly plant in the Samouha industrial estate. The factory reported to Dagenham (UK) and was equipped for the assembly of all types of motor vehicles, including heavy duty trucks and agricultural tractors. The factory's capacity was 12 PC's per shift/day and the same number for trucks and/or agricultural tractors. Engine over hauling was maintained at the same capacity as before, and a service and technical school was added. The employment figure was in the range of 286-400 workers (12).

The factory started its operations in 1954, assembling commercial vehicles and agricultural tractors from imported European semi-knock-down Kits. Assembled passenger cars were introduced in 1960 in a product range comprising Consul and Anglia models, and later, Taunus 12 and Taunus 17 (13).

The company completely stopped assembly activity in early 1965 and limited its operations, for the following reasons:

(1) There was competition in the home market from the new
Magrius and Fiat products introduced in 1959 and 1961 by NASCO.

(2) The establishment of a trucks assembly plant in Turkey meant the loss of a large export market.

(3) The tariff rates differential between semi-knock-down (skd) and fully assembled commercial vehicles was inadequate. Up to 1959, the tariff rates were 5% on the former and 8% on the latter.

(4) The nationalization policy of 1961 affected the company's ability to import sufficient parts for a reasonable level of capacity utilization.

(5) Ford's connections with Israel in 1964 meant its inclusion in Arab-Israeli boycott lists. For that reason Egypt prevented imports of all Ford products, including parts required by their factory in Egypt.

8.5.2 The Egyptian Light Transport Manufacturing Company:

In 1958, two Egyptian Engineers were granted permission by the Egyptian government to manufacture a small passenger car with a 400 cc engine. It was assembled from components imported from various countries. In 1959, the company was officially formed under the name Ramses Car Company. To encourage the company, the NPC contracted for the first 100 vehicles. The vehicle's local content (suspension springs, fenders, upholstery, tyres and batteries) approached 40% of its
ex-factory price (14).

The company was nationalised in 1963 and amalgamated with another company producing bicycles and motorcycles, thus forming ELTARAMCO. The production of small passenger cars (Ramses) continued to develop until 1973, when the company faced problems in obtaining hard currency to finance its import needs. A further problem for local industry was the increasing cost of investment required for development. During the period in which the small car was produced, a total of 6000 cars left the factory in various versions such as a light pick-up and a convertible. Table 8.3 shows the output of Ramses from 1959 to 1973.

Table 8.3

<table>
<thead>
<tr>
<th>Year</th>
<th>Output</th>
<th>Year</th>
<th>Output</th>
</tr>
</thead>
<tbody>
<tr>
<td>1959</td>
<td>12</td>
<td>1960</td>
<td>138</td>
</tr>
<tr>
<td>1961</td>
<td>158</td>
<td>1962</td>
<td>214</td>
</tr>
<tr>
<td>1963</td>
<td>415</td>
<td>1964</td>
<td>429</td>
</tr>
<tr>
<td>1965</td>
<td>449</td>
<td>1966</td>
<td>305</td>
</tr>
<tr>
<td>1967</td>
<td>92</td>
<td>1968</td>
<td>190</td>
</tr>
<tr>
<td>1969</td>
<td>422</td>
<td>1970</td>
<td>688</td>
</tr>
<tr>
<td>1971</td>
<td>724</td>
<td>1972</td>
<td>724</td>
</tr>
<tr>
<td>1973</td>
<td>1025</td>
<td>Total</td>
<td>5984</td>
</tr>
</tbody>
</table>

In 1971, ELTARAMCO signed an agreement with two Polish companies, POLMOT and AUTOEXPORT\(^{(15)}\). The agreement gave ELTARAMCO the right to assemble a general purpose commercial vehicle based on the ZOK engine and chassis. Production started in 1971, and included vans, pick-ups, micro-buses, ambulances and fire engines. The local content in this model did not exceed 40%, including suspension springs, fenders, upholstery, tyres and batteries.

In 1972, an agreement was signed with AUTOEXPORT to assemble a Romanian jeep-type vehicle based on ARO 461 and ARO 240 models. In 1974 ELTRAMCO signed a one-year agreement with HONDA; five hundred 1/2 ton payload pick-ups (TN 3E model), were assembled and sold to Bank Naser to be re-marketed under a hire purchase scheme. Another agreement, with VOLKSWAGEN, to assemble a general purpose commercial vehicle (E-200 model), was not concluded although 69 units were assembled on a test basis between 1975 to 1980. An agreement with SAVA of Spain to assemble eleven-passenger micro buses produced less than 120 units from 1976 to 1982.

The actual activity of ELTRAMCO is the assembly of pick-ups and micro buses from machinery and electrical components imported from Poland, besides the assembly of a Romanian jeep.

8.5.3 **El-Naser Company for Motor-Car Manufacturing (NASCO):**

Egypt's auto industry originated in the early 1950s
under management of the state-owned El-Naser Company for
Motor-Car Manufacturing (NASCO). NASCO has been the
largest Egyptian producer of PC's, trucks, buses, agricultural tractors, trailers and engines. Production
licences were obtained from a number of international
companies which included Deutz of West Germany (1959),
Blumhardt-Wupperta also of West Germany (1961), Fiat of
Italy (1961) and Auto-tractors of Romania (1971). NASCO's
activities basically concerned assembly, and changed
little over the years. It remains an assembly-based
enterprise heavily dependent on imports and generating
low value-added. This is probably because the capital
requirement is relatively small.

NASCO employs 12000 workers and is the main
manufacturer of vehicles in Egypt. It has been assembling
Fiat cars from complete-knockdown (CKD) kits under
licence from Fiat (Italy) since 1960.

Cars. NASCO assembled 7663 passenger cars in the
fiscal year 1990/91, including:

Nasr 128 (Fiat 128) - 4152
Nasr (Fiat 126) - 2033
Regatta - 32
Polonez - 1303
Shaheen - 47
Dogan - 96

NASCO increased the percentage of locally made
components used in its passenger cars from 30 to 40
percent by increasing local feeder industries.

Trucks, Buses and Tractors. NASCO has been manufacturing trucks and buses under licence from Magirus Deutz of West Germany since 1963. In 1990/91 NASCO produced 1056 buses as against 1386 in the previous year's plan. More than 75 percent of the components used in NASCO's buses are locally manufactured (NASCO, Planning Budgeting, 1990/91). The company has built a new $3.1 million bus factory on its premises, which will boost production to 3000 buses a year (16).

A nine tonne truck is assembled under licence from Magirus-Deutz, and an eight-tonne trailer under licence from Blumhardt of West Germany. Truck production totalled 3247 units in 1984/85, including 2998 medium-and 249 heavy-duty trucks. In 1985/86, NASCO increased production to 3308 units, including 3216 medium-and 92 heavy duty trucks (NASCO, Annual Reports, several years). Seventy-five percent of the parts used in trucks is manufactured locally, including the engines, gearboxes, shafts, tyres and windscreens (17).

In 1990/91, NASCO produced 1149 trucks and 1103 tractors, with 65 percent of components locally produced, as against 1371 trucks and 1737 tractors in the previous year plan (NASCO, Annual Reporting, 1990/91)

8.5.3.1 Commercial Vehicles (Trucks and Buses):

Priority was given to commercial vehicles by the first National Planning Committee in 1956. The second NPC approved production of a 5-tonne payload truck as the most appropriate for local needs at the time. A 10-12 tonne payload (heavier truck) was set to start production in the second five year plan (18). At the end of 1957 an
international tender was issued for the production of this heavier truck, in addition to a 3 tonne version for military and cross-country use, with an annual capacity of 3500 trucks.

The five European companies which responded to the tender were Daimler Benz, Klockner Humboldt Duetz, both West Germany, Saurer of Austria, Fiat of Italy and Praga of Czechoslovakia (19). Klockner Humboldt Duetz was chosen and a preliminary contract was signed in 1958 with the newly formed "Organisation for the Execution of Five Year Industrial Plan" (20). In early 1959, the final agreement was signed. It specified the following annual production capacities:

a) 200 civilian 4x12 trucks with 5 tonne payload to increase to 4800 units at a later stage.

b) 400 military 4x4 truck with 3 tonne payload to be increased to 800 at a later stage.

c) 500 additional diesel engines as spare parts to be increased to 2000 at a later stage.

d) 400 bus chassis.

In May 1960 by Presidential Decree 913, El-Naser Company for Motor-Car Manufacturing was formed. Two months later, all machinery related to the projects installed in Military Factory 36 was hastily re-installed. The new company (NASCO) was ready to be officially inaugurated by President Nasser on 23 of July.
The value of contracts was DM 45.6 million. It entailed granting the production licence and know-how rights for a) production of the engine, b) trucks and buses chassis, c) technical assistance for both manufacturing and after-sales service, and d) sales rights in Egypt and all other Arab countries.

The implementation programme for this contract was, according to Gazarine, based on eight one-year stages, as follows:

"The three first stages-of one year each-to include all assembly operations of chassis, cab, and main mechanical groups such as engine, axles and brakes. They included several cab parts such as the wooden frame of doors and other small parts, the cab itself being completely welded and painted locally.

The fourth and fifth stages (each of one year) were mainly restricted to the production of the engine. The fourth stage included the production of certain engine major parts such as cylinder, cylinder head and flywheel, while the fifth stage included the production of the front and near axles and certain other heavier parts of the chassis and cab. The sixth, seventh and eighth stages which were later amalgamated together into two stages of one year each included the production of gear box, steering, propeller shaft, and all heavy pressing of chassis and cab."

In 1961, two further contracts were signed with the German side. The first contract concerned the provision to NASCO of the machinery required to manufacture the bus body and the second contract was for addition of an
eight-tonne payload truck to the production range, with a clause securing the supply of German components sufficient to assemble 1200 units/annum. This contract was amended in 1964 to take advantage of the popularity of the 8 tonne model (the SATURN) among both civilian and military users. The amendment entailed production of 2700 trucks of 6-8 tonne payload, 400 trucks of 3 tonne payload, and 600 buses (65 passengers). The amendment also permitted NASCO to purchase some of the required equipment, particularly the standard machinery, from the eastern bloc, using the signed bilateral agreements (24).

Production of buses and trucks at NASCO gradually increased up to the fiscal year 1964/65 (after the crisis of foreign exchange) but declined in 1967/68 as a result of the '67 war. Some improvements were made possible by imports from the eastern bloc e.g. Poland and Yugoslavia financed by bilateral trade agreements. With the 1973 war and the expiry of trade agreements, production volume oscillated. However, the situation improved from 1974 and to the present, as the foreign exchange bottle-neck became less acute.

8.5.3.2 Trailers:

NASCO signed a contract with Klockner-Blumahrat of West Germany to supply the know-how, machinery, and parts to assemble 1000 units per annum (6/8/12 tonne payload models) to be increased to 2000 units at a later stage to make use of the available production capacity of the truck factory.
The contract, signed on 30th March 1961, entailed export rights to Arab and African markets.

Production of 8/12 tonne payload models started in April 1962 (27). To meet local market requirements, NASCO planned to assemble 26 tonne payload models and prove the 8 tonne payload models to be acceptable to the local market. In 1984/85, NASCO planned to phase trailers out altogether and to re-allocate the existing assembly line to trucks and buses (NASCO, Annual Report, 1983/84). This was due to tough competition in the local market from other producers, such as MECAR (a public sector company) and imports of modern semi-trailers.

8.5.3.3 Passenger Cars:

The importance of the motor industry in the entire economy makes it an attractive weapon of economic policy, which can have a considerable effect on total activity in the industry. Consequently, the manufacture and assembly of passenger cars was covered in the second five-year plan (1965/66-69/70). According to the plan, small cars were to be produced with petrol engines of 1100 to 1500 cc, with output of 10,000 cars per annum on the basis of two shifts, to be increased to 20,000 in the future. Several international firms applied for the contract: Fiat of Italy, Renault of France and Borgward of West Germany. In March 1961 NASCO accepted Fiat’s tenders and a contract was signed between the Five Year Industrial Plan and Fiat to assemble 10,000 cars (1100 cc model). The contract allowed NASCO to export identical products
under the NASCO brand name (NASR). In mid-1962, the model 1100 E was deleted from the original Fiat product mix. Fiat models 1300 cc and 1500 cc were added to the 1100 cc. Also, the 1300 cc model was replaced by a luxurious six cylinder 2300 cc model. These frequent changes of models have continued to the present. Production came to a complete halt in February 1966, when the inventory of parts was exhausted and could not replenished because of the foreign exchange crisis. After 1967, the production was changed from model 1100 E to 1100 R and from 1300 to 1500. In 1969/70 only the 1100 R was produced. In 1970/71, model 1100 was deleted. In succeeding years the following models were assembled: Fiat 128; Polski 125; Seat 133; Fiat 131 Seat 127; Zestava 128; Fiat Ritmo; Polski F 56 and Fiat Regatta.

In contrast with the Egyptian experience, successful or semi-successful experiences of other LDCs (e.g. Brazil and Korea) suggest that the latter countries employed a much larger domestic value-added content. Brazil for instance, ranked as the 9th largest producer of cars in the world and the local value-added content was 99%. In South Korea, the local value-added content was 99 % (25). On the other hand the Egyptian auto industry was constrained from the very beginning by excessive product diversification, each at a small level of production. The intention to increase the domestic value-added content to 86% was never realized. After almost 30 years of that contract, the highest local value-added achieved
was 30% in the Fiat 125 Polski.

8.5.3.4 Agricultural Tractors:

The Egyptian government paid more attention to assembly and part manufacture of agricultural tractors in the second economic plan 1965/66-1969/70. At the time of drafting the plan (1957-1959), the suggested annual output was 1500 tractors (50 hp) subject to be doubled within ten years (26). This volume was to cover the needs of all agricultural and land reclamation projects.

The Ministry of Industry signed an agreement with the Yugoslavian company IMR in July 1962 to assemble 3000 tractors and 3000 additional engines. Finance was through the bilateral trade agreement between Egypt and Yugoslavia. The Ministry of Industry decided that the project should be executed by NASCO. The tractor assembly and manufacture plan was very ambitious. It aimed to reach a domestic content of 89.9% within a maximum period of 45 months. Production started in mid 1964.

The Land Reclamation Authority (the largest consumer) refused any deliveries because that model of tractor was not technically suited to Egyptian land (27).

By 1967, all technical problems had been solved and the 50 hp model modified to a 60 hp model, which was suitable for Egyptian land. In 1970, when the Yugoslavian party requested that future imports of parts should be paid for in convertible currencies outside the framework of the delay in implementation of the modified model, and foreign exchange shortages were expected, NASCO abandoned...
the existing project. In early 1971, an agreement was signed with Romania to supply 2000/65 hp tractors in skd form over three years. By 1974, all NASCO's production of agricultural tractors was of that type, after the exhaustion of the Yugoslavian parts inventory. It is noteworthy that the domestic content in the Romanian model does not exceed 8% (NASCO, annual reports, several issues).

As soon as the foreign exchange crisis showed some signs of improvement, interest in the Yugoslavian project was once more revived. At present, NASCO assembles both Romanian and Yugoslavian models.

8.5.4 Arab American Vehicles (AAV):

The Arab American Vehicle Corporation was founded in 1977 as a joint venture between the Chrysler Motor Corporation (previously American Motors Corporation) and the Arab Organisation For Industrialisation (AOI)(28), under the supervision of the Ministry of Defence and Military Production. The venture was established in 1979 by a special decree of the People's Assembly, with capital of $ 6 million Chrysler held a 49 percent share, and AOI, 51 percent.

The venture employs 650 workers, and the annual capacity is designed to assemble 8,460 basic units. Its current range of production includes light M-720 pick-up trucks, CJ-8 jeeps, and Waggoners for the armed forces. It also produces civilian models. In addition, in 1984 AAV was allowed to assemble about 2000 Fiat Polonez on
NASCO's behalf, while another line produces 5000 Vespa Scooters a year under licence from Piaggio of Italy.

AAV also assembles Suzuki one-tonne truck units under contract with Modern Motors Company of Egypt. While this truck is sold at a price farmers can afford, its sales are not expected to cut into the GME market. The Suzukis are much smaller and have a different market.

8.5.5 **General Motors (Egypt):**

General Motors became interested in Egypt in 1978, when it was invited by the government to discuss a factory to produce light and medium-duty trucks. The project was approved as a Law No.43 company owned 31 percent by private Egyptian nationals, and 16 percent by Saudi/Kuwaiti shareholders.

The plant has been operating since June 1985. It occupies 25,000 square metres in 6th October City, about 50 km northwest of Cairo. It currently assembles light and medium trucks from imported CKD kits under the brand names of Isuzu, Chevrolet and Bedford. In addition to the $19.6 million raised by the shareholders, GME also used money from the Private Investment Encouragement Fund of the US Agency for International Development(29).

*Downturn.* The company had ambitious plans to increase production capacity from 6,260 units in 1986 to 8000 or more in 1987, but it experienced a serious downturn in business in late 1986. It was hit hard by the appreciation of the Japanese yen against the US dollar; GME's kits are supplied by Isuzu. The company had
to increase prices sharply, and sales dropped. However, they picked up again, and in March 1987, 900 units were sold by dealers (30).

General Motors (Egypt) has started to recover from the downturn. It currently produces about 6,060 units annually (5,200 one-tonne pick-up trucks, and 860 four tonne trucks), in addition to 100 chassis for a 24-seat minibus (the bodies are built by Ghabbour Bros., the local agent of Scania Motors, which has facilities in 6th October City). GME has been eager to enter the minibus market because of large demand in urban areas. Production of pick-up trucks has increased to about 600 per month, from less than 400 a month in late 1986. Late last year, GME started producing a new micro-bus, using bodies designed by Hungary's Ikarus. The company now plans to increase its labour force to 1200 workers, so it can produce 16,000 units a year on a two-shift basis (31).
Table 8.4


<table>
<thead>
<tr>
<th></th>
<th>86/87</th>
<th>87/88</th>
<th>88/89</th>
<th>89/90</th>
<th>90/91</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Buses:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Heavy</td>
<td>208</td>
<td>225</td>
<td>419</td>
<td>300</td>
<td>239</td>
</tr>
<tr>
<td>Medium</td>
<td>770</td>
<td>740</td>
<td>497</td>
<td>1150</td>
<td>663</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>978</td>
<td>965</td>
<td>916</td>
<td>1450</td>
<td>902</td>
</tr>
<tr>
<td><strong>Trucks:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Heavy</td>
<td>92</td>
<td>109</td>
<td>-</td>
<td>150</td>
<td>22</td>
</tr>
<tr>
<td>Saturn</td>
<td>3216</td>
<td>2471</td>
<td>650</td>
<td>1800</td>
<td>841</td>
</tr>
<tr>
<td>Military</td>
<td>-</td>
<td>-</td>
<td>940</td>
<td>650</td>
<td>286</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3308</td>
<td>2480</td>
<td>1590</td>
<td>2600</td>
<td>1049</td>
</tr>
<tr>
<td><strong>Tractors:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yuo.65</td>
<td>2232</td>
<td>2176</td>
<td>2161</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Yuo.651</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>10025</td>
<td>819</td>
</tr>
<tr>
<td>Rom.66</td>
<td>2174</td>
<td>1901</td>
<td>1901</td>
<td>1000</td>
<td>-</td>
</tr>
<tr>
<td>Russian Trac.</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>284</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>4406</td>
<td>4077</td>
<td>4062</td>
<td>11025</td>
<td>1103</td>
</tr>
<tr>
<td><strong>Passenger Car:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small</td>
<td>13044</td>
<td>1669</td>
<td>11669</td>
<td>12447</td>
<td>6185</td>
</tr>
<tr>
<td>Medium</td>
<td>603</td>
<td>4444</td>
<td>4444</td>
<td>5019</td>
<td>1478</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>13647</td>
<td>6113</td>
<td>16113</td>
<td>17466</td>
<td>7663</td>
</tr>
</tbody>
</table>

Source: Follow-up and Performance Reports of NASCO, Several Years.
Part Two:

8.6 Financial Management Policies of NASCO:

Financial management policies affect primarily the finances of public enterprises but they also determine enterprise productivity by affecting managerial flexibility and accountability. The main financial policies may be classified under these categories:

(1) Policies relating to the financial capital structure of the company,

(2) Policies concerning the distribution of the company's surplus,

(3) Policy towards foreign borrowing by the company.

8.6.1 Financial Capital Structure:

There are two main aspects of this: the issue of "debt versus equity" participation by the government, and availability of bank credit for working capital.

Before 1973, NASCO investment funds were provided as equity participation by the state. The policy was revised in 1973 when it was decided that investment funds would be provided to all public enterprises on a loan basis. The loan terms ranged between 10 and 15 years and the interest rate was 5%. The state created a new agency, the "Investment Fund", to implement this policy. This change was virtually ineffective until 1980 when the National Investment Bank was established to replace the previous agency. The National Investment Bank operates
outside the jurisdiction of the state budget and under the control of the Planning Ministry. Repayment of funds received from the National Investment Bank has been enforced, with lending terms between 10 and 15 years, and interest rates of 6-9%. Although this has been a major policy change in the right direction, unfortunately the aggregate impact has not been substantial. Also, in some instances, that policy has been in conflict with others. The basic problem is that a key element required to ensure financial autonomy and acceptability, price flexibility, has not been allowed. Apart from companies' own resources, the main source of working capital has been the banking sector.

8.6.2 Distribution of the Company's Surplus:

In many developing countries, a key objective underlying the establishment of state enterprises is resource mobilisation. Thus, apart from normal taxation (profit tax, custom duets, sales tax), special arrangements are made to mobilize the surpluses of these enterprises to finance the government budget. In Egypt there are rigid rules for the allocation of distributable surpluses of public enterprises. About 80% of surplus is expected to be transferred to the State, 10% is to be allocated for the workers' welfare and 10% is to be retained as statutory reserves. However, companies are allowed to set aside some funds as provisions, notably for depreciation, for inflation and for bad debts, before the distributable surplus is declared. The depreciation
allowances are based on the book value of fixed assets and consequently are grossly inadequate in relation to the replacement value of assets. Any company wishing to retain a larger share of its distributable surplus has to go through a lengthy and bureaucratic process of approvals. In practice, the distribution policy can create significant inefficiency problems in NASCO by constraining the flexibility of the company to plan its growth strategy. Additionally, even if NASCO found itself free to retain the surplus, it may face the problem of financial deficit (See Table 8.5 and Table 8.6).

Table 8.5
NASCO—Comparison Between Deficiency in Finance and Distributable Surplus.
(In L.E. Thousands)

<table>
<thead>
<tr>
<th>Statement</th>
<th>88/89</th>
<th>89/90</th>
<th>90/91</th>
</tr>
</thead>
<tbody>
<tr>
<td>A- Invested Capital Deficit</td>
<td>(36944)</td>
<td>(38155)</td>
<td>(41868)</td>
</tr>
<tr>
<td>B- Liquidity Deficit (for Production Cycle)</td>
<td>(372303)</td>
<td>(433923)</td>
<td>(449186)</td>
</tr>
<tr>
<td>Total of Deficiency in Finance</td>
<td>(489247)</td>
<td>(472078)</td>
<td>(491054)</td>
</tr>
<tr>
<td>Distributable Surplus</td>
<td>4899</td>
<td>1225</td>
<td>82</td>
</tr>
<tr>
<td>Change in Deficiency in Finance</td>
<td>(405148)</td>
<td>(470853)</td>
<td>(390972)</td>
</tr>
</tbody>
</table>

Source: Performance Report, NASCO, Several years.
Table 8.6

NASCO—Sources of Financing the Deficit of Financial Structure.
( In L.E. Thousands).

<table>
<thead>
<tr>
<th>Statement</th>
<th>88/89</th>
<th>89/90</th>
<th>90/91</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total of Financial Deficit</td>
<td>(409247)</td>
<td>(472078)</td>
<td>(491054)</td>
</tr>
</tbody>
</table>

Sources of Coverage:

<table>
<thead>
<tr>
<th>Loans</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Banks.</td>
<td>570648</td>
<td>654504</td>
<td>749771</td>
</tr>
<tr>
<td>Foreign Banks.</td>
<td>26978</td>
<td>13855</td>
<td>51908</td>
</tr>
<tr>
<td>National Investment Bank.</td>
<td>13435</td>
<td>18003</td>
<td>20730</td>
</tr>
<tr>
<td>(-) Differences of Revaluation of currencies.</td>
<td>(201814)</td>
<td>(214284)</td>
<td>(284637)</td>
</tr>
</tbody>
</table>

(409247) (472078) (491054)

Source: Performance Report, NASCO, Several years.

Tables 8.5 & 8.6 show NASCO's increasing reliance on external sources to fund its financial deficit. This increase in borrowing has created two problems: first, the increase of borrowing annually during the period 1988-91, causing a further deterioration in the company's financial position and second, the foreign exchange rate.

8.6.3 Access of NASCO to Foreign Borrowing:

In Egypt, in general the main source of foreign borrowing is central government. The borrowed funds are then provided to public enterprises as domestic currency loans. The servicing of debt in foreign currency is the responsibility of the central government. However, the public enterprises are also allowed to borrow directly;
the servicing of such debts is the responsibility of the enterprises concerned. Direct borrowing by public enterprises is regulated by the provisions of Circular No. 1 of 1978 which requires that all prospective loans having a maturity period of over one year must be registered with the Central Bank. The registration process involves approval of the terms and conditions of the loan by the Loans and External Debt Department (LEDD) of the Central Bank. If the LEDD determines that the proposed lending terms are unfavourable, it will not guarantee the loan. In the case of loans of less than one year maturity, the approval of LEDD is not required. However, the approval of the Foreign Relations Department of the Central Bank is needed.

Before 1984/85, NASCO exercised considerable freedom in contracting external loans directly. The requirements of Central Bank approval, through LEDD and FRD, did not create any major difficulty. However this flexibility was inconsistent with many of the controls imposed on NASCO operations, with adverse results.

Since January 1985, the freedom of NASCO to negotiate foreign borrowing has been curtailed significantly. All types of foreign loans exceeding one year maturity are now regulated by a cabinet committee. Short-term borrowing is still flexible in principle. The constraint now is the scarcity of supply due to credit-worthiness considerations (See Table 8.6).
8.6.4 Financial Management Policies Reform:

1- The fundamental factor for the success of financial reform is price flexibility. Without this, any plan for reform will have temporary and limited impact. A more realistic national price policy is necessary to improve the financial position.

Ott, Attiat pointed out that: (33)

"The government instituted in 1987 and 1988 some elements of reform in its industrial pricing policies".

2- The second step would be to stop state budget transfers to the public enterprises. This would require gradual reduction of subsidies for enterprises to a minimal level. Ott added that: (34)

"The Egyptian government began removing certain industrial products from the 'essential' goods category. The list was reduced from 29 to 19 items, and price increases were permitted".

3- The third action would be to modify the policy for the distribution of surplus. This modification must allow more flexibility to enterprises to plan their operations better over a longer time frame, and create additional incentives for managers. Furthermore, this modification would minimize the interest on funds provided by NIB to finance the investment planning of public enterprises.

4- Regarding the mobilisation of resources for financing
public enterprise investment, public enterprises should be allowed to borrow from the commercial banks and the private sector. This would relieve the pressure on the other resources (e.g. National Investment Bank and State banks). Although the capital market in Egypt is not well developed, an effort has to be made to activate this important financial institution. Once public enterprises are allowed to operate in a flexible environment, profitability in many enterprises will increase. An active capital market will make it possible for these enterprises to float stocks and shares for private participation.

8.7 **Pricing Policies:**

Pricing controls had been used in Egypt well before the emergence of its public sector. In 1939, in response to disruption of trade and expansion of domestic demand—primarily because of increased military expenditure—the government had to fix prices of some commodities as one of the measures to combat high inflation rates.

The present pricing system is administratively complicated and pricing policy has been distortive. The objective of this system is to keep prices low so as to protect the living standards of the poor people. In addition to establishing a programme of providing people with a large number of commodities at unrealistically low prices, the Egyptian authorities initiated an elaborate and cumbersome process of price controls for goods.
produced by public enterprises.

According to the public enterprises pricing system, goods are divided into two groups. The first group constitutes commodities regarded as essential, either for direct consumption or for intermediate consumption (e.g. petroleum products, electricity, rail and bus fares, water, fertiliser, cement, sugar, edible oil, soft drinks, soap, cigarettes, steel and cooking fuel). The prices of products in the first group are determined by an inter-ministerial committee chaired by the Prime Minister (the Supreme Committee for Policies). The prices of products in the second group are determined by the board of directors of the company, but the price decisions must be approved by the supervising ministry. The price is determined according to a cost plus formula, but the percentage to be used will depend on the various factors affecting the operations of a specific entity (between 10 and 15 percent). In practice, prices of most commodities, particularly goods under centralised price control (group one), have remained below cost price and the estimated loss is covered by a combination of (a) a direct subsidy, (b) cross increase in the sale mark up of other "essential" products in the firm's product mix.

Another issue is price flexibility. For products and goods under centralised price control, price adjustment needs cabinet approval. In the past, adjustments were infrequent because of the fear of inflation and its socio-political repercussions. However, recently, prices
have been adjusted more frequently, mainly to reduce the national budget deficit. In the case of the second group, price adjustments need to be approved by the supervising ministry in consultation with other concerned ministries. In general, prices in the second group have been more flexible than prices in the first group.

8.7.1 The Main Problems of Pricing Policies:

8.7.1.1 Restriction on the Finances of Public Enterprises:

Although many factors have contributed to the weakening of the financial performance of public sector enterprises, pricing has been the most important. The enterprises whose financial health suffered most due to price controls were those concerned with the production of commodities that required cabinet approval for price movement. This happened even though most commodities under centralised price control were expected to receive direct subsidy linked to their volume of production. In principle, the subsidy was to be based on the difference between the average cost of production, including capital cost, and the selling price and was recalculated each year. In fact, the subsidy has rarely resulted in full compensation and adjustments have been less frequent than on a yearly basis. The reason for this policy was the Ministry of Finance's desire to reduce the budgetary burden of the public enterprises. The impact of the situation is that while a justifiable basis for subsidy was rejected, the Ministry of Finance failed to control
indirect subsidy obtained in other ways (overdrafts drawn on national commercial banks and transfer from the Treasury to finance debt-service obligations).

8.7.1.2 The Distortion of Incentives:

Pricing has a strong impact on incentive policies for almost all public enterprises. By pricing commodities without regard to their economic values, the authorities induced an inefficient resource utilisation pattern. In the past, while resources were plentiful, the effect of the inefficiency of resource allocation was less important. Now that resources have sharply declined, the impetus to growth has to come from substantial improvements in the productivity of public enterprises. This will require that enterprises receive correct signals about the relative economic value of various factor inputs, so that they can adjust their operations to reflect the true opportunity cost of resources.

8.7.1.3 The Lack of Accountability:

In an environment where too many prices are controlled and there is no well defined compensating policy for stated non-commercial objectives, there would be a natural tendency for enterprises to blame their financial problems on price controls even though in many cases the main reason is inefficiency. The distinction between enterprises that are efficient but financially restricted (due to price controls) and enterprises that are inefficient, becomes ultra-difficult. This has happened in Egypt. The large size of the public
enterprises, the distortion of price and other controls, and the absence of an effective performance evaluation mechanism, have made it very difficult to distinguish between efficient and inefficient firms and to hold the inefficient enterprises accountable for their poor results.

8.7.2 The Effects of Price Policies on NASCO:

Despite a growth in the size of the market during the last decade because of increasing demand for motor vehicles, the price apparatus objective of expanding the local market is relegated to secondary importance to the creation of surplus. This surplus should be adequate to secure a reasonable return on investment and facilitate internal financing for expansion projects. The pricing policy has caused a complete failure to satisfy NASCO's objectives.

The impact of this price policy on NASCO can be seen from Table 8.7, where the profit (loss) of some selected products in the period 1985/86-1990/91 is demonstrated.
Table 8.7
Effect of Mandatory Selling Prices on Profitability Per Unit in Some Selected Products, 1985/86 - 1990/91.

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>85/86</td>
<td></td>
<td></td>
<td>86/87</td>
<td></td>
<td></td>
<td>87/88</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>PC's</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiat 128 Deluxe</td>
<td>5630</td>
<td>5789</td>
<td>841</td>
<td>7198</td>
<td>9438</td>
<td>2240</td>
<td>10648</td>
<td>9753</td>
</tr>
<tr>
<td>Super Fenara</td>
<td>5390</td>
<td>4714</td>
<td>676</td>
<td>6685</td>
<td>8470</td>
<td>1785</td>
<td>8663</td>
<td>12382</td>
</tr>
<tr>
<td>Nova Regata n.p</td>
<td>n.p</td>
<td>n.p</td>
<td>n.p</td>
<td>10568</td>
<td>17550</td>
<td>6682</td>
<td>23980</td>
<td>30897</td>
</tr>
<tr>
<td>Super Regata</td>
<td>7522</td>
<td>9059</td>
<td>1537</td>
<td>10445</td>
<td>14765</td>
<td>4220</td>
<td>10410</td>
<td>20885</td>
</tr>
<tr>
<td>Polonez</td>
<td>7058</td>
<td>6740</td>
<td>318</td>
<td>7953</td>
<td>11528</td>
<td>3575</td>
<td>12336</td>
<td>15954</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>CV's</th>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Bus Heavy 841</td>
<td>n.p</td>
<td>n.p</td>
<td>n.p</td>
<td>53519</td>
<td>50500</td>
<td>3019</td>
<td>55938</td>
<td>51896</td>
</tr>
<tr>
<td>Truck Saturn 2243</td>
<td>23395</td>
<td>1558</td>
<td>26620</td>
<td>23500</td>
<td>3520</td>
<td>31273</td>
<td>44380</td>
<td>13107</td>
</tr>
<tr>
<td>Truck Heavy x6</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>10329</td>
<td>97030</td>
<td>6899</td>
<td>161485</td>
<td>168995</td>
</tr>
<tr>
<td>Tractors, Yog.</td>
<td>8041</td>
<td>7727</td>
<td>314</td>
<td>8523</td>
<td>9165</td>
<td>636</td>
<td>10658</td>
<td>14455</td>
</tr>
</tbody>
</table>

Note: n.p = not produced.

Sources: NASCO, Annual Report, Several Years.
As table 8.7 indicates, in 1985/86, most PC's were sold at a loss, and the negative surplus in practice represents a subsidy for its ownership. So, the social transfers were reversed, i.e from the poor to the rich, with luxury goods like PC's being subsidized. For some models the subsidy reached over L.E 840 (e.g. Fiat 128/Luxe in 1985/86).

In 1986/87 the situation changed. Most PC's made profits because the Ministry of Industry increased prices according to NASCO's suggestions (e.g NASCO, Annual Reports, 1985/86). In contrast, buses and trucks were sold at a loss because the Ministry of Industry considered CV's to play an important role in providing better transport service.

In 1987/88, almost all PCs, CVs. and tractors were sold at a profit.

In attempting to extend the analysis to the years 1988/89- 1990/91, we face the problem that the available data do not relate to exactly the same product mix - some lines were discontinued, while new models were introduced. However, the data in Table 8.7 show that pricing policy failed to link selling pricing to production costs, so that the profitability achieved after the price increases referred to earlier was short-lived.

In 1988/89, each of the selected lines, whether private or commercial, showed a profit. However, profit levels fluctuated widely from as little as L.E 412 to as much
as L.E.7824. High and low profit level were distributed across both private and commercial categories, indicating that pricing policy did not consistently favour one category or the other.

In 1989/90 the cost and selling prices of models still in production were for the most part the same as, or close to, those of the previous year, giving a similar level of profit. The striking exception in this respect was the Polonez 1500 car, profit on which was almost doubled. The commercial vehicles which appeared in 1989/90 were not produced in the previous year. Of these, the 871 bus and the Saturn truck (without box) made substantial profits, while the 871 showed a deficit.

In 1990/91 the striking feature was greatly increased costs for all lines illustrated. Although selling prices were increased (with the exception of the 871 bus which remained constant) the increases were not in line with cost increases, leading to losses for all models. Those were particularly great for commercial vehicles (for example, the 871 bus, which had shown one of the highest profits the previous year, showed a huge deficit in 1990/91 of L.E.54848 due to the great increase in costs while prices were held at the 89/90 level). Thus, in effect, the price policy was such as to subsidize all vehicles, whether private or commercial, but the latter were subsidized to a greater extent.

It can be inferred from the above that the choice of an appropriate price policy for public enterprises and
particularly for NASCO is difficult. Due to the existing cost inefficiency, there is a conflict between financial viability and economic efficiency. To allow prices to reflect the full cost of production would transfer NASCO's inefficiency burden to the consumers. On the contrary, the main aim should be to price products on the basis of economic efficiency. In this way, the price policy for products that are competitive at international prices or can be expected to become competitive in the future, (e.g. trucks and buses), should be to let market forces determine product prices. In a competitive environment, imports do not threaten domestic production and they also ensure that monopolies do not dominate. So, the price controls for these products should be moving towards more realistic prices. At the same time, the Egyptian government must eliminate protection, but in the interim period no price controls should be imposed. NASCO should then withdraw production of the inefficient lines.

8.8 Exchange Rate Policy:

The exchange rate is particularly important for export performance. In Egypt, the exchange rate has generally tended to be over-valued. This over-valuation has had a debilitating effect on Egyptian exports and distorted the production incentive in both private and public sectors (37).

Traditionally, Egypt has pursued a very complex exchange rate policy, modified only intermittently with
phases of liberalisation. Following a long period of tight control over the exchange rate in the 60s, some liberalisation measures were introduced in the latter half of 1973: the Parallel Exchange Market was set up which allowed exporters to receive a premium over the official rate. The private sector was allowed to operate foreign currency accounts and to retain export earnings. In January 1979, the Market and official rates were formally unified, and set at L.E 0.7 = $US 1, compared with the prevailing official rate of L.E 0.39 = $US 1 which amounted to a nominal depreciation of the official rate of about 199%. In August 1981, two foreign exchange pools were established; the Central Bank Pool and Commercial Bank Pool. The exchange rate remained at L.E 0.7 = $US 1 in the Central Bank Pool. That in the Commercial Bank Pool was set at L.E 0.832 per $US 1 for buying and L.E 0.84 per $US 1 for selling. There were attempts to reform the exchange again in April 1983 by instituting a system of premiums on transactions through the Commercial Bank Pool. This system has remained in place until now. Although the premium has been flexible, the rate has continued to be over-valued, with adverse effects on Egyptian exports, particularly cotton and rice (38).

The distortion of incentives due to the fragmented and highly over-valued exchange rate has been substantial. According to calculations done by IMF, the weighted average real effective exchange rate for the
economy as a whole appreciated by 54% between January 1979 and April 1985. Between April 1985 and January 1988 the weighted average rate for the real exchange rate decreased by 18% (39).

These results imply that the exchange rate by itself had a tremendous disincentive effect on exports. Thus, a major factor constraining the growth of Egyptian public enterprises' exports has been the over-valuation of the exchange rate.

8.8.1 Foreign Exchange Reform:

It is clear that a major change required to improve the balance of payments and growth impact of public enterprises is a reform of foreign exchange. The over-valuation of the exchange rate has been a key factor constraining the export performance of the Egyptian industrial public sector, and this has to be corrected. The way to do this would be to unify the exchange rate and allow it to be determined by forces of demand and supply. As a first step, the commercial bank pool should be merged with the free market and the exchange rate set by the market. In May 1987, Egypt signed its latest agreement with the IMF, a standby agreement enabling it to obtain the equivalent of SDR 250 million (about US$ 327 mn.) According to that agreement, the government of Egypt was to carry out an 18-month economic and financial reform programme aimed at redressing structural imbalances in the economy. So, the Fund stresses the need to put an end to the multiplicity of exchange rates and
to establish a realistic exchange rate for the Egyptian pound so as to reduce imports and encourage exports. Probably the most important step taken by the government has been the establishment of a free foreign exchange market where authorized banks are allowed to buy and sell foreign currencies at the rates announced daily by the Free Market Management Committee in the light of supply and demand (40).

8.9 Trade Policies:

The trade regime in Egypt has undergone frequent changes, but in general, trade policies have favoured production of the domestic market over exports. Before nationalisation, tariffs and import structure were key instruments of exemptions on capital goods and raw materials, and there was a high nominal tariff on cotton yarn, low to medium grade fabrics and a wide range of consumer goods. The effective rate of protection, which is a summary measure of the resource pull effect of trade and other policies, resulting primarily from the tariff structure, encouraged domestic production and discouraged exports (41). After 1973, tariffs and subsidies offered effective protection to certain groups of products, with high tariffs on consumer goods, and low rate for capital and intermediate goods not produced at home. As shown in Table 8.8, activities that were afforded high protection (tariffs and subsidies) include iron and steel, aluminium, non-ferrous metals motor vehicles, paper, china and glass, and consumer electronics. Activities
that were neglected or discouraged are cotton textiles, manufactured food, edible oil, railway carriages, motor vehicle parts, consumer durable and industrial electrical goods\(^{(42)}\).

---

**Table 8.8**

**Market Structure: Effective Protection Rates to Tariff and Subsidy Rates, 1980–81.**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Tariff Subsidies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cotton Textiles</td>
<td>-2.31 -22.43</td>
</tr>
<tr>
<td>Other Textiles</td>
<td>-2.62 +46.13</td>
</tr>
<tr>
<td>Food</td>
<td></td>
</tr>
<tr>
<td>Edible Oil</td>
<td>-6.31 -81.66</td>
</tr>
<tr>
<td>Manufactured Food</td>
<td>-2.90 -64.29</td>
</tr>
<tr>
<td>Alcohol, Beverages,</td>
<td></td>
</tr>
<tr>
<td>Tobacco</td>
<td>-22.27 +32.46</td>
</tr>
<tr>
<td>Chemical</td>
<td></td>
</tr>
<tr>
<td>Paper</td>
<td>-14.06 +115.80</td>
</tr>
<tr>
<td>Basic</td>
<td>-7.60 +79.95</td>
</tr>
<tr>
<td>Metals</td>
<td></td>
</tr>
<tr>
<td>Iron</td>
<td>+29.9 +99.00</td>
</tr>
<tr>
<td>Aluminium</td>
<td>+42.7 n.a</td>
</tr>
<tr>
<td>Transport, Equipment</td>
<td></td>
</tr>
<tr>
<td>Industrial, Electrical Products</td>
<td>-45 +23.9</td>
</tr>
<tr>
<td>Consumer Durable</td>
<td>+23.5 +15.45</td>
</tr>
</tbody>
</table>

**Notes:**

(+) Protection—stimulus to industry.

(-) No protection effect—Activity discouraged.


*****

Another active commercial policy instrument has been quantitative restrictions. The Egyptian government has
made liberal use of trade controls in response to balance of payments difficulties. While temporary trade restrictions designed to absorb the impact of unexpected shortages of foreign exchange may be justified, quantitative control has been used as a permanent instrument to manage the balance of payments. The combination of tariff structure, pricing and subsidy, and exchange rate system has resulted in substantial bias against exports and a tremendous distortion of production incentive in both public and private sectors (43).

8.9.1 Tariff Protection Incentives for the Motor Industry:

Along with other products, the Motor Industry has been subjected to various forms of import restrictions, through tariffs calculated ad valorem on CIF prices (44&45). The level of the imposed nominal tariff function of the dominant factor in the mix of (a) generated revenue, (b) protection (c) curtailment of foreign exchange expenditure, and to a lesser degree (d) income distribution considerations, and (e) relative incentive measures to investment in the transport sector, is known. With emphasis on passenger cars, this can be followed from table 8.9 where the salient features of the protection measures over the period 1956-1985 are demonstrated [1].

The relatively low tariff rate of between 66 and 70% during the 50's and early 60's was regarded by the operating units (e.g., Ford) as inadequate, given the
relatively high rates on skd kits (30% in an originally low value added industrial set up). This rate was increased to 250% in 1965 to render further protection to the new units (e.g. NASCO), though as it coincided with the foreign exchange crisis of 1965, curtailment of foreign exchange had to be given equal weight. This process was reversed when nominal rates were reduced first to 100% in 1969, then to 75% in 1974 (qualified by engine capacity). This could be explained by revenue assuming greater importance than protection of the motor industry. After all, production in NASCO and ELTRAMCO after 1967 was very low because of shortages in the vital foreign exchange necessary to finance imported intermediates. To all intents and purposes, there was no passenger car industry to protect; encouraging the returning migrants from the Arab countries to import vehicles, while enhancing the government's revenue from the levied tariffs, seemed a perfectly practical policy.

Despite the continuation of the importance attached to the industry up to the present, the slow improvement in the national industry's productive capacity from the early seventies onwards meant protection must be accorded equal consideration. This explains the gradual increase in tariff rates from 75% to 100% then 115% on the basic 4 cyl. model, in addition to the qualitative restriction prohibiting importation of used vehicles over five years old, which might adversely affect the local industry. As for the distribution consideration in setting the
nominal tariff rate on PC's, this is evident from the introduction of the pyramidal pattern rate in 1972 onwards, so as to discriminate against the imports of luxurious/large vehicles vis-a-vis small and economical types.

On the other hand, nominal protection to commercial vehicles is not as extensive as to PC's. A 25% tariff duty is levied across the board on imports of buses and trucks, and 63.3% on trailers and semi-trailers, which is further reduced to 5% on imports of agricultural tractors (NASCO, Annual Report 1983, p.82). Given that the present role of the national industry in satisfying total demand for commercial vehicles at large is rather limited, protection seems a secondary intention. However these tariff rates are unlikely to provide the protection necessary to attract further investment to such activity, particularly when the tariffs levied on parts are relatively sizable. For instance, parts for truck assembly are subject to 13% ad valorem tariffs (32.5% on trailers and semi-trailers), parts for bus assembly are subject to 18%, while parts for agricultural tractors are subject to 3.55%. Indeed, NASCO has constantly raised the issue of tariff inadequacy in all its financial reports from 1980/81 onwards.

Imported components and spare parts for original equipment or after-sale are also subject to varying levels of custom duties; calculated ad valorem on CIF prices. PC's parts are subject to 35% ad valorem which,
in concession to NASCO, is reduced to 27%. The list of nominal tariff rates on parts for after sale equipment is extensive indeed. It varies from 5% in the case of oil and air filters to 125% on glass items for windows, with the majority falling between 25 and 405 (see Tariff tables, Ministry of Finance, 1981-84, Foda Consult, 1978, NASCO, 1983).
Table 8.9


<table>
<thead>
<tr>
<th>Year</th>
<th>Rates</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>66%</td>
<td>In 1961 the nationalisation of foreign trade sector.</td>
</tr>
<tr>
<td>- 65</td>
<td>70%</td>
<td></td>
</tr>
<tr>
<td>1965</td>
<td>250%</td>
<td>The height of foreign exchange crisis.</td>
</tr>
<tr>
<td>1969</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>1971</td>
<td>No change</td>
<td>Importation of vehicles older than 5 years is prohibited.</td>
</tr>
<tr>
<td>1972</td>
<td>No change</td>
<td>Rate increases to 200% on 1500cc engines, also importation of diesel powered vehicles is prohibited.</td>
</tr>
<tr>
<td>1974</td>
<td>75%</td>
<td>Rate increases to 150% for over 4 cyl. Base rate of 37.5% to be increased to 75% for more than 4 cyl</td>
</tr>
<tr>
<td>1975</td>
<td>100%</td>
<td>Rate increases to 200% for more than 4 cyl.</td>
</tr>
<tr>
<td>1977</td>
<td>No change</td>
<td>Rate on taxi-licensed vehicles increases to 50% and 100% for 4 and more cyl. respectively.</td>
</tr>
<tr>
<td>1980</td>
<td>100%</td>
<td>Four cyl. less than 1500 cc.</td>
</tr>
<tr>
<td></td>
<td>115%</td>
<td>Four cyl. over 1500 cc.</td>
</tr>
<tr>
<td></td>
<td>150%</td>
<td>Four cyl. over 2000 cc.</td>
</tr>
<tr>
<td>1983</td>
<td>115%</td>
<td>Four cyl. less than 1500 cc.</td>
</tr>
<tr>
<td></td>
<td>165%</td>
<td>Four cyl. from 1500 cc. to 2000 cc.</td>
</tr>
<tr>
<td></td>
<td>180%</td>
<td>Four cyl. over 2000 cc.</td>
</tr>
<tr>
<td></td>
<td>195%</td>
<td>Five cyl.</td>
</tr>
<tr>
<td></td>
<td>210%</td>
<td>Six cyl.</td>
</tr>
<tr>
<td></td>
<td>250%</td>
<td>Eight cyl.</td>
</tr>
<tr>
<td>1985</td>
<td>No change</td>
<td>Importation of vehicles older than 3 years is prohibited. Abolition of any concession granted to taxi-licensed vehicles.</td>
</tr>
</tbody>
</table>

8.9.2 **Trade Policies Reform:**

While a reform of the exchange rate along the lines discussed previously (see section 8.8) is a necessary condition for stimulating exports and reducing imports, it has to be combined with a reform of trade policies in order to lay the basis for an efficient export-based economic growth.

The present tariff system seeks to achieve three objectives as follows:

1. providing revenue for the government,
2. protection for domestic production, and
3. disincentive for luxury consumption.

Tariff structure is most appropriate as an instrument of protection. A first step to reform will be to make the tariff structure as uniform and simple as possible. The tariff structure should have a low dispersion (perhaps a range of 5-60 percent). The second step will be to avoid quantitative restrictions as much as possible.
Part Three:

8.10 Planning and Control in NASCO:

It is important to highlight here the organisational structure of the company before concentrating on the departments concerned with the planning process.

The purpose of organisational structure and the assignment of authority is to establish a framework within which company objectives may be attained in a coordinated and effective way, on a continuing basis.

8.10.1 The Organisational Structure of NASCO:

The fundamental purpose of management planning is to provide a feed-forward process for operations and for control (46). The concept of feed-forward is to give each manager guidelines for making operational decisions on a day-to-day basis. Planning takes place in one of the main departments, the Planning and Follow-up Department. Figure No. 8.1 shows the structure of departments and their relationship with the Board of Directors.
Figure No. 8.1

Board of Directors

President

V.P. Financial & Commercial

- Financial Dept.
  - Cost Management
  - Wages & Salaries.
  - Internal Auditing.

- Commercial Dept.
  - Purchase Management.
  - Marketing Management.
  - Storage Management.
  - Transport Management.

- Planning & Control Dept.
  - Projects.
  - Planning.
  - Factories.
    - Buses.
    - P.C.'s.
    - Lorries.
    - Tractors.
    - Engines.

V.P. Engineering

- Research & Development Dept.
  - Marketing research.
  - Quality control.
  - Research & Industrial development.

- Administration Dept.
  - Public relation.
  - Personnel affairs.
  - Training.
  - Legal affairs.
  - Archives.
  - Typing & printing.
The Planning and Follow-Up Department:

The Planning and Follow-up Department is responsible, with other departments, for formulating and preparing the plan of the company. Most managers of departments agree that planning is useful, but they do not agree on how useful it is and how much effort should go into it.

Even if planning does not lead to desirable benefits in the future, it has some use. The very act of planning forces the manager to examine the condition of his unit and the desired condition toward which he would like it to move. Whether or not he fulfils his objective, he will be in closer touch with the forces that determine his unit's performance and he will be less likely to make serious mistakes of judgment.

When formulating the plan, the Department of Planning and Control allows managers from other departments to participate in the formulation of the plans they will be expected to implement. This approach, referred to as management by objectives, results in more realistic goals and positive, workable programmes of action. It integrates planning and control. The manager who does the planning determines in advance the performance that will be controlled. He identifies the activities that are his responsibility, looks for ways to improve performance, and prepares a plan to achieve the improvement.

In addition the planning department has two
functions which need to be coordinated with all departments to achieve the objectives of the company.

I- Projects:

The planning department is responsible for preparing detailed technical, economic and financial studies. The accountants are responsible for providing project cost estimates for both fixed and operating capital. Fixed capital costs include those for site and buildings, plant and machinery, vehicles and installations, and chargeable overheads. Operating capital costs constitute expenditures for operating the project after completion but before any revenue accrues, including costs for labour, raw material production and expenses of operation (47). The planning department is responsible for (1) conducting preliminary studies of new projects (including improvements in current operations); (2) studies relating to replacement and renewal projects to keep the operation lines in good condition and to carry out the production plans; (3) studies of the technology (knowledge, techniques, and machines) required at every stage of production; (4) submitting appropriate descriptions of projects, materials, machines and plants, whether local or foreign tenders; (5) scheduling cash outflow requirements and recommending feasible sources of project financing which could be from three possible sources as follows (48):

"a) Internally, from the company, the organisation or the unit seeking to fund the project by reinvesting its profit or through a
rearrangement of its working assets, such as inventory and receivables.

b) Externally, from central government finances derived primarily from national budget funds allocated specifically to finance national development projects, with priority assigned to projects considered of strategic importance to the national economy; or

c) Externally from credit facilities offered by other countries approved to enhance commercial cooperation and friendly relations

(6) Following-up the implementation of projects.

II- Planning:

Planning is the first function of management. The function involves the following five phases (49):

"(1) establishing enterprise objectives and goals; (2) developing premises about the environment of entity; (3) making decisions about courses of action; (4) initiating actions to activate the plans and (5) evaluating performance feedback for replanning."

Planning is the most crucial component of the whole system because the planning process involves scheduling machinery, manpower and materials so as to obtain maximum efficiency from the operational departments. Production schedules are prepared in accordance with the general production policy of the company and the state plan. The preparation of sales schedules is also involved, as is preparation of materials and inventory budgets. Planning encompasses the preparation of personnel and investment budgets. It is also necessary to follow up the implementation and study the reasons for variance between the basic standard cost and revised standard cost and to
recommend corrective action. Additionally, the planning department collects and studies all data and statistics related to the operations and reports the results of these studies for submission to the state bodies.

8.10.1.2 **The Financial Department:**

Every company needs funds to buy the resources that it needs to operate, and these funds must be rationally allocated among the various units of company. These functions are performed by the finance department. In addition, it has the following function:

- It records business transactions and organises them into usable financial statements and balance sheets at the end of each financial year.

- It recommends feasible internal and external sources of finance for company activities.

- It has to formulate a cost accounting system.

- It helps the planning department to set up budgets and follow up the company's implementation.

- It presents control records for stores accounts (e.g. materials, products, and spare parts accounts).

- It conducts an internal audit of revenues and expenses to ensure compliance with financial regulations.

8.10.1.3 **The Commercial Department:**

This department has to carry out the following functions:
- To study and draw up with other departments the general policy of company.

- To study and draw up (with other departments) the objectives of sound purchasing of the company:

"to buy material of the right quality, in the right quantity, at the right time, at the right price, from the right source, with delivery at the right time (50)"

- To ensure that there is continuity of operations and no disruption due to lack of materials.

- To regulate supply of the finished production in accordance with demand.

- To design the control storage system and carry out the arrangements and transactions between the main stores and sub-stores.

- To draw up the sales policies (domestic and exports) and follow-up their implementation.

- To carry-out marketing research, both at home and abroad.

- To prepare the sales budget (monthly, quarterly and annually) for both local and export sales according to the company's objectives.

8.10.1.4 The Research and Development Department:

"Every company has the competence to produce a range of different kinds of outputs. Its particular competence must be matched up with the demand in the market. Over time changes in
consumer tastes and competitive conditions require the company to change its product mix (51).

When that happens the research and development department carries out the following activities:

- Improve facilities to increase efficiency and improve working conditions for the employees.
- Improve quality of products.
- Initiate a special programme to introduce the new product.
- Find ways of decreasing operating costs.
- Increase industrial security and safety.
- Study and attempt to find solutions to any technical or economic problems where requested by the company's units.

This, then is a brief description of the major departments found in NASCO. The following section will illustrate in more detail the planning and control in NASCO.

8.10.2 The Planning Process of NASCO:

Preparation of the national plan depends on basic information provided by each enterprise. Each enterprise reports its performance to the holding company concerned. The latter approves this information and consolidates it in a report to the Ministry. The final report is carried forward to the Planning Board.

At NASCO, the development plan budget is formulated
according to a five-year plan. Short-term plan objectives are derived from the implementation requirements of long-run programmes, projects, and product lines that management has selected. The annual operation plans of NASCO and other public enterprises are influenced by the national plan, so the annual planning process at NASCO involves consideration of national targets of income, rate of growth and volume of production.

8.10.3 The Types of Planning Budgets:

It is possible to classify planned budgets according to time span, flexibility, purpose and finally, connection with the company's management or functional departments and their activities.

There follows an explanation of various budget types under each system of classification.

8.10.3.1 Classification by Time Span:

There are three types of planned budget:

1- Long-term Planned Budgets.

This type of budget covers periods longer than one financial year and may cover several consecutive financial years, five to ten or more. This type of budget reflects the growth strategy of a project, whether related to adding new products or to capital investments in new fixtures and fittings. These budgets are formulated in broad terms and set out the general aims
that the management intends to implement.

In the view of the researcher, this type of budget cannot be used for control or assessment, as it does not represent a working plan ready to be carried out in the short term and it does not contain detailed specifications of the expenditure elements required to realize control or to define responsibilities.

2- Medium-term Planning Budgets:

This type of budget covers one or more of the company's activities during the financial year. It may be used as an instrument of control over spending and costs, and also to prepare working programmes to be implemented during the financial year. This type of budget reflects the working steps and the execution planned during the financial year and clarifies the relations between the sales, production, stock and profits expected to be achieved.

3- Short-term Planning Budgets:

Often the annual planning budget is divided into short periods, either quarterly, monthly or weekly, according to work requirements, the divisibility of the budget paperwork and as required by the management.

It is suggested that this type of budget is particularly suitable in the case of industrial companies.
8.10.3.2 Classification by Flexibility:

Planned budgets may be classified on the basis of flexibility into two types, flexible and fixed.

Flexible budgets are prepared according to volumes and levels of the different activities, and determine all spending and revenue related to each level and volume. They allow the management freedom of movement between one level or volume and another, without having to seek the approval of higher management, unless the particular circumstances require that.

The researcher believes that this type of budget is very important for the company as it helps the management to react quickly to changing circumstances without disrupting the project's work schedule, and enables them to take advantage of secondary opportunities that might return unusual profits.

Strict or fixed budgets are prepared according to fixed levels of activity, whether related to production, stock or sales. In other words, the management of the project will be restricted to the level of production or sales decided in advance and will not be able to exceed that level. This type of budget is used by all public sector units in Egypt.

In the researcher's view, fixed budgets are unduly restrictive, because they do not allow companies to take advantage of unusual profit opportunities or to respond
to unforeseen circumstances.

As a result of budget restrictions, huge differences occur between the budget figures and the actual figures. This makes it very difficult for the project's management or the company to use the planned budgets as effective control tools.

8.10.3.3 Classification by Purpose:

It is possible to categorize this type of budget into three main types: control budget, programme performance budget and planning and programming budget. The reason for using the control budget is to maintain strict control over the financial resources of the company and to make sure they are utilised for the intended purpose and not misappropriated in any way.

This is achieved through the following three stages:

1- Control before proceeding with the company's activities.

2- Control during execution.

3- Control following completion of the activity.

The programme performance budget refers mainly to assessment of the value of the work and the completed activities, and evaluation of the conduct of management. This type of budget attaches great importance to these works and activities, rather than to what the economic
unit spends on commodities and services; it concentrates on the work required to be completed and not on the type of spending.

This type of budget is considered to be a document outlining and clarifying the work types related to the project and allocating managerial responsibilities. This type of budget requires the collation of financial statements in order to determine the allocation of production units and the responsibility for execution, and to evaluate the work carried out. Also, companies must pay particular attention to the cost accounting system for preparation of these budgets.

Planning and programming budgets refer to the use of planned budgets as a tool to provide higher management and planners with the required documentation to support their various decisions. This type of budget requires the provision of cost and benefits information as well as information about methods and alternative programmes by which the company's general policy may be implemented. Such budgets also facilitate measurement of the final production, in terms of the extent to which objectives have been fulfilled.

8.10.3.4 Planning Budgets in Relation to Project Tasks:

This final type relates to the project's activities and its main functions that contain the conduct plans. It is considered that relating the planned budget to the
project's various activities, provides a safe and logical basis for its preparation. The company's management pays great attention to the planned budgets which explain the different aspects of the production activities, sales activities and distribution. This type of budget may be flexible or fixed and prepared for the short, medium or long term. This type of budget aims to help management with planning, control and performance evaluation.

8.10.4 Development of planning Budgets in the Public Sector in Egypt:

As a result of the financial and political circumstances that Egypt witnessed after the July 1952 revolution, there were few major projects at that time. Those that existed, like all financial investments, were handled by foreigners, with the exception of the Central Bank of Egypt and its manufacturing companies. The accounting profession was largely the preserve of foreigners and Egyptian accountants' experience was limited to small companies which lacked proper budgeting. This situation continued until the accounting profession became Egyptianised. As a result, the implementation of general planned budgets in Egyptian projects lagged behind their implementation in foreign projects.

It is clear that before the introduction of the Socialist government in July 1961, and the appearance of the public sector, little attention was paid to the idea of general planned budgets encompassing all project activities, and prepared on an informed basis. The use
of planned budgets was largely confined to the general budget of the government. After socialism, and the evolution of the general sector, legislation was introduced to compel public sector companies to use planned budgets. At that time, however, there was a lack of personnel with experience in preparing such budgets, and understanding of the rationale behind them. Also the companies' top managements were not aware of the full benefits to be derived from planned budgets. The Egyptian universities paid little attention to the subject in their general curriculum.

Because of that, the implementation of planned budgets faced many difficulties. Many of those working in the public sector thought that planned budgets were merely sets of ledgers to be completed before a deadline. They had no understanding of the system's real meaning and the aims behind it. Those aims are as follows:

1- The planned budget is considered to be a systematic working plan prepared and based on logical facts and studies.

2- The budget clarifies the specific purposes of future operations.

3- The budget system helps to decide and clarify the future strategy of the project.

4- The budget is used as a basis to measure project
performance and management efficiency in all economic activities.

5- The budget decides the responsibility of each individual working with the project and each management involved in meeting the desired results.

6- The budgeting system is considered an internal control tool. By constant comparisons of the actual and budgeted figures, it is possible to spot any major variances and work on preventing their recurrence by identifying strength and remedying weaknesses.

7- It also helps in estimating the project's requirements of working capital and the amount of cash required to cover immediate obligations as and when they occur.

In 1966, the uniform accounting system was introduced in Egypt, and its use was obligatory for public sector units as from the beginning of the 1966/67 financial year. This system adopted the planned budgets as a valuable tool for planning and constant control at all levels.

8.10.5 Types of Budget and their Preparation Rules:

8.10.5.1 Types of Budgets:

The economic unit is considered as a planned budget consisting of three branched budgets. These budgets are:

a) Quantity Budget:

This budget clarifies the production programme of
the economic unit and relates to the production capacity. It documents the required resources of materials and manpower. This budget is described as "quantity" because it represents the technical relationship before translation into cost values.

b) **Monetary Budget:**

This type of budget represents the translated cost value of the budget. It expresses the previous budget in terms of monetary value and clarifies the financial plan of the unit.

c) **Cash Budget:**

This type of budget clarifies the cash payments and receipts of the economic unit and what might be due over these payments or receipts in terms of excess or deficit, and helps in evaluating the financial situation of the unit. The researcher believes that the split between the quantity budget and the monetary budget is without justification. It is known that accounting activities are not concerned with activities except those with monetary or cash values. The planned budgets and accounting statements are prepared in monetary form, even though the principle behind the preparation is quantity for example, the accountant cannot prepare a production budget without having full facts about the production capacity; and the quantities required to be produced and the value of the production capability; these are all quantity data. Following the preparation of the quantity
data is the translation of these data into monetary data which are then used to prepare a budget indicating economic value.

The accountant's role is not to prepare quantity budgets, because that requires information based on technical expertise outside the accountant's sphere of knowledge and which he could not acquire without extensive training. Often the accountant relies on engineers and technicians for the preparation of the quantity evaluations used in the preparation of the budgets. However, the quantity movements should not be split from the monetary movements, but the quantities and the financial values should be put side by side.

The cash budget is prepared in terms of the relevant quantity operations. A cash flow statement is prepared to forecast all the operations related to the cash and to lay down detailed evaluations of all cash payments and receipts.

8.10.5.2 Planning Budget Preparation Rules:

The planning budgeting is prepared according to the following rules:

"a) To distinguish between current operation and the capital expenditure.

b) To combine the budgets with cost accounts, and to classify the cost centres into:

I- production centres.

II- production services centres.
III- marketing services centres.

IV- financing and administrative services centres.

V- capital expenditure centres.

c) To present the budget on a monthly (or quarterly) basis as well as on an annual basis and to classify these budgets by activity according to the "Arab Standard Classification of Economic Activities".

d) To insert into the budgets a distribution reflecting the share of branches in the major activity in which the economic unit is engaged.

e) To adhere to the standard designs for the budget's forms included (52)."

These rules are based on linking the costs with the budget and allocating the costs among the cost centres. The budget differentiates between current and capital expenditure and follows the functional classification, dividing the annual estimates over monthly or quarterly periods.

These rules will result in the type of detail that will not concern the planning bodies, whether at the enterprise or government level. Planning information is naturally general and not specific, as is the information required for control and performance evaluation. It is not possible for the government planning agencies to have enough time to study and use all this detailed information before preparing the national plan.
8.10.6 The General Structure of NASCO's Cost System:

In the empirical study the researcher was able to examine the cost system which NASCO uses (interview, NASCO's cost manager). In general we can specify the aims of any cost system as follows (53):

1- Counting of the cost of each operation or product and comparing that cost with the benefit derived from the operation/product.

2- Contributing in preparing the planning budget.

3- Controlling performance and correcting variances from the plan.

4- Providing information and detailed data to help the management in decision-making.

Study of NASCO's present cost system revealed the following:

1- The company uses a mixture of standardised and actual methods, apparently arbitrary. For example, it uses standard ratios in technical aspects but actual ratios in costing aspects. Also, it mixes these ratios to produce other kinds without any scientific basis; for example, wages ratio and ratio of allocation of additional expenses.

2- Also, the company does not follow a specific theory in the case of allocation of cost elements. For example:
a) Work in progress is burdened with the direct costs of necessary commodities only.

b) The manufactured parts inside the production workshops are burdened with the total costs to the production workshops which used them, but those still in stock are burdened by the direct costs only.

3- The company does not usefully apply the cost centre principle as a way of linking cost elements with their uses to determine the costs and results of the various functions. For example:

a) The system used is applied at the level of basic functions centres only. There is no analysis at the level of subsidiary functions.

b) There is no link in the allocation cycle between the time costs are incurred and their allocation on product/types.

c) The system for recording and allocating costs in the company does not match the system of manufacturing planning and inputting commodity requirements.

d) The procedures for allocating costs to the functional centres do not follow sound principles, for example recognising the function of each centre and its needs.

e) The company does not use units of measurement for each centre as a basis to calculate costs and determine the quantities of finished goods, wastage, shortage and
transferred production.

4- The company does not apply the historical event concept to production elements. For example:

a) Unfinished products are evaluated according to standard costs of the commodities without any consideration of the actual costs of commodities used requirement.

b) There is no flow of information about actual waste, actual production and quantities transferred between production lines, or between the production lines and subsidiary workshops.

c) With respect to parts inside the company, production lines are burdened with their costs for the previous year or years.

5- The company does not follow the manufacturing orders system with all its principles and requirements, in the following respects:

a) Manufacturing orders are not applied in assembly operations at the production lines. What is produced is not considered as a manufacturing order.

b) Although there is clear linkage between the element of commodity requirements and production, there is no such linkage for other cost elements.

6- There are deficiencies in the communication system, for example:
a) There is no communication channel between the production lines or between the stations of each individual line.

b) Further, there is no communication between the primary and subsidiary workshops, or the assembly lines.

7- There is insufficient reporting for the purposes of follow-up and decision-making, as illustrated by the following:

a) The periodical reports are not timely because the most periodical statements are issued half-yearly.

b) Information in the periodic statements is classic, without any linkage from one to another.

c) There is no system for reporting on specific matters such as exploited capacity (machinery and manpower), quantities of waste, maintenance and break-down, or ratios of productive efficiency.

It is clear from the above that NASCO's cost system is very weak, which affects the ability of the uniform accounting system to achieve certain desired objectives. For example, many figures in planning budgets and the financial accounting area in an industrial context are supplied through the cost system. Also, the reliability of these figures depends upon the existence of a complete cost system.

If the cost system is incomplete and its methods inadequate, then the results presented will tend to be
unreliable for many important purposes.

It is therefore clear that, without a reliable cost system, the uniform accounting system becomes misleading and inadequate.

8.10.7 NASCO's Planning Budgeting:

From the empirical study, the researcher noted that the purpose of planning budgeting in the company is to provide the holding company of the engineering industries, the planning ministry and the treasury with various information and forms which they require for planning and control.

8.10.7.1 Regulations for Preparing the Planning Budget:

First, the holding company of the engineering industries determines targets for production and sales volume or profits. These have to be in line with State policy. It directs all its associated companies to achieve these targets. The holding company meets with the presidents of the associated companies before they prepare their planning budgets, to discuss the general programme for budget preparation. In preparation of the budget, it is essential to consider the Principal Budget Factors, the extent of whose influence must first be assessed in order to ensure that the functional budgets are reasonably capable of fulfilment.

After that meeting, NASCO takes the following steps to prepare its budgets in terms of the general targets of the holding company:
1- determining the target to be realized by the company within the budget period;

2- studying the forecasts and the likely future circumstances of the company;

3- issuing estimations to various activities and departments;

4- drawing-up the executive programmes policy.

The period taken to prepare the NASCO's budgets should not exceed three months. Usually, budget preparation starts on June each year and ends on 31 August.

8.10.7.2 The Departments' Responsibilities in Budget Preparation:

Preparation of the planning budget is the responsibility of many departments, as follows:

1- Planning department and follow-up department. This department is responsible for such functions as:

- setting plans for capital operations;

- setting various budgets estimates;

- co-ordinating all budget work;

- preparing the company's budget proposal;

- submitting the budget proposal to the Board of Directors for approval.
2- Budget Planning Committee. This Committee consists of the chairman of NASCO and the general managers of various departments, e.g. Sales, Purchases, Production, Works Engineering and Cost Accounting. The Budget Committee will formulate a general programme for preparation of the budget, and then be responsible for such functions as:

- consolidating the estimates for the various activities;
- discussing difficulties with managers;
- providing historical information to departmental managers to help them in their forecasting.

The empirical study revealed that the agency responsible for budget planning and control will carry out the following functions:

1- **Budgeting Preparation:**

- setting estimates for various activities;
- co-ordinating the activities of all departments to form an integrated whole.
- providing information about the budget to the executive departments;
- measuring the actual results;
- preparing the performance reports.
3- **Follow-Up:**

Identifying the variances between the planned and actual-analysing these variances.

8.10.7.3 **Participation of the Managerial Levels In Preparing the Budget:**

The researcher observed that heads of department, general managers and the Board of Directors all participate in preparing the budget, though no role was observed for labour directors and observers. The Board of Directors is responsible for determining the required targets, discussing the estimates, revising them if necessary and approving the final result. General managers are responsible for providing estimates proposals for their departments and discussing them with the Board of Directors. The heads of departments suggest their departments' estimates and discuss them with the general managers.

The researcher believes that labour directors and observers should participate in preparing the estimates of budgeting for their works to make them to do their best in realizing the planning targets.

8.10.7.4 **Basis of Budget Preparation:**

In practice, NASCO, in finalizing budgets for operational use, phases its budgets on fixed activity levels (Fixed Budget). Its justifications for using this type of budget are:
- it is easy to prepare.
- it limits costs.
- it is better than a flexible budget for control purposes.

The researcher believes that the third reason is not correct, because if the actual production level is changed from that planned, then the evaluation of performance efficiency will be misleading. However, a flexible budget prepared according to the volume and levels of the different activities would make possible a true comparison between actual and planned implementation. The the production capacity is the essential starting-point for setting estimates for various activities. Other factors which must be taken into consideration in budget planning include:

1- General policy of the State: The process of setting estimates must take account of the circumstances and State policy, e.g. the availability of foreign currency and the volumes and kinds of products required according to market need.

2- Raw materials: Motor industries in Egypt depend heavily on imported commodities, so the availability of such materials will, in part, determine production volume.

3- Sales: The planning of production volume must take into consideration which products are required by
the market and will bring maximum profits.

The various activities are estimated on the basis of average data for the five previous years, with modification for current and expected future circumstances, and the holding company's requirements.

8.10.7.5 **Functional Budget:**

A functional budget is one which relates to any of the functions of an undertaking. Functional budgets are subsidiary to the Master Budget, which is the summary budget.

There are many types of functional budget, of which the following are frequently used:

1- Production Programme Budget.

2- Commodity Requirements Budget.

3- Exports Budget.

4- Sales Budget.

5- Wages and Manpower Budget.

6- Investment Budget.

7- Finance Budget.

8.10.7.5.1 **Production Programme Budget:**

This shows the quantity of products to be manufactured.
In the case of NASCO, the production programme is translated to models and based upon:

1- The sales budget

2- The factory's capacity

3- The budgeted stock requirements

- The production capacity is studied for each production stage to determine the planning quantities according to the working hours for each production line at the assembly stage, taking into consideration time taken by manual processes (e.g. welding, preparation).

- The final budget is based on the assumption of 260 working days a year and one and a half shifts daily on average.

- The Board of Directors approves the annual production programme budget and sends the details to all production lines, stores area and maintenance department.

- The annual production programme is broken down into monthly programmes.

- The executive plan is prepared according to production lots of 48 cars, the multiples thereof depending on the availability of production requirements and finance.
- The implementation of this budget is followed up by daily reports showing the daily production, shift production, and the situation of products (body, painted body, and prepared body). Also, reports are prepared showing the figures for lots, local car codes and car numbers of each production line.

Table 8.10

Comparison between actual and planned production of NASCO

<table>
<thead>
<tr>
<th>Year</th>
<th>Planned</th>
<th>Actual</th>
<th>Percentage of Actual to Planned</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>%</td>
</tr>
<tr>
<td>Buses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>86/87</td>
<td>1000</td>
<td>965</td>
<td>96.5</td>
</tr>
<tr>
<td>87/88</td>
<td>1500</td>
<td>1058</td>
<td>70.5</td>
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<tr>
<td>88/89</td>
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<td>89/90</td>
<td>1985</td>
<td>2302</td>
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<tr>
<td>90/91</td>
<td>2250</td>
<td>1719</td>
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<tr>
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<td></td>
<td></td>
</tr>
<tr>
<td>86/87</td>
<td>2400</td>
<td>2580</td>
<td>101.5</td>
</tr>
<tr>
<td>87/88</td>
<td>2500</td>
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<td>2100</td>
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</tr>
<tr>
<td>89/90</td>
<td>2200</td>
<td>1371</td>
<td>62.3</td>
</tr>
<tr>
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<td>1149</td>
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<tr>
<td>Tractors</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>86/87</td>
<td>5000</td>
<td>4077</td>
<td>81.5</td>
</tr>
<tr>
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<td>5000</td>
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<tr>
<td>88/89</td>
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<td>1737</td>
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<td>90/91</td>
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<td>P.Cars.</td>
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<tr>
<td>86/87</td>
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<td>90/91</td>
<td>13200</td>
<td>7663</td>
<td>58.0</td>
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</table>

Sources: NASCO's Planning Budgets, Several Years.

From Table 8.10, it can be observed that implementation for all types of products was below
targets especially in the case of passenger cars. This suggests a lack of proper planning and statistical forecasting. Also, it is clear that NASCO has not considered all potential difficulties or labour productivity and financial problems. Further, the production planning budget has not been formulated on the basis of study of the previous years' production.

8.10.7.5.2 Commodities Requirements Budget:

- Basic statements for parts required for producing each vehicle type are prepared as production plans. NASCO usually depends on prepared statements obtained from abroad e.g. from FIAT of ITALY and modified to fit the company's circumstances.

- Implementation of the production budget depends the inflow of foreign commodities. Suppliers are usually affected by the circumstances of exporters and the availability of foreign currency.

- There are no stores of foreign goods because these lots are taken direct to the production lines.

- Local commodity requirements are usually added to the storage and flow to the production line as manufacturing orders.

From the empirical study the researcher noted that:

1- Many factors affect commodity requirement budgeting,
for example, the regulations and circumstances of lots loading from the exporter to the company.

2- There are not enough commodities in the company stores to enable planning and linkage with the production plans.

3- There is no link between commodity requirements and production lots, owing to absence of daily reporting about the movement of parts and materials. NASCO follows-up the quantities of production only; there is no follow-up and control of parts and materials.

4- There is a lack of relationship between flow and used and unused lots, because of the weak regulations for the storage of imported materials. The researcher would suggest that these problems be addressed by setting up an effective storage system to guarantee the flow of materials from stores to production lines and follow-up the balance.

8.10.7.5.3 **Exports Budget**

Usually, NASCO contacts the importers direct and makes agreements to export specific quantities of its products, taking into consideration the production circumstances, the local market needs and its ability to finance production operations.
8.10.7.5.4 **Sales Budget:**

NASCO usually estimates its local sales in terms of market conditions and the company's circumstances, taking into consideration the holding company's requirements, e.g. reserving a proportion of buses for the public transport authority, or passenger cars for the members of parliament and a few professional syndicates.

Normally, NASCO plans local sales on to the following basis:

1- It must produce what it plans to sell in the coming year.

2- It must finance planned production for the period, in accordance with input flow and the production cycle.

3- The sales budget must be take into account the market situation, e.g. payment facilities and quantity discount.

The researcher noted from the empirical study that NASCO does not use any scientific method to plan its sales, like marketing research or sales forecasting, owing to the limitation of funds for research and lack of expertise of sales management.
### Table 8.11
Comparison between actual and planned sales of NASCO

<table>
<thead>
<tr>
<th>Year</th>
<th>Planned</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q.</td>
<td>V.</td>
</tr>
<tr>
<td><strong>Buses</strong></td>
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<td></td>
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<tr>
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</tr>
<tr>
<td>90/91</td>
<td>13050</td>
<td>226700</td>
</tr>
</tbody>
</table>

Note: Q. = Quantity.  
V. = Value.  
P. Cars = Passenger Cars.  
Sources: NASCO, Planning Budgets, Several Years.

*****

From Table 8.11, it can be observed that most sales for all types were lower than the planned targets. Again, this implies a lack of proper planning and statistical forecasting. Also, it is clear that NASCO has failed to consider any international and political influences on
the Egyptian market and the competition from private car companies in Egypt. Further, the sales planning budget has not been based on historical analysis of sales, e.g. cyclical movement, trends, and seasonal fluctuations. These are serious omissions. The sales budget is possibly the most important subsidiary budget, because if the sales figures are wrong, then practically all the other budgets will be affected.

8.10.7.5.5 **Wages and Manpower Budget:**

The wages and manpower budget is usually prepared according to planned production figures. On this basis, it is possible to determine direct work hours required by labour to finish the planned production programme and, knowing the wage ratios, to determine the direct work cost. This may be explained by the following formula:

\[
\text{Direct Work Cost} = \text{Direct Work Hours} \times \text{Wages Ratio}
\]

NASCO determines the standard work time required to manufacture buses, tractors, lorries, and passenger cars. It multiplies the planned production volume of each type by standard work time per unit of each product to reach the required standard work time for production. This may be explained by the following formula:

\[
\text{Standard Work time} = \frac{(\text{Planned Production Volume} \times \text{Standard Time})}{366}
\]
By counting the number of workers required to carry out each production stage and considering their skills and specialities and the applicable rates of pay the company determines the wage ratio for each skill.

The planned direct wages cost is therefore =

\[(\text{Wage Rate} \times \text{Standard Work Time} \times \text{Planned Production})\].

It follows that the direct standard wages per unit will be:

\[
\frac{\text{Direct Wages Cost}}{\text{Planned Production Units Number}}
\]

From the empirical study, the researcher noted that:

1- The wages and manpower budget is prepared on a time basis, and wages are fixed by law. Thus, the production workers obtain their wages, whether or not the production target is achieved. This means there is no clear linkage between the production target and wages budget, resulting in rising production costs.

2- According to Egyptian employment policy, NASCO is not free to determine the work force volume as in accordance with its production requirements, because the State guarantees to provide jobs for all graduates and distributes them among the public
companies irrespective of need.

3- Some skilled labour transfer to private companies or branches of foreign companies, where they can get higher wages and better conditions.

The researcher recommends that these problems be solved by giving NASCO freedom to set its own wages and employment policy.

4- There is no time card system at the production workshops to count time consumption, so it is hard to follow-up the productivity of each worker or group.

5- There is no control system for wasted time and breakdown, as a result of which cost data will be inaccurate.

6- There are no reliable data about actual work hours of each production lot at each production stage, so actual direct wages will be inaccurate.

7- There is no distinction made between production times for different models on the main times.

8- Determination of the average wage ratio for all company provisions on the basis of equal of hourly wage ratio for all workers is wrong; the labour wage ratio in the painting line, for example, differs from that on the welding line.
8.10.7.5.6 **Investment Budget:**

After studying all production programmes, sales plans, and labour requirements, the company decides whether it needs to replace some machines or add capacity. The investment budget is mainly prepared on the basis of comparing actual with required capacity to determine the volume and type of investment required.

The researcher noted that NASCO's investment budget does not show the expected added capacity from new investments and no indications are given of the expected revenues and expenses of the added capacity.

8.10.7.5.7 **Finance Budget:**

Every type of product has a monthly planning programme which requires details of production requirements to be imported from foreign countries. NASCO's finance budget is prepared on the basis of planning financial resources in terms of the company's requirements as shown in the planned production schedules. The main sources of finance are:

- Sales by hard currency.
- Free banking market.
- Local companies.

8.10.8 **Deficiency of the Planning Budget of NASCO:**

It is evident that the present planning budgeting system of NASCO is restricted and inflexible. It might also be added that budgets are prepared for one level of activity (e.g. volume of production). All results are compared with the planned target, regardless of changes.

369
in circumstances. Although the concept of capacity is used, to the extent that the rate of capacity utilization is considered in the production budget, cost behaviour and volume are not related. Moreover the concept of flexible budgeting is not found.

In the researcher's view, the flexible budget is a very useful tool to provide the management with an acceptable basis for analysing and thus controlling, variances between planned and actual costs, and is based on knowledge of cost behaviour patterns. It is important to stress here that budgets will be prepared for several levels of activity in the company. To prepare this budget, it is necessary to consider the relationship between costs and the volume of production, for it assumes that costs of materials, labour and other facilities used in production activities vary according to changes in the volume of activity, and reflect the costs necessary to achieve a given activity target. Flexible budgeting is very helpful when managers are trying to choose among alternative ranges of activity for planning purposes, and also at the end of the financial year when they are trying to study and analyse actual results.

It is important to stress here that the extensive information reported by NASCO to internal or external users is costly and time-consuming to prepare. Focus instead should be on selecting and reporting the appropriate information.
Also, budgets are mainly prepared on the basis of the previous year’s activities, adjusted for any alteration in conditions expected for the coming year. This basis depends on historical information. Budgets should be based upon expectation of the future, not the mere extension of the past.

The production budget is not prepared on the basis of studying the market and any market surveys carried out by sales departments are not for the planning process but for product mix.

The investment budget does not show the expected added capacity from new investments and no indications are given of the expected revenues and costs of the added capacity. The wages and manpower budget is prepared on a time basis, and wages are fixed by the State. Thus, the production workers obtain their wages whether or not the production target is achieved. This means there is no linkage between the production target and the wages budget.

There is no linkage between analysis and classification of cost elements for accounting records and planning budget schedules. Nor is there any harmonisation between those records and schedules, resulting in late comparison between actual and planned costs.

There is no controlling reporting system to facilitate comparison between actual and planned results for a given period, and enable the company and the
holding company management to be informed about the variances so they can take corrective action in time.

Finally, three months is not long enough to prepare useful budgets.

8.10.9 **NASCO Performance and Follow-Up Reports:**

In order to follow-up implementation of their plans and evaluate performance, NASCO and other public enterprises issue periodic reports which should be based on a wide range of detailed information, since the data are usually available in financial accounts and statements alone (previously described in Chapter Seven). According to the uniform accounting system, periodical and final accounts must, therefore, be supplemented with at least the same amount of information included in the planning budget. So, NASCO is required to prepare standard reports of specified information. These forms are designed by the Planning Ministry to serve the planning and control functions of the management of the economic unit itself, as well as demands for accounting data from other institutions. These reports are submitted to the holding company, the Ministry of Industry and the Ministry of Planning.

8.10.9.1 **Performance Reports:**

These reports fall into nine categories, each following a prescribed model. The first one is the production model. It consists of eight forms as follows:

1- Finished production.
2- Statement of reconciliation of variances of export prices (local and overseas).

3- Statement of actual production compared with that planned for this year and actual last year.

4- Stages of production.

5- Production capacity by production stages, process and cost centres.

6- Capacity utilization.

7- Finished production quality control analysis.

8- Quality control of the production activity centre.

The second model is the marketing model, which consists of five forms as follows:

1- Gross sales.

2- Exports.

3- Local sales.

4- Finished output movement.

5- Comparison of cost with the sales prices.

The third model is manpower. It consists of four forms as follows:

1- Wages and manpower.

2- Development of manpower for the permanent workers.

3- Net available workdays.

4- Absences for normal reasons.

The fourth model is commodity inputs. It consists of
three forms as follows:

1- Purchases inputs.
2- Inventories and commodity inputs used.
3- Analysis of changes in direct materials prices.

The fifth model is foreign currencies. It consists of one form only, as follows:
- Foreign credit letters.

The sixth model is profitability and costs. It consists of six forms as follows:

1- Production factors cost analysis.
2- Gross production variances analysis.
3- Income statement analysis.
4- Provisions analysis.

The seventh model is value added, which consists of one form only, as follows:
- Value added.

The eighth model is funds movement. It consists of six forms as follows:

1- Comparative statement by sources of long-term finance, investment finance, and uses.
2- Detailed comparative statement by sources of long-term finance.
3- Detailed statement by constant uses.
4- Comparative detailed statement by current assets.
5- Detailed statement by current liabilities.
6- Analysed statement by funds movement.

The ninth model is investment follow-up. It consists of four forms as follows:

1- The cost situation of projects in progress at company level.

2- Development in the cost situation of projects in progress within year (E/121).

3- The cost situation of projects in progress against the company (E/122).

4- Development of implementation of all projects.

The researcher noted from the empirical study that there are numerous indicators used in performance evaluation. In the researcher's view, evaluation depends on quality, not mere quantity, of indicators. It is recommended that evaluation should concentrate on the following main indicators:

1- Percentage of export to total sales.

2- Entrance to new markets.

3- Percentage of waste and efficiency of material use.

4- Percentage of stock decreasing.

5- Introduction of new products and innovations.

6- The cost of training to the volume of sales.

7- The cost of research and development to the volume of sales.

8- Percentage of trained employees to total employees.
9- Realisation of a reasonable surplus to the paid-up capital or reduction of the losses.

8.10.9.2 Follow-Up Reports:

Follow-up reports are required by the Ministry of Planning, and are submitted to the Ministry on a quarterly and annual basis. At the same time, the central authorities require the same data for control purposes. Because of this duplication, most companies submit their reports too late. The follow-up reports cover the same range of information as is included in the planning budgets.

The follow-up system aims to measure the productivity of each enterprise, its implementation of its plans, and its contribution to the national plan. So, each section of the performance reports compares actual performance with that planned, and contains notes showing the variances.

In interview with NASCO's cost manager, it was found that there is no rule as to what level of variance is acceptable, so it is left to the discretion of the central authorities to decide on their acceptability or otherwise. Another important point needing specific attention is that, at the company level, little attention is paid to analysis of these reports before they are submitted to the top level. Moreover, the supervisors and managers who are responsible for implementation have little connection with the cost control system.
8.11 The Engineering Industries Organisation:

The Engineering Industries Organisation (EIO) the holding company for Engineering Industries according to Law 203 of 1991, includes 19 companies (subsidiaries). Activities of these companies are distributed as follows:

- Five companies for transport equipment.
- Five companies for industrial electrical products.
- Five companies for metal industries.
- Four companies for metal construction and industrial services.

All of the above companies are owned by the government of Egypt (except Phillips company, whose capital is shared between Egypt and Holland). The EIO's role in planning is very important, and includes the following (54):

1. To approve the initial budgets of the companies concerned.

2. To study the fundamental problems of subsidiaries and try to suggest solutions.

3. To introduce the most recent technological knowledge and experience into the companies under its supervision, to raise the quality of products and to reduce production cost.

4. To follow-up the implementation of companies’ plans and examine the CAA reports on their performance.
(5) To liaise between those companies under its supervision and with other organisations.

(6) To provide financial assistance for those companies.

(7) To allocate funds for purposes other than those specified in the budget.

(8) To submit financial statements and other statistical data to the Ministry of Industry. These data are collected from companies and consolidated in reports to the Ministry of Industry and Planning Board.

8.11.1 The Control System at the Engineering Industries Organisation:

The control system consists of those elements established by the industrial and planning ministries and those carried out at EIO.

8.11.1.1 Budgeting:

The Engineering Industries Organisation (EIO) does not construct detailed budgets in respect of all production and costing aspects of all its companies. However, each organisation constructs the H.Q. budget by using aggregates derived from the companies' budgets in order to ensure plan consistency and to inform the Ministry of Industry of any excess or shortfall compared with the national objective. Additionally, the EIO is also required to study and approve the initial budgets of the companies concerned, to ensure the efficient use of available resources. Each company should provide budgets in a uniform format provided by the Planning Ministry.
8.11.1.2 Performance Evaluation:

Performance evaluation is carried out in EIO on the basis of comparison between the actual achievement and planned targets, and decisions based on the result.

These decisions may include assistance in establishing new technology, raising or lowering productivity figures for the period to come, introducing training programmes, and trying to solve any financial problems at companies.

It is a matter of urgent necessity to set scientific indicators to evaluate the performance of a holding company and translate its strategy into specific targets and objectives which can be measured quantitatively in order to ascertain its strengths and weaknesses.

Performance evaluation must be carried out by the technical department of the relevant Business Sector Ministry. Actual results should be compared with those planned and set out in the planning budget approved by the general committee. The researcher recommends that particular attention be paid to the following in performance evaluation:

1- Sale of capital assets or sales of full activities from subsidiary companies to new owners. This could be measured by comparing volume of sales to total assets, investment capital, or paid capital.

2- Ability to establish or buy (either alone or in combination with other) multi-activity companies to
strengthen the portfolio of the holding companies and to break their monopoly.
This could be determined by the following:

- Existence of holding company activities covering a variety of fields. or,

- Percentage of the company's contribution in establishing new companies to serve strategic targets.

3- In the case of the establishment of new projects, or development and change of existing ones comparison should be made between actual achievement and planned performance according to the volume of business or total investments.

8.11.1.2.1 Production Plan Comparison:

Tables of production figures are constructed at the EIO on a product and company basis, and on a monthly and yearly basis.

Tables on a product basis are very important because they make it possible to identify the most efficient or inefficient products. Such tables are constructed in terms of 1- the available capacity; 2- planned production for the same year; 3- the actual production for the previous year; 4- actual and planned prices.

The Company table is constructed in much the same manner as previous tables. Similar to the above tables there are also two concerning sales revenues.
8.12 **Auditing and Performance Control:**

The CAA has become, by Presidential decree, the authorized public agency to audit the enterprises of the public sector and the government institutions. Members of the CAA are directly responsible for carrying out its functions, which have been expanded to include, beside auditing, follow up and evaluation of the implementation of the development plan at micro and macro levels. The economic plan is built on the basis of standard information provided by the economic units. Therefore the function of the CAA should be extended to cover the formulation of the development plan and control of implementation. Mr. Fakhry Abas, the chief of the CAA says that performance control, in addition to financial control, began to be applied on all public companies from the financial year 1992/93 (55). The new function of the CAA is to evaluate the productivity of operations. It includes the following:

(i) Programme auditing, which measures the volume of implementation of annual operating targets.

(ii) Efficiency auditing, which measures the company's efficiency in terms of available resources.

(iii) Effectiveness auditing which is designed to evaluate whether the company programme has implemented its expected targets.

(iv) Following up the execution of investment projects.
8.13 The Role of Accounting in Planning and Control:

Accounting is playing an increasingly important part in the planning function, whether it is long range corporate planning which covers a period of up to ten or fifteen years, short-term tactical planning, or technical planning. In each type of planning, the management accountant assists by general involvement in the planning process:

(a) Helping to co-ordinate the overall planning process.

(b) Providing information on past operations as a basis from which plans can be developed.

(c) Identifying strengths and weaknesses within the company, and threats and opportunities in the environment within which the company operates.

(d) Advising on the effect of alternative plans.

(e) Evaluating the plans in financial terms.

Beside this general involvement, the management accountant has a specific part to play in certain aspects, for example:

(a) The appraisal and planning of capital expenditure projects.

(b) The establishment of financial objectives.
(c) Determination of pricing policy.

(d) Forecasting cash flow.

The management accountant also plays a leading role in the control function. Management accounting techniques such as cost accounting, budgetary control and standard costing provide management with the means of controlling their operations. The process of analysing performance and cost and comparing them with a plan enables results to be reported to management in a meaningful way.

8.14 The Ministry of Industry Control:

The Engineering Industries Organisation, as shown earlier, is headed by the Ministry of Industry. The Ministry of Industry is responsible for the execution of that part of the national plan assigned to the public entities under its supervision. At first the Minister of Industry had the authority to supervise and control these public organisations to ensure the implementation of the national plan, but by an Act of 1971, the Minister's power of direction was abolished and replaced by one of approval. As a result, decisions taken by a public organisation must be referred to the minister concerned for approval. Examples of such decisions are, the annual budget; the balance sheets and financial accounts; investment; production; marketing; exporting; employment policies; creation of new enterprises or purchase of shares; training policies and the rules and regulations for the organisation's work. There have been widespread
complaints that this does not allow a reasonable degree of independence, and makes work more cumbersome, more difficult to control and more confusing. The Ministry of Industry receives copies of almost all accounting, financial, production and managerial reports constructed by companies and organisation. These reports allow the Ministry always to be informed about the state of affairs at various entities' levels.

Of most importance to the Ministry of Industry are the reports prepared at various companies and the summaries based on them, which are usually produced at the EIO, from which reports the Ministry prepares summarised versions.

According to Law 203 of 1991, the role of the Ministry of Industry and other Ministries was to give way to a single Public Business Sector Minister with responsibility for supervising all holding public companies. In the cabinet of Oct. 1993, a new Minister was nominated for the Public Business Sector.

8.15 Report to the Ministry of Planning:

NASCO, as an entity in the business sector is asked to send to the Planning Ministry its expectation for the next five years for the purpose of drawing-up the Five Year Plan. The Five Year Plan is further divided into yearly, quarterly, and monthly estimates. The data sent to the Planning Ministry for this purpose are general in nature and only in summary form.

The most detailed National Plan is the yearly plan.
This should be in line with yearly estimates of the Five Year Plan, and is drawn up each year through the various budgets prepared within the uniform accounting system by each public company in Egypt.

These budgets are constructed in accordance with directions from above, generally based on data sent to the Planning Ministry by the various other entities and institutions concerned, according to which the planning Ministry sends general guide-lines to various Ministries. These, in turn, pass the guide-lines together with other directions, to the state organisations, which then send more detailed and specific directions to the companies concerned.

The Planning Ministry is also responsible for monitoring and following up the national plan. It has the right to ask for any information it needs from the organisations and their affiliated enterprises. Hence, all business enterprises (public or private) are obliged to complete special forms sent to them by the Ministry of Planning. These forms must indicate the reasons for variances from the previously stated targets.

8.16 Summary and Conclusion:

Part one of this chapter has described the Egyptian motor industry, which despite comprising a very wide array of activities, could be summarised into (a) the manufacture of parts and (b) their assembly. Only if it was involved with both could a country be labelled a manufacturer of motor vehicles.
We then discussed the historical evolution of the industry up to the present. Before exposing the impact of post 1952 economic policies, we highlighted the necessary momentum given by the second world war to Egyptian industries to depart from traditional industrial activities, and the role of both the foreign resident minorities, and foreign investment. The exposition of the individual history of each unit revealed the commission of numerous errors, such as premature execution of projects (passenger cars), and poor-preparation (agricultural tractors). Issues were also raised, relating to the commitment to the industry (Ford/Egypt), the vital importance of foreign exchange to both development (delays/cancellation in practically all products) and operation (production stoppages), and hence the policies of allocation and generation.

Part two of this chapter explained the financial management policies of NASCO and their effect on managerial flexibility and accountability.

The Government's intervention in the management of enterprise finances also hurt the performance of public sector companies. There has been an inconsistent mixture of rigid and flexible financial rules for public sector companies. On the one hand they were given the flexibility to mobilize external resources and had virtually free access to borrowing from the nationalized commercial banks to cover operating deficits. On the other, the authorities imposed rigid rules for the
retention of surplus, for the mobilization of resources for investment and for subsidies to fulfil state government obligations. Inflexible prices and rigid financial rules caused most enterprises to remain strongly dependent on government funds, preventing both financial autonomy and accountability. The absence of financial autonomy depressed the performance of the relatively efficient and dynamic enterprises, while the lack of accountability meant that the inefficient enterprises had little incentive to reform. Moreover, the combination of non-accountability and freedom to contract foreign loans induced many enterprises to borrow excessively from abroad without regard to their debt-service capacity. Another contradiction was that while the government exercised considerable restraint in compensating enterprises for satisfying stated non-commercial objectives, it failed to control the substantial indirect subsidy obtained through other outlets (bank overdrafts and budgetary transfers to meet the debt service obligations of defaulting enterprises) that had no direct link with stated objectives.

The current weak macroeconomic performance of the Egyptian public sector does not, however, constitute an insurmountable problem. The results of simulation experiments show that the macroeconomic impact of the Egyptian public sector can be substantially improved through appropriate policy reforms. The backbone of a successful reform programme must include the following
measures:

(1) unification of the exchange rate;

(2) adjustment in domestic energy prices to close the gap between domestic and world energy prices by 1991/92;

(3) allowing prices in the Egyptian public sector to be determined according to economic efficiency;

(4) removal of all restrictions from public and private sector exports, except cotton;

(5) a slow-down in government borrowing from the private sector in response to the improvement in the overall budget deficit;

(6) enterprises should also be allowed to set wage differentials and incentive payments based on skill differentials and performance. Bonus and other incentive payments for workers should be based on productivity improvement rather than on meeting quantity targets.

Part three: In order to achieve the economic and social targets set out in the National Development Plans, the Egyptian government established by law a number of State Organisations (holding companies), which are responsible for planning and controlling economic activities.

Central planning bodies provide the model of planning to control the performance of economic units.
There are three major plans, long-term, medium-term, and short-term. Long-term plans define the general targets that the Egyptian economy is intended to achieve. Medium-term plans take the form of five-year development plans which are oriented to achieving the objectives of the long-term plan. The short-term plan is usually for a period of one year, and involves the detailed tactical aspects of the implementation of the medium-term plan.

We have argued that efficient central planning cannot be achieved unless the central planners have readily aggregatable and comparable data supplied by various entities. While uniform formats for collecting data from various economic units have been in existence for some time, completely aggregatable and comparable data were difficult to obtain since the accounting systems used by different units were not geared to supplying the data required by central planners. Therefore, the Planning Ministry was among the first to encourage the adoption of uniformity in accounting in Egypt.

NASCO, as an entity in the business sector, is asked to inform the Planning Ministry of its expectations for the next five years, in order to draw-up the Five Year Plan. The Five Year Plan is further divided into yearly, quarterly, and monthly estimates, but it is drawn up each year through the various budgets prepared within the uniform accounting system. The construction of these budgets is directed from above (Organisations, Planning
Ministry, and Industry Ministry).

In order to follow-up implementation, NASCO and other public enterprises issue periodic reports in specific form and providing specified information according to the UAS requirements. These forms are designed by the Planning Ministry to serve the planning and control functions of the management of the economic unit itself and also meet the demands of other institutions. These reports are submitted to the holding company (Organisation), Ministry of Industry, and Ministry of Planning. Because of this duplication, most companies submit their reports late. Moreover, at the company level, little attention is paid to analysing these reports before submitting them to the top level.

Footnote:

[1] - This policy was criticised by several economists (Handousa, 1978, p.18, Mabro 1974, p.137/138). Firstly, cost plus might not correspond to optimum output level. Secondly, it does not differentiate between monopolies and non-monopolies. Thirdly it does not provide firms with the incentives to minimize cost, since it allows inefficient producers a margin of profit regardless of costs, and fourthly, it ignores the principle of comparative advantage by setting identical profit margins for all activities.

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Chapter Nine

Analysis of NASCO's Current Operations Account, Sources and Applications of Funds Statement, and Value-Added Statement from the Viewpoint of National Income Accounts.
9.1 Introduction:

In the case of Egypt, before the uniform accounting system there was no complete relationship between micro and macro accounting. Data were collected by questionnaire from the business together with the period production census. Accountants at the firm level did not fully understand the questionnaire's instruction, and had difficulty in adjusting their figures to meet official requirements.

In 1961 the public sector assumed the leading role in the Egyptian economy.

The need to review the efficiency of public sector enterprises in fulfilling the role required of them by economic development plans and compiling national income accounts encouraged the establishment of a uniform accounting system.

In 1966, the Uniform Accounting System was introduced by the Central Accounting Organisation (CAO). The introduction of the Uniform Accounting System (UAS), applied to all public sector enterprises, has facilitated the work of the Central Agency for Public Mobilisation and Statistics (CAPMS) in compiling national accounts and developing planning. A major objective of the UAS is to provide the necessary linkage between the accounts of individual economic units and macro accounting. This linkage is an important dimension of effective development planning which is concerned with evaluation
of the performance of a nation's economy in order to
provide information regarding National Income Accounts
(NIA).

The Egyptian Uniform Accounting System (EUAS) has
created two accounts to make the desired linkage between
the accounts of micro and macro accounting.

The first account is the Current Operations Account.
This account is considered to be the most important final
account, because it is a quick and efficient tool for
calculating value-added in such a way as to satisfy the
needs of the social accountant without sacrificing the
needs of the financial accountant (See Chapter Seven).

The second account is the Sources and Applications
of Funds Statement. This statement, which shows the
sources and uses of capital, is based on changes in
balance sheet items. Also, this statement is more
important for decision-making than the balance sheet,
because it is comprehensive and reliable, covering
changes during two financial periods and including
current year prices, not historical cost information (See
Chapter Seven). Also, the Egyptian Uniform Accounting
System pays particular attention to the Value-Added
Statement which is considered as one of the main
performance evaluation indicators in Egyptian Industry.

The objective of this chapter is to suggest some
modifications to the present framework of NASCO's current
operations account, sources and applications of funds statement and value-added statement in order to provide greater assistance to the government in performing its functions, including the compilation of NIA.

It has been argued by the U.N.\(^{(1)}\) that figures representing national economic accounts are meaningless so long as their statistics are characterised by serious gaps and shortcomings. Improving the primary sources of statistics has been considered by the U.N. to be more useful than carrying out operations on the basis of deficient and inaccurate data. Similarly, Blades and Marczewski\(^{(2)}\), reached the conclusion that the unsatisfactory status of national accounting in developing countries will not be improved by continuing to use existing data sources. They further comment that the only way to overcome the current problems is to improve the primary sources of data.

Many efforts have been made to improve the objectives of financial statements of Egyptian public enterprises in order to serve users and their needs \(^{(3&4)}\). Most of these efforts, however, have focused on the private users and their needs, and little attention has been given to the needs of national accounting construction.

Further, despite these efforts, the current operations account and sources and application statement are still inadequate to serve both financial and national
accounting needs.

9.2 The Current Operations Account as a Model of the Information Required to Construct the National Income Accounts:

From the national accounting point of view the current operations account is very important because it is considered a main source of the information required to satisfy the needs of the social accountant without sacrificing those of the financial accountant. Furthermore, the Current Operations Account is a quick and efficient tool for calculating Gross National Product, Value-added and disposable income.

A comprehensive evaluation of the Current Operation Accounts, from the national accounting viewpoint, must take into consideration the advantages and disadvantages of that account as a model of information generated to link financial flows at the enterprise level (accounting code article) with economic flows at the national level (economic code article as established by U.N.) to serve the requirements of national planning\(^5\).

The following are the strengths and weaknesses of NASCO's present current operations account (see Table 9.1).
### CURRENT OPERATIONS ACCOUNT FOR THE FINANCIAL YEAR ENDED AT 30 / 6 / 1991.

**Table 9.1**

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<td>RECEIPT FROM CURRENT ACTIVITY.</td>
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<td>PRODUCTION AT SALES PRICES.</td>
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<td>Receipts of Work Done to Others.</td>
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**HOLDING COMPANY FOR ENGINEERING INDUSTRIES:**

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<td>364 Capital Losses.</td>
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9.2.1 **Strengths:**

The features of the current operations account are the same as those of national accounting, in terms of classification, underlying concepts, evaluation methods, and measurement stages.

A) **Classification:**

The classification of this account with its three stages is in accordance with national accounting principles. The first stage looks like a production account. In this account, the resources are divided into revenues from current activity and subsidies for production and exportation, so it is possible to determine the value of production at market price. Moreover, the uses are divided into intermediate requirements, commodity and services requirements and production factors returns, in order to measure the commodities and services required for production, and also to measure the kinds of income generated from the production operation (value-added). The second and the third stages look like an appropriation account, which shows the allocation of surplus from current operations and other resources on other transferred items, how such surplus is distributed and the retained profit.

1- Transactions classified within the current operations account according to their nature, are as follows:

a) Commodity transactions—involve commodities and
services produced (e.g. goods and requirements)

b) Income and transfer transactions - dealing with payments to factors of production (e.g. wages, rents, surplus), taxes, bad debts, and subsidies.
c) Lending and borrowing transactions.

The classification of transactions in this account is intended to satisfy the needs of national accounting (social accounting) regardless of the relationship between these transactions and NASCO's activities (production, marketing and finance).

2- This account coincides with the national accounting logic which distinguishes between accounting of current operations and investment operations.

B- Underlying Concepts:

1- This account has adopted the production concept as its main economic principle. As a consequence, production is considered as adding value to available economic resources, regardless of the manner of disposal of this production, e.g. by sales, storage, transfer or capital formation. Cost of producing capital assets for own use (C/415) and production residue (C/419), are shown as revenue from the current activity of the economic unit.

2- The current operations account has adopted the economic concept of treating transfers as resulting
from the provision of goods or services, leaving out
debits, with or without any return within the
previous or present period, but in practice, NASCO
often fails to do this, due to the difficulty of
measuring. For example, the values from sales,
including commodity taxes and excise (C/3511 &
3512), are shown as Current-transfer expenses in
the uses side of the current operations account,
irrespective of whether these taxes and excise are
imposed on materials used in production (e.g.
customs duties on materials imported by the unit),
or imposed on the finished product after manufacture
(e.g. production excise C/3512), or imposed on the
goods at point of sale (treasury revenue C/3513).
This is based on the concept of valuing gross
production at market prices.

C- Concepts of Value:

1- According to EUAS, the current operations account
values production on the basis of market prices
within a specific period, whether production is sold
or stored (C/414 & 4183) in accordance with national
accounting requirements.

2- The depreciation figure is calculated by revaluing
fixed assets on the basis of the exchange rate to
reflect the actual depreciation.
D- Measurement Stages:

The current operations account, in a sense, corresponds with the national income accounts. The only difference is that the latter statement excludes intermediate products (including only amounts of value-added).

9.2.2 Weaknesses:

In spite of the strengths of the current operations account, which make it possible to measure value-added factors, and also help in the determination and collection of the framework of social burdens at national level, the EUAS, from the national accounting point of view, has some deficiencies in the preparation of this account as shown below:

1- NASCO's treatment of received discount as a resources account conflicts with the treatment of allowance discount. It would be more appropriate to treat the received discount as a uses account and deduct its value from purchase costs (interview, NASCO's financial manager, Oct.,1990).

2- The allowance discount account should not be considered as a reduction of the value of the unit of production, but considered as a financial burden and included in capital costs on the uses side of the current operations account.
3- The deduction of the value of gifts and samples from gross sales will give a misleadingly low value of the national product.

4- The profit from production residue and commissions received, should be added to the first stage of the current operations account because they constitute part of NASCO’s production activities.

5- The inclusion of transportation cost within commodity requirements costs is not a good treatment from the social accounting point of view. It would be more appropriate to keep it separate from the activities of NASCO and measure and redistribute it over the various activities which use it. This treatment would have an impact when preparing input accounts at national level.

6- The treatment of employees’ share of profit (C/2643) as a completed part of labour return in the third stage of the current operations account makes the surplus appear greater and the labour return less, than is actually the case, which affects the accuracy of the allocation of national income among various sectors.

However, it would be appropriate to add the monetary portion of the distributed profit to the wages in cash (C/311). Also, all funds allocated to the local and central services and for housing, must be added to the social insurance (C/313) figure because these funds represent compulsory saving. These savings are considered
as financial components which cannot be depended on for developing planning follow-up, because from the national point of view, they represent a national social burden.

7- NASCO's accounting system has attempted to reconcile financial and national (social) accounting requirements by including imputed rent (C/447) and imputed interest (C/4118) as uses in the current operations account, to satisfy the need of the micro accountant, while imputed rent and imputed interest are included in resources (revenues) to satisfy the needs of the macro accountant for they facilitate the calculation of value added. The analysis of the effect of this treatment shows that NASCO is error, because imputed rent and imputed interest are not considered as transferred revenues or as a part of distributable surplus. This treatment also has an impact on the value-added by increasing its value.

8- NASCO's accounting system has considered subsidies (C/421) as a part of revenue items in the first stage of the current operations account. From the national economic point of view, subsidies are not considered as a part of output and must be dropped. On the other hand, subsidies are considered as negative indirect taxes and must be revealed in the uses side of the current operation accounts and their value deducted from the indirect taxes to reach the net indirect taxes.

9- NASCO calculates the production of capital assets (C/415) for own use at cost prices. However, it is
appropriate from the national income accounts point of view to evaluate them at market prices.

10- NASCO has taken into consideration the changes in purchasing power of the monetary unit by making provision in the difference between depreciation on a historical cost basis and that on a current replacement cost basis (provision of increasing assets prices, C/226). This treatment is consistent with the micro-accounting point of view and accords with generally accepted principles of financial accounting. However, it is inconsistent with the national accounting needs. Thus, the most appropriate treatment would be to consider provision as a part of uses in the current operations system, to reflect its impact on the gross value-added and the total of national outputs which are evaluated on the basis of market prices.

9.2.3 Proposed Model to Harmonise Financial and National Accounting Requirements:

As stated previously, one of the objectives of the current operations account is to serve the requirements of these compiling national accounting statistics. The investigation of the strengths and weaknesses of the account, described above, show that it is impossible to depend on the current operations account to obtain the totality of national basics without some modifications as follows:

1- Deducting indirect taxes from the value of the
national product to avoid the problem of double counting.

2- Adding governmental subsidies to enterprises to the value of national product, because the market prices of national product value do not include the value of governmental subsidies.

3- Reducing the value of national product by the internal transfers (donations, subsidies, and bad debts) which are transferred from enterprise to people, or to government, or to charity and religious societies. These transfers have an effect on the market value of national product, even though they do not represent a return from the production factors.

4- It is necessary to reclassify some items, processes and accounts according to the categories required for national accounts to satisfy the objectives of preparing these accounts.

Before presenting a proposed model for the current operations account, the researcher would like to emphasise the following:

1- It is desirable to serve the requirements of financial accounting (micro-accounting) by preparing traditional annual statements to reflect the result of activities, according to generally accepted accounting principles. For the purpose of micro-accounting, uses must be
classified by function \(^{(6)}\). In this context, this classification must be related to the controlled accounts (e.g. production centres, production services centres, capital expenditure centres, marketing services centres, administrative and financial services centres) to create a link between the financial accounts and cost accounts, facilitating collection of all functional costs within the economic unit.

2- National accounting requirements (macro-accounting) need to be served by preparing the current operations account at micro-level on a natural classification basis (e.g. wages, commodities requirements) to provide information for preparing value-added and analysing its items.

3- The main purpose in making these prepared modifications is to link the financial code at the micro level with economic inputs at the macro level (NIA) according to the most recent U.N. modification, and also, according to the national income accounts format of the Arab League.

4- The researcher suggests changing the name of this account to "Current Uses and Resources Statement". On the one hand, this name is distinct from the statement of sources and applications of funds. On the other, it indicates that this statement includes some adjustments (e.g. deducting the subsidies, taking away the purchases and others).
A further purpose of the modified current operations account is to reveal the surplus from current operations according to national accounting concepts and at the same time to reveal the distributable surplus according to financial accounting concepts.

The fundamental modifications proposed in order to realize all these objectives, will be explained below:

1- USES SIDE:

Following the measuring stages for the production items and value-added, and to relate the classification to that of the national income accounts, the researcher would suggest classifying the uses into six groups.

Moreover, an additional group is suggested specifically for accounting adjustments. The proposed groups are as follows:

Group One-Labour Return in Wages. This is related to economic flows No.3/1.

Group Two-Intermediate Consumption. This is related to economic flows No.2/1.

Group Three-Fixed Capital Consumption. This is related to economic flows No.3/3.

Group Four-Indirect Taxes and Commodities Excises. This is related to economic flows No.3/4.

Group Five-Ownership Returns. This is related to economic
flows No.3/6.

Group Six-Transferred Expenditures. This is related to two economic flows. Current Transferred Expenditures are related to economic flows No.6/13, while Compulsory Excises, Monetary Penalties, and Fines, are related to economic flows No.6/2.

Group Seven-This group is concerned with accounting adjustment and is not related to economic flows at national level, but is very important in preparing the results of activities of economic units according to financial accounting practices. The reasons why there are no economic flows connected with these accounts are:

1- The same information is obtainable from other sources. For example, provisions are considered as saving and it is possible to follow their movements within the provisions figures in the balance sheet.

2- It is aimed to make modification to the operating surplus so as to arrive at net surplus, according to financial practices. This can be done by adding valuation difference of finished product inventory and valuation difference of goods for sale to arrive at production at market prices, according to daily accounting rules.

3- There are some items in the firm which do not involve economic flows, but which must still be taken into account.
Group seven is divided into:

- **Depreciation Provision for Deferred Charges:**

  From the national accounting point of view, deferred charges and intangible assets are represented as intermediate consumption at the same year in which their value was paid. However, the value of depreciation is shown in the second stage (uses) of the current operations account without any input number, but we can follow its movement in flow No.7/1 (saving) of the depreciation provision account in the balance sheet. Also, the depreciation of Deferred charges, is calculated annually within the period of utilization and in terms of accounting rules.

- **Other Provisions (except fixed capital depreciation):**

  An estimate is made at the end of each accounting period of all probable losses. It is shown in the second stage (uses) of the current operations account in terms of national accounting rules without any flow number, but we can follow its movement at flow No.7/1 (saving) of the depreciation provision account in the balance sheet. Also, the value of such provisions is normally charged to the profit in terms of financial accounting requirements.

- **Valuation Difference of Finished Product Inventory:**

  Valuation difference of finished product inventory refers to the difference between valuing the finished product at selling price and cost price.

  The system includes "opposite twin accounts" which
are designed to link micro-accounting and macro-accounting. This account appears, on the uses side (C/3833) and on the resources side (C/413). In contrast, the national accounts do not include such accounts.

- **Valuation difference of Goods Purchased for Sale:**
  
  Valuation difference of goods purchased for sale refers to the difference between valuing goods purchased for sale at selling price and at cost price. Again, there are opposite twin accounts, one (C/3834) on the uses side and the other (C/433) on the resources side. These accounts are not found in the national accounts.

- **Capital Losses:**
  
  Capital losses resulting from sale or exchange of capital assets with prices less than book value or resulting from sale, and corporate securities whose prices are less than their costs. Again, these accounts are not found in the national accounts.

2- **Resources Side:**

The resources side is classified according to production elements at the national level and according to the nature of the activity. The researcher suggests classifying this side into three basic groups, with an additional fourth group to embrace accounting adjustments. These groups are as follows:

**Group One- Value of Total Production at Product Prices:**

This group is related to economic flow number 1/1
and classified into three sub-groups according to the activity, as follows:

- Industrial production;
- Trade distribution (commodities for sale purchases).
- Current activity revenue (services).

**Group Two - Return on Ownership:**

This includes land rent, return on investments, and credit interest. It is related to economic flow No.4/7, but it must be noted that credit interest and return on ownership with the rest of the world are related to economic flow No.4/9 at national level.

**Group Three - Current Transferred Revenue:**

This includes penalties, fines, received allowances, bad debts, revenues from previous years and various other revenues. It is noted that all these items are related to economic flow No.6/13 (net current transferred) but in negative value to facilitate deduction of current transferred expenditures, to arrive at the net current transferred (6/13) according to national accounting requirements.

**Group Four - Accounting Adjustments:**

This includes financial accounts which are not related to economic flows. It is very important in preparing the results of activities of economic units according to financial accounting practices. The reasons why there are no flows with these accounts are:
1- To make modification to the operating surplus so as to arrive at net surplus according to financial practices by adding the value of imputed rent for land and imputed interest, to satisfy national accounting requirements.

2- There are some items, which do not include economic flows, either in their tables or accounts (e.g. capital profits).

This group includes these sub-groups, as follows:

- Imputed land rent, No.4721;
- Difference in imputed interest, No.4722;
- Capital profits, No.4723.

The suggested modifications and reclassifications to the current operations account items are shown in Table (9.2).
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<td></td>
<td>1/3</td>
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<tr>
<td>41</td>
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<td>1- INDUSTRIAL PRODUCTION:</td>
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<td>1- LABOUR RETURNS:</td>
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<td></td>
<td>Net Sales of finished Production.</td>
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<td>Monetary Wages.</td>
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<td></td>
<td>Changes in Inventories at Cost.</td>
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<td></td>
<td>Non-Monetary Wages.</td>
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<tr>
<td>413</td>
<td></td>
<td>Valuation Difference of Finished Product Inventory (the difference between value finished product at selling price and cost price).</td>
<td>313</td>
<td></td>
<td>The State/Company Contribution to National Insurance.</td>
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<td>Changes in Inventories of Unfinished Production at Cost.</td>
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<td>Cost of Self - Constructed Assets.</td>
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<td>Production Residue (Credit).</td>
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<td>TRADE DISTRIBUTION:</td>
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<td>33 Non-Technical Production Requirements.</td>
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<td>3- FIXED CAPITAL CONSUMPTION.</td>
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<td>4- INDIRECT TAXES AND PRODUCTION EXCISES.</td>
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<td>GROSS TRADE MARGIN.</td>
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<td>3- CURRENT ACTIVITY REVENUE (SERVICES).</td>
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<tr>
<td>431</td>
<td></td>
<td>Revenue from Works to Others.</td>
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<td>432</td>
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<td>Net Revenue from Services Sold to Others.</td>
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<tr>
<td>433</td>
<td></td>
<td>Rent from Fixed Assets (except land).</td>
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<td>Difference in Imputed Rents of Fixed Assets</td>
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<td>Description</td>
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<td>Surplus from Operations</td>
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<td>(Carried Forward)</td>
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<td>3</td>
<td>37 RETURN ON OWNERSHIP</td>
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<td>371 Land Rent, Imputed Rent of Land</td>
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<td>372 Imputed Interest</td>
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<td>6</td>
<td>373 Difference Between Imputed Interest</td>
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<td>38 6-TRANSFERRED EXPENDITURES</td>
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<td>381 Current Transferred Expenditures for Deferred Charges</td>
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<td>382 Current Tax Exemptions, Monetary Penalties and Fines</td>
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<td>10</td>
<td>383 F-ACCOUNTING ADJUSTMENT</td>
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</tr>
<tr>
<td>11</td>
<td>3831 Depreciation Provision</td>
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<td>12</td>
<td>3832 Other Provisions</td>
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<td>13</td>
<td>3833 Valuation Difference of Finished Product</td>
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<td>14</td>
<td>3834 Valuation Difference of Goods Purchased for Sale</td>
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<td>3835 Capital Losses</td>
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**Distributable Surplus (before income taxes)**

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<tr>
<th>Distributable Surplus (before income taxes)</th>
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<td>Distributable Surplus.</td>
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Analysis of the Sources and Applications of Funds Statement from the Point of View of NIA:

The statement of sources and applications of funds (Table 9.3) shows the changes (positive or negative) in the items of two successive financial positions, in order to show the effect of these changes on the capital resources of the economic unit and the uses of these resources within a specific financial period.

Comprehensive analysis of this statement from the national accounting viewpoint, must take into consideration the strengths and weaknesses of that statement as a model of information generated for the compilation of national accounts.
<table>
<thead>
<tr>
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<tr>
<td>225</td>
<td>Reserve for Replacement Value of Assets.</td>
<td>934</td>
<td>INVESTMENT USES:</td>
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<td>Other Reserves.</td>
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<td>GROSS CAPITAL FORMATION:</td>
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<td>Decrease in Current Deficit.</td>
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<td>111 Land Improvement.</td>
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<td>Provision for Depreciation.</td>
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<td>112 Building Construction.</td>
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<td>Provision for Taxes.</td>
<td>500</td>
<td>113 Equipment.</td>
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<tr>
<td>233</td>
<td>Provision for Doubtful Debts.</td>
<td>....</td>
<td>114 Transport Means.</td>
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<tr>
<td>234</td>
<td>Other Provision.</td>
<td>....</td>
<td>115 Tools.</td>
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<td>235</td>
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<td>116 Office Furniture.</td>
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<tr>
<td>236</td>
<td></td>
<td></td>
<td>118 Deferred Revenue Expenditure.</td>
</tr>
<tr>
<td>131</td>
<td>LIQUIDITY:</td>
<td>5</td>
<td>13 STOCKS:</td>
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<td>121</td>
<td>Commodities Formation.</td>
<td>1701</td>
<td>131 Commodities Requirements.</td>
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<tr>
<td>122</td>
<td>Decrease in Investment Expenditure</td>
<td>462</td>
<td>132 Unfinished Goods.</td>
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<td>131</td>
<td>DECREASE IN INVENTORIES:</td>
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<td>133 Finished Goods.</td>
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<td>132</td>
<td>Commodities Requirements.</td>
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<td>134 Goods Held By Others.</td>
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<tr>
<td>133</td>
<td>Unfinished Production and Work in Progress.</td>
<td>....</td>
<td>135 Goods for Sales Purposes.</td>
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<tr>
<td>134</td>
<td>Finished Production.</td>
<td></td>
<td>136 Documentary Credit for Purchasing Goods.</td>
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<td>Merchandise Held By Others.</td>
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<td>Goods for Re-Sale.</td>
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<td>137</td>
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<td>11 Taxes and Customs on Fixed Formation.</td>
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<td>DECREASE IN DEBTORS AND CASH:</td>
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<td>12 Taxes and Customs on Projects in Progress.</td>
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<td>162</td>
<td>Accounts Receivable - Trade.</td>
<td>4869</td>
<td>13 Taxes and Customs on Stock.</td>
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<td>Bills Receivable - Trade.</td>
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<td>152 Securities.</td>
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### Borrowed Capital:

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<td>Domestic</td>
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<tr>
<td>Foreign</td>
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### Creditors and Banks:

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<td>Accounts Payable - Trade</td>
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<tr>
<td>Others Than Trade</td>
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<tr>
<td>Miscellaneous Creditors</td>
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<td>⋯⋯⋯⋯⋯</td>
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<td>Other Credit Balances</td>
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<td>⋯⋯⋯⋯⋯</td>
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<tr>
<td>Accrued Current and Ear Market Expenses</td>
<td>⋯⋯⋯⋯⋯</td>
<td>88144</td>
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### Debtors:

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<tbody>
<tr>
<td>Accounts Receivable - Trade</td>
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<tr>
<td>Bills Receivable - Trade</td>
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<tr>
<td>Others Than Trade</td>
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<td>Accrued Current and Ear Marked Receipts</td>
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### Redemption of Long Term Loans:

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<td>Installments of Foreign Loans</td>
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<td>Cash in Hand and at Bank</td>
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<td>Total</td>
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### Decrease in Creditors:

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<td>Decreases in Provisions</td>
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</table>
9.3.1 **Strengths:**

1- NASCO has adopted the economic concept of omitting the value of purchased land and old machines from investment uses. This treatment considers that investment at national level represents additions to the society's wealth.

2- Also, NASCO has left out all interests before the period of operation from the gross capital formation because from the point of view of national accounting, these interests are related to financial policies. They represent changeable expenses and are not related to investment costs at national level.

3- Customs duties on fixed assets and on inventory are shown separately in the statement in order to show the real cost of imported investment goods (7).

9.3.2. **Weaknesses:**

Despite the strengths of the sources and uses statement, there are some deficiencies, as follows:

A) The classification of the sources side is not relevant to the objectives of national accounting. This will be illustrated by reference to the self-finance and liquidity concepts.

**Self-finance:**

1- NASCO is mistaken in considering the increase in capital items as self-finance, because this increase
represents a saving of others inside the economic unit, not as a saving of the economic unit itself.

2- NASCO has considered chargeable provisions as an item of self-finance. This treatment is not always correct because the provisions are related to surplus realisation.

**Liquidity:**

1- NASCO does not give any specific definition of liquidity, but determines its items by decrease in the value of assets. In fact, this determination of liquidity is inappropriate for a number of reasons, for example:
   (a) Payment for sales of fixed assets, or inventories or bonds may be deferred and not paid immediately in cash.
   (b) Decreasing of some assets due to damage, loss or the reduction in price is a deficit, not an increase in liquidity. (c) The same applies to decrease in cash in hand and at bank and debtors, because bad debt is considered as a deficit, not an increase in liquidity.

2- Inclusion of liquidity in this statement is a duplication which should be avoided because the objective in preparing this statement is to determine the volume of investment at economic unit level and it is not necessary to distinguish between monetary and non-monetary sources in the capital account.

3- There is confusion between credit finance sources (borrowing and participations) and other finance sources
(increase of capital).

B)- With regard to the uses side, there are some deficiencies as follows:

1- NASCO considers the investment payment (advanced payment for documentary credits) as a part of investment uses. This treatment is acceptable from the standpoint of the economic unit, but not from the point of view of national accounting, because these payments do not represent a real addition to social wealth, but an increase in financial right to others.

2- Also, NASCO considers deferred revenue-expenditure as investment uses in order to allow this item to represent intangible assets. However, the latter do not represent a real increase to social wealth.

3- Projects in progress are considered within the investment uses items but separately, not consolidated with the fixed assets account. This treatment is not appropriate because it produces double counting of some national investment items.

4- The classification of capital transferred does not help to make a link between that category and financial resources, because capital transferred is omitted when calculating investments at national level.

9.3.3 The Suggested Statement of Sources and Applications of Funds:

The purpose of this section is to propose certain
modifications to the statement of sources and applications of funds of NASCO in order to provide greater assistance to the government in preparing the capital financial account at national level. Moreover, it is intended to link the financial inputs at the economic unit level with the economic inputs at the national level.

The suggested modifications will be discussed with respect to the following notes:

1- Changes in both fixed assets and projects in progress are shown on a net basis (net total of fixed assets-total net of projects in progress).

2- A distinction is made between investment payments and projects in progress and the latter are analysed directly according to asset type.

3- Deferred revenue expenditure is omitted from investment uses and added to the accounting adjustments group at the end of the uses side. It is divided into:

1181 deferred revenue-expenditure (fixed assets)

1282 deferred revenue-expenditure (projects in progress)

4- Additions to financial assets are computed at net value.

5- Self financing includes all saving of the economic unit from provisions, surplus and the increase in other
provisions, except the provision for fixed capital depreciation (after deduction of any losses).

The suggested modifications and reclassifications of the statement of sources and application of funds items are shown in Table (9.4).
### Proposed Statement of Sources and Application of Funds

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<td>2/6</td>
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<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Gross Formation Finance:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 - Self Finance:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Savings:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>22 Reserves and forward reserve.</td>
<td>1022</td>
<td></td>
<td>11 Net Cost of Fixed Assets Addition.</td>
<td>10719</td>
<td></td>
</tr>
<tr>
<td>23 Provisions except:</td>
<td></td>
<td>4970</td>
<td>(excluding customs duties).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(-) Acc.No.231 provision for fixed capital depreciation.</td>
<td></td>
<td></td>
<td>This included the cost of fixed assets less:</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Fixed Capital Depreciation:</strong></td>
<td></td>
<td>500</td>
<td>- Cost of deduction from fixed assets.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for fixed capital depreciation.</td>
<td></td>
<td></td>
<td>- Cost of sub-account for customs duties.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total of Self Finance:</strong></td>
<td></td>
<td>6492</td>
<td>- The following accounts which are not considered as fixed capital formation:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6/7</td>
<td></td>
<td></td>
<td>(1111) Land purchase prices.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(1181) Preliminary expenses.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(1182) Pre-production costs (domestic).</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(1183) Research and development costs (overseas).</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Capital Transferred:</strong></td>
<td></td>
<td></td>
<td>12 Net Cost of Projects Progress Addi-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>212 Government participation.</td>
<td></td>
<td></td>
<td>tional (all costs except customs duties).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(to be redeemed)</td>
<td></td>
<td></td>
<td>This included the cost of commodities formation addition. less:</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total of Gross Formation Finance:</strong></td>
<td></td>
<td>6492</td>
<td>- Cost of deduction from projects in progress and transfer to fixed assets.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- The following accounts which are not considered to be fixed capital formation:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(1211) Land purchase prices.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(1281) Preliminary expenses.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
(1282) - Pre-production costs (domestic).
(1283) - Research and development costs (overseas).
(1291) - Advanced payments (domestic).
(1292) - Advanced payments (overseas).
(1293) - Documentary credits for purchasing fixed assets.
- All the custom duties sub-accounts (for account No. 11 & 12)

GROSS FIXED CAPITAL FORMATION.

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changes in inventories (except custom duties)</td>
<td></td>
</tr>
<tr>
<td>This represented net changes in inventories for:</td>
<td></td>
</tr>
<tr>
<td>131 - Commodities requirements</td>
<td>1627</td>
</tr>
<tr>
<td>132 - Unfinished production</td>
<td>2281</td>
</tr>
<tr>
<td>133 - Finished production</td>
<td>9647</td>
</tr>
<tr>
<td>135 - Goods for sale</td>
<td>10109</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
</tr>
<tr>
<td>1360 - Change in inventories's custom duties</td>
<td>(1821)</td>
</tr>
<tr>
<td>1361 - Documentary credits</td>
<td></td>
</tr>
<tr>
<td>1362 - Custom duties</td>
<td></td>
</tr>
<tr>
<td>GROSS CAPITAL FORMATION</td>
<td></td>
</tr>
<tr>
<td>NET COST OF LAND PURCHASE</td>
<td></td>
</tr>
<tr>
<td>1111 Land purchase cost (fixed assets)</td>
<td>...</td>
</tr>
<tr>
<td>1211 Land purchase cost (project in progress)</td>
<td>...</td>
</tr>
<tr>
<td>NET ADDITIONS TO CURRENT LIABILITIES AND BORROWING:</td>
<td>NET ADDITIONS TO FINANCIAL ASSETS.</td>
</tr>
<tr>
<td>-------------------------------------------------</td>
<td>-----------------------------------</td>
</tr>
<tr>
<td>4/4</td>
<td>8/2</td>
</tr>
<tr>
<td>SHORT – TERM BILLS.</td>
<td></td>
</tr>
<tr>
<td>262 Bill payable - trade.</td>
<td>8/4</td>
</tr>
<tr>
<td>LONG – TERM BONDS.</td>
<td></td>
</tr>
<tr>
<td>241 Long – Term Bonds ( domestic ).</td>
<td>8/5</td>
</tr>
<tr>
<td>242 Long – term bonds ( overseas ).</td>
<td></td>
</tr>
<tr>
<td>9/6</td>
<td></td>
</tr>
<tr>
<td>CAPITAL PARTICIPATION AND SECURITIES.</td>
<td>8/6</td>
</tr>
<tr>
<td>211 Capital.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>8/7</td>
</tr>
<tr>
<td>INTANGIBLE ASSETS PURCHASE COST:</td>
<td></td>
</tr>
<tr>
<td>1181 Domestic intangible assets purchase cost ( from fixed account ).</td>
<td></td>
</tr>
<tr>
<td>1182 Domestic intangible assets purchase cost ( from projects in progress account ).</td>
<td></td>
</tr>
<tr>
<td>1183 Overseas intangible assets purchase cost ( from fixed assets account ).</td>
<td></td>
</tr>
<tr>
<td>TOTAL OF GROSS FORMATION.</td>
<td>33233</td>
</tr>
<tr>
<td>NET ADDITIONS TO FINANCIAL ASSETS.</td>
<td></td>
</tr>
<tr>
<td>- CURRENT FINANCIAL TRUSTS:</td>
<td></td>
</tr>
<tr>
<td>181 - Cash in hand.</td>
<td>7427</td>
</tr>
<tr>
<td>182 - Cash in bank.</td>
<td></td>
</tr>
<tr>
<td>- OTHERS TRUSTS.</td>
<td>8/3</td>
</tr>
<tr>
<td>151 - Fiscal deposits.</td>
<td></td>
</tr>
<tr>
<td>183 - Fixed deposits.</td>
<td></td>
</tr>
<tr>
<td>SHORT – TERM BILLS:</td>
<td>8/4</td>
</tr>
<tr>
<td>152 - Bonds.</td>
<td></td>
</tr>
<tr>
<td>162 - Bills receivable – trade.</td>
<td></td>
</tr>
<tr>
<td>DEBENTURE BONDS:</td>
<td>8/5</td>
</tr>
<tr>
<td>153 - Bonds.</td>
<td></td>
</tr>
<tr>
<td>CAPITAL PARTICIPATION AND SECURITIES:</td>
<td>8/6</td>
</tr>
<tr>
<td>154 Capital participation and securities.</td>
<td></td>
</tr>
<tr>
<td>SHORT – TERM LOANS.</td>
<td>8/7</td>
</tr>
<tr>
<td>Date</td>
<td>Description</td>
</tr>
<tr>
<td>------</td>
<td>-------------</td>
</tr>
<tr>
<td>9/7</td>
<td>Short - Term Loans</td>
</tr>
<tr>
<td></td>
<td>Credit bank</td>
</tr>
<tr>
<td></td>
<td>Other credit balances</td>
</tr>
<tr>
<td>9/8</td>
<td>Long - Term Borrowing</td>
</tr>
<tr>
<td></td>
<td>Long - term borrowing (domestic)</td>
</tr>
<tr>
<td></td>
<td>Long - term borrowing (overseas)</td>
</tr>
<tr>
<td>9/11</td>
<td>Credit Trade and Advance Payments</td>
</tr>
<tr>
<td></td>
<td>Distributors</td>
</tr>
<tr>
<td></td>
<td>Other liabilities:</td>
</tr>
<tr>
<td></td>
<td>Other than trade</td>
</tr>
<tr>
<td></td>
<td>Misalignments creditors</td>
</tr>
<tr>
<td>9/12</td>
<td>Other credit balance</td>
</tr>
<tr>
<td></td>
<td>Expenses accrued</td>
</tr>
<tr>
<td>4/6</td>
<td>Ownership Income</td>
</tr>
<tr>
<td></td>
<td>Distribution profit creditors</td>
</tr>
<tr>
<td></td>
<td>Total of capital sources</td>
</tr>
<tr>
<td>8/8</td>
<td>Long - Term Borrowing</td>
</tr>
<tr>
<td></td>
<td>Long - term borrowing (domestic)</td>
</tr>
<tr>
<td></td>
<td>Long - term borrowing (overseas)</td>
</tr>
<tr>
<td>8/11</td>
<td>Credit Trade and Advance Payments</td>
</tr>
<tr>
<td></td>
<td>Advance payments (domestic)</td>
</tr>
<tr>
<td></td>
<td>Advance payments (overseas)</td>
</tr>
<tr>
<td></td>
<td>Documentary credits for purchasing fixed assets</td>
</tr>
<tr>
<td></td>
<td>Documentary credits for purchasing goods</td>
</tr>
<tr>
<td>8/12</td>
<td>Other Financial Assets</td>
</tr>
<tr>
<td></td>
<td>Misalignments debtors</td>
</tr>
<tr>
<td></td>
<td>Dividend debtors</td>
</tr>
<tr>
<td></td>
<td>Other debit balances</td>
</tr>
<tr>
<td></td>
<td>Revenues accrued</td>
</tr>
<tr>
<td></td>
<td>Total net of financial assets</td>
</tr>
<tr>
<td>2/1</td>
<td>Total Capital Uses</td>
</tr>
<tr>
<td></td>
<td>Deferred revenue - expenditure (fixed assets)</td>
</tr>
<tr>
<td></td>
<td>Deferred revenue - expenditure (projects in progress)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total increase in Balance Sheet Liabilities</td>
<td>15227</td>
</tr>
<tr>
<td>Total increase in Balance Sheet Assets</td>
<td>91452</td>
</tr>
</tbody>
</table>
9.4 Value-Added Statement:

According to the EUAS, every public enterprise must prepare a value-added statement during a particular period. This statement is considered an important measure because it represents that enterprise's contribution to the national wealth. It is divided into two stages, as shown in Table (9.5). All the items in this statement are derived from the current operations account, and all the defects of that account will be reflected in the contribution of the enterprise to the gross domestic production.

The first stage shows all resources of value-added, and intermediate inputs (commodity production requirements, services requirements, and goods purchased for sale purposes). Gross production at market prices is equal to the difference between the value of production and the value of intermediate inputs. By deducting indirect taxes and custom duties and adding subsidies we can reach the gross value-added at factors of production cost. Gross value-added at factors of production cost is adjusted to net value added at factors of production cost by deducting commodity requirements, services requirements and depreciations.
In the second stage, gross value-added at factors of production cost is distributed among wages (paid in kind), rent, interest, imputed values, valuation difference of finished product inventory, valuation difference of goods for sale inventory and current operation surplus.
<table>
<thead>
<tr>
<th>Table (9.5)</th>
<th>Value-Added</th>
<th>1990/91.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-PRODUCTION AT SALE PRICES:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A-Finished production sales.</td>
<td>455930</td>
<td></td>
</tr>
<tr>
<td>B-Changes in finished production inventory at cost.</td>
<td>9647</td>
<td></td>
</tr>
<tr>
<td>C-Valuation difference of finished product inventory.</td>
<td>2547</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>468124</td>
</tr>
<tr>
<td>2-CHANGES IN INVENTORIES OF UNFINISHED PRODUCTION AT COST.</td>
<td>2281</td>
<td></td>
</tr>
<tr>
<td>3-COST OF SELF-CONSTRUCTED ASSETS.</td>
<td>565</td>
<td></td>
</tr>
<tr>
<td>4-REVENUES FROM WORKS TO OTHERS.</td>
<td>58</td>
<td></td>
</tr>
<tr>
<td>5-NET REVENUE FROM SERVICES SOLD TO OTHERS.</td>
<td>1757</td>
<td></td>
</tr>
<tr>
<td>6-PRODUCTION RESIDUE</td>
<td>408</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>5069</td>
</tr>
<tr>
<td>GOODS FOR SALE:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A-Sales.</td>
<td>29761</td>
<td></td>
</tr>
<tr>
<td>B-Changes in inventories of goods for sale at cost.</td>
<td>10109</td>
<td></td>
</tr>
<tr>
<td>C-Valuation difference of goods for sale inventory.</td>
<td>3968</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>43838</td>
</tr>
<tr>
<td>LESS: Purchases for sale purposes.</td>
<td>29367</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>517031</td>
</tr>
<tr>
<td>GROSS VALUE-ADDED AT MARKET PRICES.</td>
<td>487664</td>
<td></td>
</tr>
<tr>
<td>LESS: Custom duties.</td>
<td>26140</td>
<td></td>
</tr>
<tr>
<td>GROSS VALUE-ADDED AT PRODUCTION FACTORS COST.</td>
<td>461524</td>
<td></td>
</tr>
<tr>
<td>LESS: Commodities requirements.</td>
<td>319204</td>
<td></td>
</tr>
<tr>
<td>Services requirements.</td>
<td>15352</td>
<td></td>
</tr>
<tr>
<td>Depreciation.</td>
<td>6075</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>340631</td>
</tr>
<tr>
<td>NET VALUE-ADDED AT PRODUCTION FACTORS COST.</td>
<td>120893</td>
<td></td>
</tr>
</tbody>
</table>

The current treatment of value-added adopted by NASCO is criticised by the researcher, for the following reasons:

1- NASCO considers valuation difference of finished product and goods for sale inventory as distributions for value-added. This treatment causes confusion because the uniform system combines the distribution of value-added and accounting adjustments on the one hand, with payments to production factors and organisation return on the other hand.

2- There are many adjustments within the statement, which could reduce its usefulness.

The suggested modifications to value-added treatment are shown in Table (9.6).
HOLDING COMPANY OF
ENGINEERING INDUSTRIES:
NASCO:

PRODUCTION STATEMENT AND VALUE-ADDED.
(In Thousand L.E.).

<table>
<thead>
<tr>
<th>Flows</th>
<th>Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Flows</td>
<td>Total Flows</td>
</tr>
</tbody>
</table>

| REVENUE FROM CURRENT ACTIVITIES | 1/1 | 473193 |
| (except goods for sales purposes). | 41442 | 444 |
| ADDED: Goods for sales purposes. | 1/1 | 29761 |
| LESS : Purchases for sales purposes. | (1/1) | (29367) |
| GROSS VALUE- ADDED AT PRODUCTION COSTS - (Market ) (1) | | 394 |
| ADDED: Production subsidies. | 3/5 | ...... |
| LESS : Production excise and custom duties. | | (26140) |
| GROSS VALUE- ADDED AT FACTORS OF PRODUCTION COSTS. (2) | | 447447 |
| LESS : INTERMEDIATE REQUIREMENTS: | | |
| - Commodity production requirements. | 1/2 | (319204) |
| - Services requirements. | 1/2 | (15352) |
| GROSS VALUE- ADDED. (3) | | 112891 |
| LESS : Depreciation (Fixed capital consumption). | | (6075) |
| NET VALUE - ADDED. (4) | | 106816 |
9.5 **Summary and Conclusion:**

Because the current operations account, sources and applications of funds statement and value-added statement of NASCO represent major and very important sources of information, both for government planning and control of the national economy and for the construction of national accounting statistics, suggestions are put forward in this chapter to solve all the deficiencies encountered during their preparation and presentation. The object of this chapter was to suggest some modifications to the present form of these mentioned statements in order to:

1. Overcome their current deficiencies;
2. Satisfy the basic needs of government bodies;
3. Furnish a major part of the information needed to prepare the national income accounts;
4. Meeting the needs of internal management.

In other words the proposed modifications do not depart too far from the Egyptian uniform system's practices, in order to make them acceptable in business accounting.

**References:**


2. Blades, D. and Merczewski, W., "National Accounts Priorities for Low Income Countries from a Statistician's Point of View", in *OECD National Accounts and Development Planning in Low-Income*


Chapter Ten

Suggestions for Developing Planning and Reporting at NASCO and its Holding Company
10.1 Introduction:

The previous chapters have revealed deficiencies in the planning and reporting procedures in NASCO and its holding company, which impede NASCO's ability to fulfil its objectives. In this chapter, we outline our recommendations for changes which would place NASCO's planning on a sound footing and provide the company's management and the holding company with the information necessary for decision-making and control. We begin by describing the suggested system for activity planning, with particular reference to the desirability of flexible budgeting. The remainder of the chapter is devoted to a discussion of reporting. The reports to be prepared at each level of the company are outlined, with an indication of required content and illustration of suggested formats. Details are also given of the reports which should be made available to the holding company.

10.2 Recommended System for Activity Planning:

The researcher observed from the empirical study that NASCO usually determines target levels according to the costs for the previous year, after removing the effect of any abnormal circumstances which occurred, and taking into consideration expected circumstances and price changes. For example:

1- NASCO usually uses the weighted average to determine the costs of all items and cost elements within the last
three years discounting abnormal circumstances. Adjustment is made according the volume of planned production.

2- A margin is added to the previous figure at the discretion of the budget planners, as a reserve to provide for unexpected circumstances or price changes.

The researcher believes this way of preparing estimates, based on historical data which may include waste, poor productivity or unused tools and materials, is inappropriate as a basis for achieving the company's targets. The researcher recommends the use of scientific tools (empirical experiments, engineering studies, and time/motion study) to provide standards which the management can use as targets and measures. These scientific tools must be used as a basis for standard-setting with regard to materials, labour and industrial expenditures for production and service centres. Such tools must be combined with economic studies to translate the quantity standards to standardized costs, which represent maximum costs which must not be exceeded in the light of prevailing circumstances.

If NASCO is to realize all its planning and control targets, it must concentrate on the following:

1- Proper plans for the volume of NASCO's activities must be based on suitable performance standards for each activity, which can be used when estimating various
cost elements.

2- Study should be conducted of all the internal and external factors related to NASCO’s activities, so they can be taken into consideration when preparing the estimates for the company’s planning budgets. It is necessary to let the execution centres participate in preparing these estimates, because the employees in these centres must accept the goals and sub-goals and not feel threatened by them. Such participation will also contribute to the accuracy and efficiency of planning.

4- Attention should be paid to an incentive system to encourage employees to meet planning targets (1).

5- The budget must be integrated with some form of feedback and performance procedure. This must be standard and regular, with the key budget factors highlighted. Ideally, this should take the form of a regular managerial review meeting, organized to take place as soon as possible after the end of the period, and when all the relevant information can be made available.

6- The annual planning budget must be divided into monthly periods to facilitate continuous control over all the various activities of the company. Consequently, the company can take action on problems and deviations before they accumulate, which will increase control efficiency and enhance service implementation.

7- Every effort should be made to consider the effect of
expected changes in the costs of materials and services and the planning budget should be adjusted as necessary, to help the company to achieve its planned target with a high degree of effectiveness and efficiency. Flexible budgeting is necessary to achieve a given target of activity and is more helpful than fixed budgets (2).

The researcher recommends that NASCO should prepare its planning budgets on a flexible basis according to the following steps:

1- Determine the cost unit for each activity centre. This step requires determination of the cost units concerned with each of NASCO's various activity centres. These cost units will be used to calculate the cost of each activity. Also, the determination of these units may help the company to know if changes in the costs of activities are due to an increase or decrease in the number of cost units implemented within a given financial period. If it is found that cost increases are not related to an increase in the number of cost units, the company can examine where and why these occur, to eliminate waste. There are many cost centres inside the company, and many products. It is therefore necessary to use a weighting system to harmonise cost units for all centres, according to the contribution of the various cost factors. Further, there are some cost centres, for which cost units cannot be determined (for example, financial and managerial centres) because of the
difficulty of relating outcome to effort, time spent and costs, and the difficulty of determining and measuring their financial outputs. For these reasons, the researcher suggests that the company study the inputs of previous financial years as a basis for budget estimates for these centres, introducing adjustments according to expectations for the coming year.

2- Forecast the expected performance level of each activity centre (3). This is considered a vital factor which achieves the following objectives:

a) It aids calculation of the costs required to carry out the planned activity for each centre, and hence the funds required for the company as a whole within the planning period.

b) It provides a standard against which to measure performance.

c) It is an important part of a control system covering the various activities at the company. It is necessary to pay more attention to accuracy in collecting and analysing the data used to forecast activities, and to use the appropriate time scale. The temporal chains model could be used for forecasting. It depends on collecting historical data about the activity volume of each centre covering five years or more. Analysing these historical data we can determine the direction of activity volume in the centre. Finally the result must
be adjusted according to changes within the forecasting period to reach a logical forecast.

The researcher emphasises that the estimates produced by the statistical models will be reasonably accurate provided that:

a) the statistical models use historical data within short periods, not long periods, and forecasting is done regularly, according to changes in circumstances;

b) the results of activity volume are re-evaluated in terms of technical studies which enable the company to make efficient use of the available or expected materials and labour force within the budgeting period.

3- Setting cost estimates for activity centres. This involves considering the quantitative budgets for inputs in terms of their relation with quantitative budgets for outputs and desirable performance level within the budget period budget. The quantity budgets should be translated into monetary budgets to explain the costs of various factors required to carry out the activities of various centres. These items include costs of wages and salaries of labour force, the cost of commodities and services and various expenditures required by cost centres within the budgeting period.

10.3 Use of Outputs of the Proposed System to Control Costs:

Reports are the final output of the accounting
be adjusted according to changes within the forecasting period to reach a logical forecast.

The researcher emphasises that the estimates produced by the statistical models will be reasonably accurate provided that:

a) the statistical models use historical data within short periods, not long periods, and forecasting is done regularly, according to changes in circumstances;

b) the results of activity volume are re-evaluated in terms of technical studies which enable the company to make efficient use of the available or expected materials and labour force within the budgeting period.

3- Setting cost estimates for activity centres. This involves considering the quantitative budgets for inputs in terms of their relation with quantitative budgets for outputs and desirable performance level within the budget period budget. The quantity budgets should be translated into monetary budgets to explain the costs of various factors required to carry out the activities of various centres. These items include costs of wages and salaries of labour force, the cost of commodities and services and various expenditures required by cost centres within the budgeting period.

10.3 Use of Outputs of the Proposed System to Control Costs:

Reports are the final output of the accounting
system. They include a wide range of detailed information obtained from costs accounts and statements of the company's planning budgets. They are considered vital to provide management with proper and useful data to help it in decision-making and correcting deficiencies. Also, reports help the management to plan and draw-up the future policies of the company. They provide data for planning and control at all levels and must meet the needs of both the management of the company itself and other users of accounting information (4).

The following information and data must be provided by the integrated controlling reports system (5).

- Data on actual implementation and the corresponding plan data
- Variances between planned and actual costs
- Reasons for variances, to enable the management to make decisions on how to treat these variances and avoid waste and deficiencies in future.

The researcher will deal with the basic reports which should be based on a wide range of detailed information, available cost statements and the proposed budget statements. To be useful for control these reports should study and measure the extent to which the company has achieved planned targets. These reports are prepared according to responsibility centres and according to the company's organisational structure, in order to determine
accountability. NASCO must prepare reports related to its managerial organisation, which in general could be classified as follows:

10.3.1 Reports Prepared by Heads of Activity Centres:

The cost reports at this level must be very detailed and analytical. They should include the volume and costs of implementation at each centre, allowing comparison between actual and planned costs. Variances must be shown and analysed to see whether they fall within the acceptable range. Variances outside this range must be explained and steps taken to correct them and prevent recurrence.

To realize the objectives of reports at this level, they must be prepared at intervals which allow variances to be corrected or, if necessary; reported to more senior levels, as soon as possible. The researcher recommends reports be prepared monthly and submitted to the higher level on the last day of each month.

In the researcher's view, these reports will help senior management to follow-up the implementation of each activity under their control and make rational decisions. The reports at this level in NASCO could take the following recommended form:
Holding Company for
Engineering Industries:
NASCO.

Cost Variances Report of
.....Centre.
On Month... ,199x.

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<tr>
<td>- Wages.</td>
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<td></td>
<td>F. Cost</td>
<td>V. Cost</td>
<td>Total P. C.</td>
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<td>- Commodities</td>
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<td>requirements.</td>
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<td>- Services</td>
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<td>requirements.</td>
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<td>- Other costs.</td>
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Notes: F. = Fixed.  
V. = Variable.  
P.C. = Planned Costs.  
- This report should be prepared by each centre which plans and controls its activities by means of a flexible budget.

10.3.2 Proposed Reports to be Submitted at the Executive Management Level:

This level represents the managerial authority which carries out all the executive processes under its supervision, according to the programme prepared for all production units.

Usually the production unit managers need reports which provide information about variances in implementation at the responsibility centres under their supervision but without going into details of each process. The aim of these reports is to summarize and analyse the variances investigated at the lower management level, to show the reasons for them and indicate responsibility, to show to what extent the executive management is successful and efficient in its activities. Reports at this level must include summarized data about variances, reasons for them, and who is responsible. Further, they must cover the executive management's activities in monetary and quantitative forms. They should be prepared every month, and submitted by the second day of the following month. Other types of reports might also be prepared to give information about cost elements under the responsibility of the manager but not under his control. This type of report will help the
company to apply the responsibility accounting system. The reports at this level in NASCO may take the following recommended form:
The Holding Company of Engineering Industries NASCO.
The Executive...Management.
.....199x.

**Summarized Report of the Cost Variances.**

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<td>Volume</td>
<td>Cost Unit</td>
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<tr>
<th>Cost Elements</th>
<th>Centre...</th>
<th>Centre...</th>
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<tbody>
<tr>
<td><strong>Variable Costs Elements:</strong></td>
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<tr>
<td>- Wages.</td>
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<td>- Commodities Requirements.</td>
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<td>- Services Requirements.</td>
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<tr>
<td><strong>Total of Variable Costs.</strong></td>
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<td><strong>Fixed Costs Elements.</strong></td>
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<td>- Wages.</td>
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<td>- Commodities Requirements.</td>
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<td><strong>Total of Fixed Costs.</strong></td>
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<td><strong>Total Costs.</strong></td>
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453
10.3.3 **Reports of Supervisory Management:**

This level concerns the production managers, and requires reports which provide results on a responsibility basis. These reports must provide brief details about the actual activity costs compared with planned costs for each unit of production, each being considered as a responsibility centre of executive management. The researcher recommends that these reports be prepared monthly within the first five days of the following month.

The reports at this level in NASCO may take the following recommended form.
The Holding Company of Engineering Industries.
NASCO.

......Management.
......199X.


<table>
<thead>
<tr>
<th>Executive Managements</th>
<th>Production Unit</th>
<th>Planned Costs of Actual Activity Volume</th>
<th>Act. Costs of Actual Activity Volume</th>
<th>Variances</th>
<th>Notes</th>
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<td></td>
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<td></td>
<td></td>
<td>Allowable</td>
<td>Not Allowable</td>
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<td>...Management.</td>
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10.3.4 **Top Management Reports:**

This level represents the highest level in the company; for example, general managers and the Board of Directors. The responsibility of this level is to set plans and follow up implementation of each unit of the company's units. So, reports must reach this level periodically and must include comprehensive information about the results of various activities. Also, the data of reports must prepared in total and every month within the first week of the following month.

The reports at this level in NASCO may take the following recommended form:

```
* * * * *

The Holding Company of Engineering Industries.
NASCO.
.....199x.


<table>
<thead>
<tr>
<th>Supervision Managements</th>
<th>P.C.</th>
<th>A.C.</th>
<th>Variances</th>
<th>Allo.</th>
<th>Not Allo.</th>
<th>Total</th>
<th>Notes</th>
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Total

Notes:
Mang. = Management.
P.C. = Planned Costs.
A.C. = Actual Costs.
Allo. = Allowable.
Not Allo. = Not Allowable.
```
Also, NASCO could prepare another recommended report to show the costs for each cost centre and total costs of the company as a whole.

In the view of the researcher, such reports will help the company in setting the planning budgets for the next year. Also, they will aid control over the costs of all cost centres and evaluation of the company’s performance.
The Holding Company of Engineering Industries.
NASCO.
...... 199x.

Brief Report on Cost Centres.

<table>
<thead>
<tr>
<th>Activity Centre</th>
<th>Costs Elements</th>
<th>Centre</th>
<th>Centre</th>
<th>Centre</th>
<th>......</th>
<th>......</th>
<th>Total</th>
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<td>Variable Costs</td>
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<td>- Commodities Requirements.</td>
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<td>- Services Requirements.</td>
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<td>- Current Transferred Expenditures.</td>
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<td>Total of Variable Costs.</td>
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<td>Fixed Costs.</td>
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<td>- Wages.</td>
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<td>- Commodities Requirements.</td>
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<td>- Current Transferred Expenditures.</td>
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<td>Total of Costs.</td>
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10.4 The Recommended Reports to be Prepared by NASCO and Submitted to the Holding Company for the Engineering Industries:

As mentioned before, reports are considered a fundamental tool for communicating the required information to decision-makers to help them to make decisions concerned with planning and performance evaluation for the company's activities.

Therefore, the researcher will recommend some groups of reports which it is believed are very important from the point of view of the holding company, as they would enable it to follow up operations and activities in all its subsidiary companies and take necessary decisions to improve companies' circumstances on the basis of the information shown on their reports.

These reports are:

10.4.1 Monthly Reports:

The researcher recommends that NASCO be required to prepare the following monthly statements:

1- The Business Results Statement: this should include the following:

- The actual revenues for various activities.

- Various expenditure.

- The surplus before tax.
2- **Financial Position Statement:** The aim of this statement is to determine the assets, liabilities and owner's equity of NASCO at the end of each month. This statement must be prepared according to the book balances to save time and costs.

3- **Reports about the Production Activities:** These reports aim to compare actual production quantities within the period with the planned production for the period, as shown in the production budget; also between the actual production achieved and that for the same period in various years.

4- **Reports on Sales Activities:** These reports aim to determine the actual sales within the period compared with the planned sales as shown in sales budget statements; also to compare sales with those for the same period in other years.

5- **Storage Activities Reports:** These reports aim to recognise the stagnant or slow-moving items and determine reasons for that; also, to recognise inaccuracies in production requirements and the reasons for them.

6- **Financial Reports Concerning Sales:** These reports aim to state the gross and net actual sales value compared with planned sales according to the sales budget; also compared with actual sales for the same period in the previous year. In the case of exports, a separate report should be prepared to show the actual exports value.
compared with the planned exports value and the actual exports value for the same period in the previous year. It should also indicate exports as a percentage of sales.

7- **Cost Report**: This report aims to determine cost elements for each cost centre and compare actual and planned costs, and actual costs for the same period in the previous year.

8- **Cash Liquidity Report**: This report aims to determine the position of the company’s cash liquidity, distinguishing between liquidity in local currency and hard currency; also showing the relation between fast current assets and short-term debts.

9- **Expected Monetary Position Report**: This report aims to determine the expected monetary balance at the end of the coming month, with arrangements for covering deficit to distributing monetary surplus.

10- **Investment Projects Follow-Up Report**: This report is very important for the company to compare actual costs laid out with planned costs. It should also show the percentage of implementation of projects and any difficulties facing the company, together with the reasons for them.

10.4.2 **Quarterly Reports**:

These recommended reports are:
1- **Monetary Position:** This report is prepared according to the book balances and must be approved by the auditor of Central Accounting Agency (CAA).

2- **Business Results Statement:** This must include business results for the quarter, to aid evaluation of the performance of the company by the holding company.

3- **Investment Indicators Reports:** These depend on an account of business results for the quarter and the financial position at the end of each quarter. These are as follows:

   a) **Profitability Indicators Report:** This report aims to evaluate the profitability of the company by using a group of indicators to measure profit for each quarter and should compare the results of these indicators with those for the previous corresponding period and the development of these results.

   b) **Performance Efficiency Indicators Report:** This report aims to measure the performance evaluation implemented by the company using the proper indicators. It should also compare the results for the current period with those for the corresponding period of the previous year and recognise the development ratio.

   c) **Financial Structure Indicators Report:** This report aims to show the financial structure indicator of the company to ensure accurate knowledge of the company's financial structure. Also it should compare the results
of the current period and those for the same period in the previous year.

10.4.3 **Annual Statements and Reports:**

The researcher recommends that some reports and statements should be prepared by the company every year and submitted to the holding company. These reports and statements are:

1- **The Detailed Working Programme:** This programme should be prepared for the coming year and divided according to the months of the year. It must include the financial statements related to the programme. This programme should be prepared three months before the beginning of the financial year.

2- **Balance Sheet:** This statement shows the financial position of the business at the end of the financial year. It is prepared according to the balances of the book accounts after any necessary adjustments.

3- **Profit and Loss Statement.**

4- **Current Operations Account and Trade and Production account** according to the Uniform Accounting System (UAS) requirements.

10.5 **Recommended Reports to be Prepared by the Holding Company of Engineering Industries and Sent to the Board of Directors:**

These reports must be prepared according to those received reports from the subsidiary companies. The aims
of these reports are to evaluate the performance of subsidiary companies. They will help the holding company Board of Directors to make the necessary decisions to correct the subsidiaries’ position and facilitate preparation of the planning budgets:

These reports are:

1- **Sales Financial Report**: This report incorporates the following:

1.1 **Actual Sales Report**:

This report aims to control the actual sales by comparing the net actual sales at any period with planned sales for the same period to show the implementation of the sales plan and percentage of development of actual sales from the previous year.

1.2 **Report of Net Sales Analysed as Between Local and Exports**:

This report aims to analyse net sales into its components whether local sales or exports. It should also include the percentage of local sales against exports.

This report may help the management of the holding company to make many planning and control decisions related to local sales and exports.

2- **Production Activities Reports**:

This report incorporates the following:
2.1 Control Report of Actual Production Quantity:

This report aims to control the actual production quantities in each of the subsidiary companies and to determine the percentage of implementation of the quarterly and annual plan, and development from the previous year. This report is very useful in performance evaluation of production activity for the previous period and in determining recommendations for the coming period.

2.2 Control Report of Production Value:

The aim of this report is to control the actual production at sales prices for the subsidiary companies, to determine the percentage of implementation of the quarterly and annual plan, and the development from the previous year. This report may help the management of the holding company to evaluate the performance of its subsidiary companies' managements.

2.3 Quality Control Report:

This report aims to control production quality at subsidiary company level, by determining the percentage of reject production.

This report may help the holding company Board of Directors to take decisions to correct production conditions for some subsidiary companies.

3- Production and Costs Report:

The aim of this report is to determine the margin of production profit and the percentage of that profit
margin against the value of production in manufacturing sale price for each subsidiary company.

This report may help the holding company Board of Directors to evaluate the performance of its subsidiary companies.

4- **Cash Liquidity Report:**
   This report clarifies the liquidity position in comparative form between all subsidiaries companies to help the management of the holding company to make planning and control decisions related to liquidity.

5- **Consolidated Expected Monetary Position Report:**
   This report aims to display the expected monetary position for each subsidiary company in comparative form, showing the surplus and deficit of each company. It would help the holding company to make some short-term financial decisions concerning its companies.

6- **Investment Follow-Up Report:**
   This report aims to follow-up investment in new projects, extensions, replacements and developments for each company, to determine the percentage implementation of the annual plan, and the sources of finance for these projects.

7- **Business Result Report:**
   This report clarifies the results of companies' business in comparative form, to enable the management of
the holding company to make planning and control decisions concerning the results of the subsidiary companies.

8- **Consolidated Financial Position Report:**

This report clarifies the financial position in consolidated form at the end of each quarter, comparing with the previous period and the same period for the previous year.

This report will help the holding company to make various decisions concerning the changes in the financial position.

10.6 **The Recommended Reports to be Prepared by the Holding Company and Submitted to the Ministry of the Public Business Sector:**

These reports are:

1- **Holding Company Profitability Report:**

This report represents a consolidated statement on the profitability (if any) of the holding company and its subsidiary, in comparative form with the same period in the previous year.

2- **Subsidiary Companies’ Profitability Report:**

This report shows the profitability of the subsidiary for each quarter and compares actual and planned profit. Also, it shows the revenue ratio of investmented capital and the percentage of actual profit against net sales.
3- **Report of Subsidiary Companies' Liquidity Position:**

This report gives information about the liquidity position for each subsidiary company at the end of the current quarter, comparing the actual cash surplus with that planned for the period. Also, it gives information about how to deal with the cash deficit or surplus.

4- **Report about Subsidiary Companies' Loan Balances and Financial Burdens:**

This report aims to give a statement about loans due to the subsidiary and these financial burdens at the end of the reporting period, determining the sources and application of these funds.

5- **Export Report:**

This report aims to state the total actual exports of all subsidiaries and the percentage of actual planned against exports planned. Also, it reveals the markets of exports and number of new markets in which each subsidiary dealt within the report period.

6- **Report on Position of Implementation of Investment Projects:**

This report gives information about implementation of investment projects related to the subsidiary companies within the report period.

10.7 **Summary and Conclusion:**

This chapter has presented detailed proposals for remedying the deficiencies in NASCOs planning and
reporting systems found in the empirical work described in previous chapters.

Regarding planning, we suggest that the current system based on historical data is inappropriate, as waste and inefficiency may be perpetuated from year to year. We propose that scientific tools such as time and motion study should be used to develop a series of quantitative standards, which can be translated into standardized costs on the basis of economic studies. It is also recommended that NASCO adopt flexible, rather than fixed budgeting. The temporal chains model could be used for forecasting.

As the final output of the proposed budgeting system, a comprehensive set of reports is needed which show actual performance, variances and reasons for them, and which are prepared at such intervals as to allow problems to be corrected or referred to more senior management levels as soon as possible. In this chapter, we have specified in detail the reports to be prepared at each management level within the company, as well as the frequency and content of reports which the company should provide for its holding company. It is believed that implementation of these suggestions would enhance planning and control both within the company and at sectoral level and would improve NASCOs ability to fulfil company, sectoral and national objectives.
References:


2- Ibid., pp.60-69.


Chapter Eleven

Summary, Conclusions and

Recommendations
11.1 **Summary:**

This study sets out to examine the needs of users of accounting information in Egypt, in the light of the political and economic changes of recent years.

The economic system of Egypt changed after the Revolution of 1952. Public ownership of some business organisations was introduced. Between 1956 and 1963, a series of Nationalisation Decrees were promulgated to reduce the dominant role of the private sector. This enabled the public sector to expand and to play a major role in economic activities.

After the public sector assumed the leading role in the economy, the State Audit Department assumed the legal right to audit the financial activities of public organisations, public sector enterprises and government institutions. In March 1964, a Presidential Decree was passed to replace the State Audit Department by the Central Accounting Organisation.

The need to review the efficiency of public sector enterprises in fulfilling the role required of them by economic development plans encouraged the establishment of a uniform accounting system. In 1966, the Uniform Accounting Law was introduced by the Central Accounting Organisation. A major objective of the Uniform Accounting System is to provide the necessary linkage between the accounts of the individual economic units and macro accounting. This coordination facilitates the preparation of gross national income accounts and other statistical
data used in planning the economy and controlling its direction.

Up to the present, no major changes have been made to the uniform law of 1966, which is still in effect. The introduction of the open-door policy in the mid-1970s, however, allowed the private sector to play a larger role in the economy, encouraged the inflow of foreign capital and led to the establishment of a new stock exchange. This, together with the new government policy of selling some of the public-owned enterprises, especially commercial enterprises, has increased the role of small domestic accounting firms, as well as branches of international accounting firms. As a result, many of these firms have started either to open new offices or to expand their activities.

As a result of the establishment of the Egyptian Capital Market, professional groups were obliged to follow International Accounting Standards, and the uniform accounting system has come under threat. In the light of these developments, it is of particular importance to examine what accounting and economic information is considered desirable for economic and financial activities, from the viewpoint of the users of that information.

Chapter One presented a general theoretical survey of the importance of accounting information and its implications. It ended with formulation of the problem to be tackled in this research, together with the main
hypotheses to be tested, and a statement of the significance of the present work.

Chapter Two discussed the role of the Egyptian private sector before 1856 and the transformation to public sector ownership from 1956 to 1961, focusing in particular on comprehensive economic planning and the open-door policy.

The following chapter discussed in detail the public enterprise sector in Egypt. Investigation focused on the role of this sector in the national economy and the effectiveness of the accounting system as the main source of information for the government function of assessing the performance of these enterprises. The chapter raised the problems of control and the information required from the public enterprises by each of the Egyptian controlling and data collection agencies.

Chapter Four studied the similarities between micro and macro accounting, and also the differences between them in concept, classification and methods of valuation. The aim in this chapter was to shed light upon the effect on micro-macro accounting of the dominant accounting system, and the relevance or otherwise of the information provided by micro-accounting in Egypt from the national point of view. It was shown that in the Egyptian experience, integration between micro and macro accounting has required active involvement on the part of the government in the direction and administration of economic activities, either directly or through
extensive regulations.

Chapter Five outlined the history of national income estimates in Egypt and discussed the major deficiencies in the present structure of national accounts, especially in developing countries. It was of particular concern to examine the extent to which these shortcomings in national income estimates have affected national economic policy-making.

In the Sixth chapter, an attempt was made to review the history and role of uniform accounting. It began by considering the origins of the idea of uniformity, and went on to review the definitions of uniform accounting which have been put forward by various writers. The main types of uniformity were also discussed. The chapter concluded with a discussion of the advantages and problems of uniformity and the significance of uniformity in accounting.

Chapter Seven dealt with the organisation, structure, and environment of the Egyptian accounting system. This chapter drew attention to some important problems that impede the effectiveness of the Egyptian uniform system, and offered some suggestions for improvement. Among the difficulties currently faced are the deficiencies of accounting education in Egypt, and the pressure to abandon uniform accounting in favour of IAS, which Egypt, like many other developing countries, faces from western countries (e.g. U.S and the U.K), multinational companies, international agencies (e.g. 475
Chapter Eight was devoted to a case study of the application of the Egyptian Uniform Accounting System in El-Naser Company for Motor-Car Manufacturing (NASCO) a public sector enterprise affiliated to the Engineering Industries Organisation (the holding company for engineering industries according to law 203 of 1991). This chapter was organised into three parts. The first part examined the Egyptian motor car industry in terms of its present structure, product mix and nature, as well as the historical background of the industry. Part two explained the financial management policies of NASCO and their effect on managerial flexibility and accountability. Part three examined planning and control in NASCO and the Engineering Industries Organisation, in relation to the main objective of the Uniform Accounting System in Egypt, i.e. development of economic unit accounts into an "Information System" in order to provide data for planning and control at all levels, from the management of the company itself, upwards. Particular emphasis is placed on the need for linkage between micro-macro accounts to improve the national accounts.

Chapter Nine analysed the present current operations account, sources and uses of funds statement and value-added statement, from the viewpoint of NIA. The objective of this chapter was to suggest some modifications to the above mentioned account and
statements, in order to provide greater assistance to the government in performing its functions, including the preparation of the NIA.

Chapter Ten discussed the deficiencies in NASCOs planning and reporting systems revealed in the empirical study and presented detailed recommendations for remedying them. We specified in detail the reports to be prepared at each management level within the company, as well as the frequency and content of reports which the company should provide for the holding company.

11.2 Conclusions:

The private sector played a leading role in the Egyptian economy before 1956 and the public sector was restricted to public utilities such as telephones, water, electricity and railroads. However after 1956 the Egyptian economy underwent a structural transformation to public sector ownership at the expense of the private sector. These changes started with the nationalisation of the Suez Canal Company in 1956, continued with the Egyptianization of the financial institutions in 1957, and ended with the nationalisation laws of July 1961. By these laws, the public sector was greatly expanded, and the government nationalised 80 percent of the nation's investments. As a result, state-owned corporations played the dominant role in the economy, and the public sector was extended to cover almost all industrial activities, banking and insurance, foreign trade, wholesale trade and a significant portion of retail trade.
Comprehensive economic planning was introduced and pushed through vigorously at the highest levels in order to achieve certain social and economic development.

National planning has influenced the development of the accounting system in Egypt, for the whole economy is centrally planned. National planning requires an information machinery which supplies relevant data in an aggregatable and comparable pattern so that the process of resource allocation can be made more efficient. This can only be achieved if data are based on a uniform accounting system including uniformity and sent to the planning agencies at the top level, and uniform accounting returns provided during the implementation period for checking on the smooth implementation of the plants. The effectiveness of the information provided by the macro-accounting system in the formulation of the Egyptian plans is affected by its reliability and accuracy, which depend, in turn, on the reliability, relevance and accuracy of its sources at micro-level.

Before 1967, there was in Egypt no complete relationship between micro and macro accounting. Data were collected by questionnaire from businesses, and supplemented by periodic production censuses. All the evidence suggests the following:

1- There were no "generally accepted accounting principles", at the enterprise level and between micro and macro level regarding definitions, measurement base of transactions, unit of measurement and the basis of the
input data necessary for providing information to users.

2- There was no "comparability" between firms in the same sector for macro purpose.

3- There was no awareness on the part of enterprise managers of the great advantages of using macro aggregates for planning and control purposes.

Moreover, at the micro level accountants did not fully understand the questionnaire instructions, and had difficulty in adjusting their figures to meet official requirements. The reliability of the figures produced was questionable.

The statisticians at central level had three difficulties. Often the data collected from different sources and under different methods did not correlate and were sometimes inconsistent. There was an increasing marginal error and difficulty in measuring it.

It became a matter of serious concern to overcome these difficulties, to establish a base for common understanding between the micro accountants, and to solve some of Egypt's national accounting problems.

As from 9th July 1967, Egyptian public sector units were compelled to adopt the uniform accounting system, with the intention of providing the information needed for planning, follow-up and control at all organisational levels of the Egyptian economy, and creating a proper link between financial and social accounting, to aid the preparation of national accounts. The national accounts
data occupy an important position amongst all the instruments of economic management. They give information for the preparation of major managerial or planning decisions, as follows:

1- The drawing up of economic plans is prepared and supervised;

2- Plan fulfilment is checked and analysed;

3- Economic developments are compared over longer periods to enable long-term decisions to be made by management and to draw meaningful conclusions for the period of the economic plans;

4- Comparisons are made on an international level.

In order to achieve an integration of microdata with national economic accounts, it is essential to look at macro-accounting as a framework for the national accounting system, and micro-accounting as a subset of that system.

The integration between micro and macro accounting in Egypt to aid the decision-making process in a controlled economy requires an identifiable and uniform set of operational information. Moreover, many of the problems encountered by macro accountants in estimating national accounts are caused by a lack of uniformity in financial reporting at the micro-level. Therefore, the establishment of the uniform accounting system aimed to improve the linkage between the financial accounting
system and social accounting at the state level.

However, the ability of the Egyptian uniform accounting system to provide the necessary information for planning and control at micro and macro levels is affected by its valuation methods. The methods of valuation required by the EUAS for cost of production, the determination of income, and financial statements presentation are restricted to historical cost concepts. There are three primary reasons why historical cost data are irrelevant, biased and unreliable for valuation purposes:

1- They are at variance with economic principles.
2- Changes in prices are ignored.
3- Cost of capital is ignored.

The Egyptian uniform accounting system moreover, is based upon a total performance concept and is not able to provide adequate information for evaluating the functional efficiency of individual economic units. Furthermore, certain arrangements are made in order to generate information specifically designed to serve the need of macro-accounting:

1- Inventory Valuation:

To calculate the value of the gross national product at market prices, production should be calculated at sales prices. Net sales must then be adjusted by the market prices of any changes in the inventory of
finished product.

The EUAS states that the value of the inventory should be total production cost, unless the market value is lower. In this case, the difference must be a provision to off-set later losses.

The EUAS satisfied macro-accountants, but does not meet all micro needs with regard to price changes, since inventory revaluation adjustment is applied only for macro-accounting purposes.

2- Imputed Transactions:

Four types of transaction are imputed in the Egyptian chart of accounts. For capital assets produced for own use, the EUAS values them at cost of production.

Secondly, two accounts are reserved for rent adjustments. Each account shows the difference between imputed values and the depreciation of the buildings occupied. The imputed rent is calculated at the rate being charged for similar assets, and depreciation is calculated according to the straight line method.

Two accounts are maintained for interest, each showing the difference between actual and imputed interest. At the macro level the interest adjustment indicates the expenditure of the business firm on financing its capital by state funds. It also shows the revenue for the government sector which finances a large proportion of the firm's capital.

Finally, wages paid in kind are calculated at micro level to provide macro-accountants with figures on real
income from employment and operating expenditure of the business sector.

3- Capital Consumption:

The production of fixed assets represents a creation of wealth at the national level, and the depreciation of these assets may be considered a form of keeping national wealth intact.

The Egyptian accounting system makes uniform the base of valuation of fixed assets at cost, including cost of construction. To take price changes into account, the system requires that each enterprise should retain from its surplus enough money to replace its fixed capital according to the trend of prices, in an account called the reserve for the replacement value of assets. Also, depreciation rates must be raised proportionately if the number of working days increases or the number of working hours per day increases. If the assets were second-hand at the time of purchase, the given rates should be doubled. If the assets are not used continually during the year, the rate may be halved. Depreciation is calculated from the date on which the asset is brought into use.

Undoubtedly, this uniform method satisfies macro-accountants. However, these uniform depreciation rates may not reflect differences between enterprises in the type and use of assets, in labour efficiency and maintenance policy.

Doubling such rate in the case of second-hand assets
assumes that all these assets will be similar in their efficiency at the time of purchase.

Enterprises should be allowed the discretion to select the appropriate rate for such assets, as they are in a position to determine their efficiency.

A case study was undertaken in NASCO, which is affiliated to the Engineering Industries Organisation which comes under the control of the Industry Ministry (now under the control of Business Sector Minister, according to Law 203 of 1991).

NASCO is required to provide operating information to the Engineering Industries Organisation (holding company), the ministry and other government bodies. This information is provided by a number of accounting returns whose forms and numbers are specified by the UAS (see Chapter Three). NASCO has been the largest Egyptian producer of pc's, trucks, buses, agricultural tractors, trailers and engines. NASCO's activities basically concerned assembly. Regarding the financial capital structure of NASCO, before 1973, there are two main aspects of interest: the issue of "debt versus equity" participation by government, and the availability of bank credit for working capital. The policy was revised in 1973 when it was decided that investment funds would be provided to all public enterprises on a loan basis. The state created a new agency, the "Investment Fund", to implement this policy. In 1980 the National Investment Bank was established to replace the previous agency.
Repayment of funds received from the National Investment Bank has been enforced, with lending terms between 10 and 15 years, and interest rates of 6-9%.

Although this has been a major policy change in the right direction, unfortunately the aggregate impact has not been substantial. Also, in some instances, that policy has been in conflict with others. The basic problem is that a key element required to ensure financial autonomy and acceptability, price flexibility, has not been allowed. Despite a growth in the size of the market during the last decades because of increasing demand for motor vehicles, the price apparatus objective of expanding the local market is relegated to secondary importance to the creation of surplus. The pricing policy has caused a complete failure to satisfy NASCO's objectives. Prices of NASCO's products need to be more realistic to reflect the full cost of production. At the same time, the Egyptian government must eliminate protection, but in the interim period no price controls should be imposed.

The development plan budget at NASCO is formulated according to a five-year plan. Short-term plan objectives are derived from the implementation requirements of long-run programmes. The annual operation plans of NASCO are influenced by the national plan, so the annual planning process involves consideration of national targets of income, rate of growth and volume of production. The planning budget is, according to the EUAS, required to:
a) distinguish between current operation and capital expenditure;

b) combine the budgets with cost accounts, and classify the cost centres;

c) present the budget on a monthly or quarterly basis and classify these budgets by activity;

d) adhere to the standard designs for the budget forms included.

These rules will result in superfluous detail which is not of concern to the planning bodies, whether at NASCO or at government level. Planning information is naturally general and not specific, as is the information required for control and performance evaluation. The government planning agencies do not have enough time to study and use all this detailed information before preparing the national plan.

The present planning and budgeting system of NASCO is restrictive and inflexible. It might also be added that budgets are prepared for one level of activity. Although the concept of capacity is used, to the extent that rate of capacity utilization is considered in the production budget, cost behaviour and volume are not related. Moreover, the concept of flexible budgeting is not found. The researcher would argue that the flexible budget is a very useful tool to provide the management with an acceptable basis for analysing and thus controlling, variances between planned and actual costs,
and is based on knowledge of cost behaviour patterns. It is important to stress that such budgets would be prepared for several levels of activity in the company. To prepare this budget, it is necessary to consider the relationship between cost and the volume of production, for it assumes that costs of materials, labour and other facilities used in production activities vary according to changes in the volume of activity, and reflect the costs necessary to achieve a given activity target.

At NASCO, budgets are mainly prepared on the basis of the previous year's activities, adjusted for any alteration in conditions expected for the coming year. This basis is not satisfactory; budgets should be based upon expectation of the future, not the mere extension of the past.

The production budget is not prepared on the basis of studying the market, and any market surveys carried out by sales departments are not for the planning process but for product mix.

The investment budget does not show the expected added capacity from new investments and no indicators are given of the expected revenues and costs of the added capacity. The wages and manpower budget is prepared on a time basis, and wages are fixed by the state. Thus, the production workers obtain their wages, whether or not the production target is achieved. This means there is no linkage between the production target and wages budget.

There is no linkage between analysis and
classification of cost elements for accounting records and planning budget schedules. Nor is there any harmonization between those records and schedules. Also, there is no controlling reporting system to facilitate comparison between actual and planned results for a given period, and to enable the company and its holding company management to be informed about the variances so they can take corrective action in time.

In order to evaluate performance, NASCO is required to prepare standard reports of specified information according to the uniform system. These reports are submitted to the holding company, the Ministry of Industry and the Ministry of Planning. It is noted that there are numerous indicators used in performance evaluation, and that these are centred around an entity and product, rather than responsibility centres. In order to follow-up implementation, NASCO is required by the Ministry of Planning to submit reports, quarterly and annually. These reports aim to measure the productivity and implementation of NASCO's plans, and the company's contribution to the national plan. So, each section of the performance reports compares actual performance with that planned, and contains notes showing the variance. In the empirical study, it was found that there is no rule as to what level of variance is acceptable, so it is left to the discretion of the central authorities to decide on their acceptability or otherwise. Also, at the company level, little attention is paid to analysis of
these reports before they are submitted to top level. Moreover, the supervisors and managers who are responsible for implementation have little connection with the cost control system.

Planning budgeting at the Engineering Industries Organisation (holding company) is very limited in scope. The EIO does not construct detailed budgets in respect of all production and costing aspects of all its subsidiaries. The holding company's role in planning is to use aggregates derived from the subsidiaries' budgets in order to ensure plan consistency and to inform the Ministry of Industry of any excess or shortfall compared with the national objective. It could be argued that the deficiencies of planning and control which have been identified at the company level are also found within the holding company.

Performance evaluation is carried out in EIO on the basis of comparison between the actual achievement and planned targets, and decisions are based on the result.

It is a matter of urgent necessity to set scientific indicators to evaluate the performance of EIO and to translate its strategy into specific targets and objectives which can be measured quantitatively in order to ascertain its strengths and weaknesses.

Also, performance evaluation at holding company level must be carried out by the technical department of the Business Sector Ministry. Actual results should be compared with those planned and set out in the planning
budget approved by the general committee.

The EUAS created two accounts (current operations account, and the sources and uses of capital funds statement) to provide a proper link between micro and macro accounting. The current operation account is considered to be the most important final account in Egypt because it is intended to correspond to social accounts, where its counterpart is the income and product account, with which it is intended to correspond in classification basis, concepts, valuation basis, and measurement stages.

It is divided into three main sections. The first shows the value of the gross product at market prices and its related commodity input requirements. This means that this stage is prepared to focus on the production process and to measure value-added and shows the surplus or deficit from normal operations. The second includes the surplus (or deficit) balance from the first section, current transfer appropriations, and transfer revenues. The section includes the adjusted surplus (or deficit) balance from the second section, distributed between the appropriated provisions, and the forwarded surplus (or deficit).

Examination of NASCO's current operations account revealed that there are many advantages from the point of national accounting, as follows:

A) **Classification**:

The classification of this account with its three
stages is in accordance with national accounting principles. The first stage looks like the production account; in this account, from the resources it is possible to determine the value of production at market price. Also from the uses it is possible to determine factors returns and measure the kinds of income generated from the production operation (value-added).

The second and third stage look like an appropriation account, which shows the allocation of surplus from current operations and other resources on other transferred items.

This account is consistent with the national accounting logic which distinguishes between accounting of current operations and investment operations.

Transactions are classified within this account according to their nature, as follows:

- Commodity transactions—involving commodities and services produced (e.g. goods and requirements).

- Income and transfer transactions—dealing with payments to factors of production (e.g. wages, rents, surplus), taxes, bad debts, and subsidies.

From the above, it could argued that the classification of transactions is intended to satisfy the needs of national accounting, regardless of the relationship between these transactions and NASCO’s activities (production, marketing, and finance).
B- Underlying Concepts:

1- This account has adopted the production concept as its main economic principle. As a consequence, production is considered as adding value to available economic resources.

2- Also, this account has adopted the economic concept of treating transfers as resulting from the provision of goods or services, and leaving out debits with or without any return within the previous or current period, but in practice NASCO often ignores this, because of the difficulty of measuring.

C- Concepts of Value:

- The current operations account values production on the basis of market prices within a specific period.

- The depreciation figure is calculated by revaluing fixed assets on the basis of exchange rate to reflect the actual depreciation.

D- Measurement Stages:

The current operation account, in a sense, corresponds with the national income accounts. The only difference is that the latter accounts exclude intermediate products (including only amounts of value-added).

Despite its advantages, the current operations account is still inadequate to serve both financial and national needs for the following reasons:
1- NASCO's treatment of received discount as a resources account conflicts with the treatment of allowance discount. It would be more appropriate to consider the received discount as a uses account and deduct its value from purchase costs.

2- The deduction of value of gifts and samples from gross sales will give a misleadingly low value of national product.

3- The allowance discount account should not be considered as a reduction of value of the production units but considered as a financial burden and included in capital costs on the uses side.

4- The profit from production residue and commissions received should be added to the first stage, because they constitute part of the production activities of NASCO.

5- The inclusion of transportation cost within commodity requirements costs is not a good treatment from the national accounting point of view. It would be more appropriate to keep it separate from the activities and measure and redistribute it over the various activities which use it. This treatment would have an impact when preparing input accounts at national level.

6- The treatment of imputed rent and imputed interest to satisfy the needs of micro and macro accountants shows that NASCO is in error, because imputed rent and imputed interest are not considered as revenues or as a part of
distributable surplus. Also, this treatment has an impact on the value-added by increasing its value.

7- The treatment of subsidies as a part of revenues items in the first stage from the national economic point of view is inappropriate because these items are not a part of output and must be dropped. On the other hand, these subsidies are considered as negative taxes and must be revealed in the uses side and their value must be deducted from the indirect taxes to reach the net taxes.

8- Usually NASCO calculates the production of capital assets for use at cost prices. However, it would be appropriate to value them at market prices, from the national income accounts of view.

9- Finally, the treatment of changes in purchasing power of the monetary unit by making provision calculated as the difference between depreciation on a historical cost basis and that on a current replacement cost basis is not appropriate from the national account point of view. It would be better to consider provision as a part of uses in the current operations account to reflect its impact on the gross value-added and the total of national outputs which are evaluated on the basis of market prices.

The deficiencies highlighted above suggest that it is impossible to depend on the present current operations account to obtain the total of national basics, and some modifications to the present framework are required in
order to provide greater assistance to the Egyptian government in performing its functions, including the compilation of NIA. These modifications and the proposed model were presented in Chapter Nine.

The other important statement prepared by NASCO according to the EUAS is the sources and uses and application of funds statement. This statement shows the changes (positive or negative) in the items of two successive financial positions.

There are three main categories of sources: Internal financial (self finance), changes in working capital (liquidity), and capital contribution (borrowed capital and loans).

Also, there are two main categories of uses of funds: Investment and capital transfers (see Chapter Seven for more detail).

Comprehensive analysis of this statement from the national accounting viewpoint shows that it has some advantages, as follows:

1- NASCO has adopted the economic concept of omitting the value of land and old machines from investment uses. This treatment considers that investment at national level represents additions to society's wealth.

2- Also, it has left out all interests before the period of operation from the gross capital formation because these interests are related to financial policies.
3- Customs duties on fixed assets on inventory are shown separately in the statement in order to show the real cost of imported investment goods.

Despite the above advantages in this statement, there are some deficiencies which reduce its usefulness for both financial and national accounting needs, for the following reasons:

A) The classification of the sources side is not relevant to the objectives of national accounting. This will be illustrated by reference to the self-finance and liquidity concepts.

**Self Finance:**

- NASCO is mistaken in considering the increase in capital items as self-finance, because this increase represents saving of other inside the economic unit, not a saving of the economic unit itself.

- Also, chargeable provisions are considered as an item of self-finance. This treatment is not always correct, because the provisions are related to surplus realisation.

**Liquidity:**

- NASCO does not give any specific definition of liquidity, but determines its item by decrease in the value of assets. In fact, this determination of liquidity is inappropriate for a number of reasons, for
example: (a) Payment for sales of fixed assets or investments may be deferred and not paid immediately in cash; (b) Decreasing of some assets may be due to damage or loss and not to an increase in liquidity; (c) The same applies to decreases in cash in hand and at bank and debtors, because bad debt is considered as a deficit, not an increase in liquidity.

- Inclusion of liquidity in this statement is a duplication which should be avoided, because the objective of this statement is to determine the volume of investment of the economic unit, not to distinguish between monetary and non-monetary sources in the capital account.

- There is confusion between credit finance sources (borrowing and participation) and other finance sources (increase of capital).

B) With regard to the uses side, there are some deficiencies as follows:

- NASCO considers the investment payment (advanced payment for documentary credits) as a part of investment uses. This treatment is not acceptable from the point of view of national accounting, because these payments do not represent a real addition to social wealth, but an increase in financial right to others.

- Also, it considers deferred revenue-expenditure as investment uses in order to allow this item to represent
intangible assets. However, the latter do not represent a real increase in social wealth.

- Projects in progress are considered within the investment uses items but separately, not consolidated with the fixed assets account. This treatment is not appropriate because it produces double accounting of some national investment items.

4- The classification of capital transferred does not help to make the link between that category of financial resources, because capital transferred is omitted when calculating investment at national level.

From the above discussion, it can be seen that NASCO's statement of sources and applications of funds needs certain modifications to provide greater assistance to the government in preparing the capital financial account at national level. These modification and the proposed model were suggested in Chapter Nine.

The value-added statement, which is intended to show NASCO's contribution to the national income account, suffers from the same shortcomings as the current operations account from which most of its components are extracted. Also, this statement is criticised by the researcher, for the following reasons:

- NASCO considers the valuation difference of finished product and goods for sale inventory as distributions of value-added. This treatment causes confusion because the Egyptian uniform system
combines the distribution of value - added and accounting adjustments on the one hand, with payment to production factors and organisation return on the other hand.

- There are many adjustments within the statement, which could reduce its usefulness. A proposed alternative model was presented in Chapter Nine.

Before finishing this conclusion, it should perhaps be pointed out that the ongoing restructuring of the Egyptian public sector is likely to have implications for financing, managerial autonomy, and accounting.

Restructuring of the Egyptian Public Sector:

The restructuring of the public sector in Egypt started with the passing of the Law No. 111 of 1975, which abolished the direct supervision of public sector establishments and concentrated power in the hands of the management boards of the companies. In 1983, according to Law No. 97 of that year, the government abolished the management boards of the companies and established the public sector organisations.

The government is now studying the possibility of selling part of the public sector companies and some of the its equities of other public sector companies to the public.

Abdel Wahab (Industry Minister) believes that: "the current major shake-up of the public sector came into law in 1991. Law 203 was the
most important event of 1991. Under the law, all state industries—including some outside the purview of the Industry Ministry—will be organised into Italian style sectoral holding companies under a single public sector Minister. The holding companies will be given unprecedented freedom to map strategy, appoint management, raise capital and, perhaps most importantly, to sell off assets. Some holding companies will have to sell successful parts to pay to restructure bad parts...We want privatisation to be a tool for restructuring, not an objective in itself." (1)

If this measure is taken, state capitalism will be converted to more genuine private enterprise capitalism.

Law 203 gives the holding companies the right to issue stocks of their subsidiary companies and public, aiming to free the enterprises to make a profit, increase their efficiency, and help those enterprises making losses by providing financial liquidity from the proceeds of the sale of successful companies issues.

The holding companies are given the right to consolidate the losing companies into similar successful companies with the aim of activating their management (2). The holding companies must finance their enterprises from their own resources, not from the state budget(3).

Recent law has regulated the relations between the holding companies and their subsidiaries, so that a holding company can set up plans and follow up the implementation according to the planned target in order to achieve the flexibility and independence in the management of these companies. The new situation will
enable the public companies to borrow from national banks or from elsewhere to finance their current activities and their new investment, but these loans will be followed up by banks and the Egyptian Central Bank only.

The Board of Management of public sector enterprises will be chosen, according to the new law, by the holding companies. The new law will give more freedom to the Board of Management to determine product prices, choose their products, choose their suppliers either from the local or foreign market and choose their distributors, to maximize profits. (4)

Table 11.1
(In Percent )

<table>
<thead>
<tr>
<th></th>
<th>Public Investments</th>
<th>Private Investments</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commodity Sectors.</td>
<td>35.2</td>
<td>14.9</td>
<td>50.1</td>
</tr>
<tr>
<td>Production Services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sectors.</td>
<td>18.6</td>
<td>3.5</td>
<td>22.1</td>
</tr>
<tr>
<td>Social Services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sectors.</td>
<td>16.0</td>
<td>11.8</td>
<td>27.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>69.8</strong></td>
<td><strong>30.2</strong></td>
<td><strong>100.0</strong></td>
</tr>
<tr>
<td><strong>Amount (In L.E.bn.)</strong></td>
<td><strong>46.5</strong></td>
<td><strong>20.1</strong></td>
<td><strong>66.6</strong></td>
</tr>
</tbody>
</table>

As shown in Table 3.1, actual investments at current prices amounted to L.E. 66.6 bn. during the four years 1987/88- 1990/91, with an average of L.E. 16.7 bn. per annum. The share of public sector in these investments was 69.8%, while the private sector accounted for 30.2%. It is noted that commodity sectors accounted for half the gross investments (5).

From these statistics the following conclusions can be reached:

1- The public sector in Egypt occupies a predominant place in the national economy.

2- The majority of investments were made through the public sector.

Yet, although public enterprises have helped to lay down the material foundations for the economic development of Egypt, they are encountering many serious problems, of which the problem caused by the controlling and data collection bodies will be discussed. The effect of this problem on the quality of information flows to the sponsoring Ministries will also be investigated.

11.3 Recommendations:

1- Establishment of an Adequate Cost System:

The empirical study shows that NASCO's cost system is very weak, which affects the ability of the UAS to fulfil certain objectives defined by the government. For
example many figures in planning budgets and the financial accounting area are supplied through the cost system. If the cost system is incomplete and its methods inadequate, then the results presented will tend to be unreliable for many important purposes. The study indicated that even though the uniform accounting system has been in operation for more than twenty-five years, it has not made any serious step towards developing an adequate cost system.

The most obvious defect revealed by the study is that very little attention is given to standard costs and budgeting.

To improve the cost system efficiency, it seems appropriate not only that analysis of NASCO's internal operations should include operational cost analysis, but also that comparison should made between planned or standard costs and actual costs.

The cost system must identify controllable and non-controllable costs at the process or company level, which is very important for evaluating managers' performance and for product evaluation. Also, the cost system must give more attention to analysis of cost into variable and fixed elements, in order to enable the company to study a priori or a posteriori, the relations between volume of production and their costs, and sales and profits. Further, it must make analysis of production costs at different stages and make comparison of cost with various margins computed from selling prices.
The above analyses are very important to evaluate sales policy and the efficiency of management.

Another problem is the allocation problem. It must be admitted that it is very difficult to argue in favour of a specific allocation method. On the other hand, the allocation problem is a very serious factor which has a direct, effective, and decisive role in the determination of the total costs of a specific centre, product or service.

Thus, it would be dangerous to leave the choice of allocation method in the hands of individual accountants, as they might adopt an allocation method reflecting a false performance.

However, imposition of a specific allocation method might be unfair to some centres or entities, whose costs could be more accurately allocated by a different method. A possible solution to the problem may be to have more than one allocation method, based on categorisation of activities within industries, so that a given method could be made standard for a particular group of activities within certain industries. It should be admitted however, that whatever solution is adopted, it is unlikely that there could be absolute fairness of allocation.

Responsibility accounting at NASCO level could also include cost responsibility. Thus, comparison could be undertaken between budgeted and actual controllable cost, in order to assess managers' performance. In fact before
comparison, it is necessary to distinguish between controllable and non-controllable costs, because the controllable costs only should be directly charged to each level. Also, to assess product profitability, contribution margin (selling price-variable cost) per unit can be used as the best indicator. In addition, per unit contribution to fixed cost also can be used as an indicator to assess product profitability performance. Finally, per unit contribution to labour, material, and variable overheads can also be used.

2- Recommended System for the Enhancement of Activity Planning:

The planning process at NASCO, as we have seen, is based on historical data which may include waste, poor productivity or unused tools and materials. As a result, the planning estimations are inappropriate as a basis for achieving the company’s targets.

To optimize its planning, NASCO should concentrate on the following:

a) Proper plans for the volume of NASCO’s activities must be based on suitable performance standards for each activity, which can be used when estimating various cost elements.

b) Also, of all the internal and external factors related to NASCO’s activities should be considered when preparing the estimates for planning budgets.

c) It is necessary to let the execution centres
participate in preparing these estimates, because the employees in these centres must accept the goals and not feel threatened by them.

d) Attention should be paid to an incentive system to encourage employees to meet planning targets.

e) The budget must be integrated with some form of feedback and performance procedure.

f) The annual planning budget must be divided into monthly periods to facilitate continuous control and enable action to be taken on problems and deviations before they accumulate.

g) NASCO should adopt flexible, rather than fixed budgeting, to achieve a given target of activity.

h) The estimates tools must emphasise statistical models, which take into consideration changes in circumstances.

3- Recommendation for Integrated Controlling Reports System:

As the final output of the proposed budgeting system, a comprehensive set of reports is needed which show actual performance, variances and reasons for them, and which are prepared at such intervals as to allow problems to be corrected or referred to more senior management levels as soon as possible. These reports, to be useful, must be prepared according to responsibility centres and according to the company's organisational
structure. In general, reports could be classified as follows:

- **Reports Prepared by the Head of the Activity:** This report must be very detailed and analytical. It should be prepared monthly and submitted to the higher level on the last day of each month.

- **Proposed Reports to be Submitted at the Executive Management Level:** Reports at this level must include summarized data about variances, reasons for them, and who is responsible, presented in monetary and quantitative form. They should be prepared every month, and submitted by the second day of the following month.

- **Reports of Supervisory Management:** These reports must provide brief details about the actual activity costs compared with planned costs for each unit of production. They should be prepared monthly within the first five days of the following month.

- **Top Management Reports:** These reports must include comprehensive information about the results of various activities. Also, the data must be prepared in total and every month within the first week of the following month.

In the view of the researcher, such reports will help the company in setting the planning budgets for the next year. Also, they will aid control over the costs of all cost centres and evaluation of NASCO’s performance. Further (see Chapter Ten), the researcher has recommended...
reports to be prepared by NASCO and submitted to the holding company; reports to be prepared by the holding company and sent to the Board of Directors, and finally, reports to be prepared by the holding company and submitted to the Ministry of Public Business Sector. It is believed that implementation of these recommendations would enhance planning and control, both within the company and at sectoral level and would improve NASCO's ability to fulfil company, sectoral and national objectives.

4- Some Recommendations to Improve the Effectiveness of the Egyptian Uniform Accounting System:

A) With respect to qualified accountants, it is necessary to improve the accounting education system in Egypt. The following recommendations should be considered:

I- Education at the university level could be improved by placing more emphasis on the teaching of technical and professional matters such as accounting and auditing standards.

II- Uniformity should be taught in a theoretical manner, emphasising its evolutionary development in various societies to produce well-qualified people who believe in uniformity and are able to improve such uniformity.

III- Also, students should be required to spend a certain period of their faculty time in training in public sector firms to gain some empirical experience.
IV- Strong links between accounting postgraduate students, academics and practitioners should be established.

B) To improve the function of the Standing Committee on Clarification and Amendment of the UAS, the economic units should attach a copy of the clarifications (given by the Standing Committee), with their financial reports. Moreover, strong channels of communication should be created between the Committee, the economic unit and users of accounting information. Additionally, the Standing Committee must revise the accounting system from time to time in the light of environmental changes, because the adoption of international accounting or any other western accounting system by Egypt may not only be irrelevant to the problems of Egypt but may be harmful.

C) Computerization should be used in all public sector units to provide accurate information within a short time. The coding used by the EUAS makes it relatively easy to use the computer system because these codes are used by all units in the public sector.

D) National income accounts and national plans having been compiled for all units of the public sector, CAPMS should undertake attempts and studies to extend these accounts to the private sector, in view of the increased role played by that sector after the open-door policy and economic reform in Egypt. In order to achieve this target, all enterprises working in the private sector,
including foreign companies in Egypt, are requested to forward their financial statements in a form similar to that of the public companies and in consolidated form.

In addition, to improve NIA, an integrated national accounting system should be established extending the present uniform accounting system and the government accounting uniform system, to encompass the following:

I- A uniform cost accounting system by type of activity;

II- A uniform accounting system for Egyptian banks and insurance companies;

III- A uniform accounting system for no-profit entities;

IV- The extension of the application of uniform accounting to the private sector units.

Finally, it is strongly suggested that the Egyptian Assembly should review the performance of the data collection and controlling agencies. The system and the modified accounts and reports suggested in this study could form a sound basis for such an exercise. Specifically, it is suggested that consideration be given to reducing the number of these agencies and creating a uniform accounting system able to satisfy the basic needs of users.
11.4 Limitation of the Study:

For practical consideration, the researcher is limited in certain respects to specific areas:

(1) The scope of the study is limited to the national accounts. The researcher examines the deficiencies of the dissemination of national income accounts as main sources of information for the government. It is recognized, however, that proposals for reformation of these accounts and balances should not be set by one individual. No attempt, therefore, is made to set forth complete proposals for reformation of these accounts and balances. The emphasis was on developing a critical approach that could lead to improvements, rather than on developing a complete set of principles, standards, rules and procedures for the construction of the national and financial accounting statistics examined in this study.

(2) In examining the deficiencies of the published accounts of companies, the researcher deals only with business enterprises which are subject to direct government regulation and control. Also, in dealing with the elements of the final accounts of the Egyptian public enterprises, the proposed modifications are limited to the area of financial accounting and reporting.

References

2- Alsharq Al-Awsat (Arabic Newspaper), 2nd Nov.1992, London. (In Arabic)

3- Rodenbek, Max, "Egypt", op.cit., p.VI

4- Al-Ahram International (Egyptian Newspaper) 7th Feb.1992, Cairo, p.15. (In Arabic).

Appendices
Appendix (1)

Specimen of the Types of Information Required by Four Major Controls, Management and Data Collection Bodies from the Public Enterprises in Egypt.
Table (A.1)

Specimen of the Types of Information Gathered by the Public Organisation from Public Enterprises in Egypt.
## CURRENT OPERATIONS ACCOUNTS YEAR...

<table>
<thead>
<tr>
<th>Details</th>
<th>Current Financial Year</th>
<th>(2) as% of (1)</th>
<th>(2) as% of the Total</th>
<th>Previous Year</th>
<th>(2) as% of (5)</th>
</tr>
</thead>
<tbody>
<tr>
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<tr>
<td>Sale-Goods for Sales Purpose.</td>
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<tr>
<td>Change in Inventory.</td>
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<tr>
<td>Revenue from Work for Others.</td>
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<tr>
<td>Sales of Services.</td>
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<tr>
<td>Portfolios Revenue.</td>
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<tr>
<td>Economic Subsidies.</td>
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<tr>
<td>Current Transferable Revenue.</td>
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<td>Current Operations Deficit.</td>
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<tr>
<td><strong>Current Revenue - Total</strong></td>
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<td><strong>Current Uses Expenditure:</strong></td>
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<tr>
<td>Wages.</td>
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</tr>
<tr>
<td>Commodities Requirements.</td>
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<tr>
<td>Services Requirements.</td>
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</tr>
<tr>
<td>Purchases for Sale Purpose.</td>
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<tr>
<td>Current Transferable Expenses.</td>
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<tr>
<td>Surplus for Distribution.</td>
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<tr>
<td><strong>Current Expenses - Total</strong></td>
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516
### Marketing Information Gross of the Company (Local and Export Sales)

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<th>(2) as% of the Total</th>
<th>Previous Year</th>
<th>(2) as% of (5)</th>
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</thead>
<tbody>
<tr>
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<td>4</td>
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<tr>
<td>Local Sales:</td>
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<td>Imported Goods</td>
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<tr>
<td>Local Goods</td>
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<tr>
<td>Total of Local Sales</td>
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<td>Export Sales:</td>
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<td>To Free Currencies Countries</td>
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<tr>
<td>To Agreement's Countries</td>
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<tr>
<td>Total Export Sales</td>
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<tr>
<td>Total Sales</td>
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**N.B.** This form is designed for these companies which their activities include import and export goods.
### Marketing Information
#### Total Sales
(Divided between Sales for Company and Sales Other)

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<th>(2) as% of (5)</th>
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<td>6</td>
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<td>Companies Sales</td>
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<tr>
<td>Sales for Others</td>
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<tr>
<td>Total</td>
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</table>

### Marketing Information
#### Total Purchases
(Divided between Sales for Company and Sales Other)

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<th>(2) as% of the Total</th>
<th>Previous Year</th>
<th>(2) as% of (5)</th>
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</thead>
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<td>5</td>
<td>6</td>
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<tr>
<td>Purchases for Company</td>
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<tr>
<td>Purchases for Others</td>
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<tr>
<td>Total</td>
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</tbody>
</table>
### FINANCIAL AND COST CONTROL INFORMATION DETAIL
OF CURRENT TRANSFERABLE EXPENSES.

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<th>Previous Year</th>
<th>(2) as% of (5)</th>
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<tr>
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<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Taxes.</td>
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<td>Depreciation.</td>
<td></td>
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<tr>
<td>Interest - Local.</td>
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<tr>
<td>Difference in the Calculated</td>
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<tr>
<td>Interest.</td>
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<tr>
<td>Total</td>
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</table>

### FINANCIAL AND COST CONTROL INFORMATION DETAIL
OF CURRENT TRANSFERABLE - SPECIFIED.

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<th>Previous Year</th>
<th>(2) as% of (5)</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Planned 1</td>
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<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Donations.</td>
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<tr>
<td>Subsidies to Others.</td>
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<tr>
<td>Compensation and Fines.</td>
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<tr>
<td>Capital Losses.</td>
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<tr>
<td>Previous Years Expenses.</td>
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</tr>
<tr>
<td>Bad Debits.</td>
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</tbody>
</table>
| Previous (Other Than Deprecia-
| tion).                          |            |          |   |    |    |    |
| Real Estate Taxes.               |            |          |   |    |    |    |
| Other.                           |            |          |   |    |    |    |
| Total                            |            |          |   |    |    |    |
### Financial and Cost Control Information Detail of Commodities Requirement Despatched in the Financial Year

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<th>(2) as% of the Total</th>
<th>Previous Year</th>
<th>(2) as% of (5)</th>
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<tr>
<td></td>
<td>Planned 1 Actual 2</td>
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<td>4</td>
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<tr>
<td>Raw Materials.</td>
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<tr>
<td>Fuel, Oil, etc.</td>
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<tr>
<td>Accessories.</td>
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<tr>
<td>Packing Material.</td>
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<tr>
<td>Stationaries.</td>
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</tr>
<tr>
<td>Water and Electricity.</td>
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<tr>
<td><strong>Total</strong></td>
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</tbody>
</table>

### Financial and Cost Control Information Detail of Services Requirement Despatched in the Financial Year

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<tr>
<th>Details</th>
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<th>(2) as% of (1)</th>
<th>(2) as% of the Total</th>
<th>Previous Year</th>
<th>(2) as% of (5)</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Planned 1 Actual 2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Maintenance Expenses.</td>
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</tr>
<tr>
<td>Advertising Expenses.</td>
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</tr>
<tr>
<td>Transport Expenses.</td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Rent of Equipment.</td>
<td></td>
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<tr>
<td>Other Expenses.</td>
<td></td>
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<tr>
<td><strong>Total</strong></td>
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</table>
Table (A.2)

Specimen of the Information Required by the Ministry of Planning from the Public Enterprises in Egypt.
## THE ACTUAL CURRENT OPERATIONS ACCOUNT

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<tr>
<th>Code No.</th>
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<th>L.E.</th>
<th>Code No.</th>
<th>Details</th>
<th>L.E.</th>
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<td>RECEIPTS FROM CURRENT ACTIVITY PRODUCTION AT SALES PRICES:</td>
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<tr>
<td>411 Net Sales of Finished Production.</td>
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<tr>
<td>412 Changes in Inventories of Finished Production at Cost Price.</td>
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<td></td>
</tr>
<tr>
<td>413 Finished Production Revaluation Adjustment (difference between sales prices &amp; cost price).</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>415 Cost of Producing Capital Assets for Own Use.</td>
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<td></td>
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</tr>
<tr>
<td>416 Receipts of Work Done to Others.</td>
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</tr>
<tr>
<td>417 Sales of Services.</td>
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</tr>
<tr>
<td>GOODS FOR RE-SALE:</td>
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</tr>
<tr>
<td>4181 Sales (Net).</td>
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<tr>
<td>4182 Changes in Inventories of Goods for Re-Sale at Cost Price.</td>
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<tr>
<td>4183 Goods for Re-Sale Revaluation Adjustment (difference between sales prices &amp; cost price).</td>
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<tr>
<td>WAGES:</td>
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<td>311 Wages in Cash.</td>
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</tr>
<tr>
<td>312 Wages in Kind.</td>
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</tr>
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### Uses

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### Distributive Surplus

- Current Deficit
- RETAINED SURPLUS:
  - Statutory Reserve
  - Government Securities Reserve Fund
  - Reserve for Financing Investment Projects, Renewals, and Expansions
  - General Reserve
  - Reserve for Redeeming Government Participation
  - Reserve for the Replacement Value of Assets
  - Other Reserves
  - Surplus, Carried over

### Surplus Distributed To:

- Employees
- State
- Shareholders
- Others
## STATEMENT OF SOURCES AND APPLICATION OF FUNDS

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|          | FINANCIAL INVESTMENT:                       |      |          |                                            |      |
|          | 151 Government securities and Bonds.        |      |          |                                            |      |
|          | 152 Domestic Securities.                    |      |          |                                            |      |

|          | DEBTORS:                                    |      |          |                                            |      |
|          | 161 Accounts Receivable - Trade.            |      |          |                                            |      |
|          | 163 Other Than Trade.                       |      |          |                                            |      |
|          | 171 Miscellaneous Debtors.                  |      |          |                                            |      |
|          | 172 Other Debit Balances.                   |      |          |                                            |      |
|          | 173 Accrued Current and Ear Marked Receipts.|      |          |                                            |      |

|          | REDEEMPTION OF LONG TERM LOANS:             |      |          |                                            |      |
|          | 241 Installments of Domestic Loans.         |      |          |                                            |      |
|          | 242 Installments of Foreign Loans.          |      |          |                                            |      |
|          | 18 Cash in Hand and at Banks.               |      |          |                                            |      |

|          | DECREASE IN CREDITORS:                      |      |          |                                            |      |
|          | 25 Credit Banks.                            |      |          |                                            |      |
|          | 26 Creditors.                               |      |          |                                            |      |
|          | 272 Miscellaneous Creditors.                |      |          |                                            |      |
|          | 273 Other Credit Accounts.                  |      |          |                                            |      |
|          | 274 Accrued current and Ear Marked Expenses.|      |          |                                            |      |

|          | DECREASE IN PROVISIONS AND RESERVES:        |      |          |                                            |      |
|          | 22,23 Decrease in Provisions and Reserves.  |      |          |                                            |      |
|          | Current Deficit                             |      |          |                                            |      |
# Employment and Actual Wages

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528
Table (A.3)

Specimen of the Information Required by Ministry of Finance from the Public Enterprises in Egypt.
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<td>Provision for doubtful Debits</td>
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<td>Long - Term Loans (Foreign)</td>
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### ACCOUNTS RECEIVABLE:
- Suppliers: 26
- Bills: 261
- Various Accounts Receivable: 264
- Distribution Agencies: 265

### DIFFERENT ACCOUNTS RECEIVABLES:
- Various Creditors: 271
- Different Creditors: 272
- Other Creditors: 273
- Current Expenses -Due: 274

### Total of Liabilities:
## THE CURRENT REVENUES

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<td>Difference of Assumed Interests.</td>
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<td>Group (9) Deficit of the Current Operations.</td>
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<td>Total of Group (9) Deficit of the Current Operations.</td>
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<td>Total of Current Revenue.</td>
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### CAPITAL REVENUE

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<td>221 Legal Reserve.</td>
<td>222 Reserve for Purchase of Securities</td>
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<td>223 Reserve for Financial Projects.</td>
<td>224 General Reserve.</td>
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<td>225 Reserve to Repay Loans and Government Contributions.</td>
<td>226 Reserve for Increase in Assets Prices.</td>
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<td>227 Other Reserves.</td>
<td>228 Surplus C/F</td>
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<td>231 Depreciation Provision.</td>
<td>234 Other Provisions.</td>
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<td>117 Cost of Sold Assets.</td>
<td>118 Other Reserves.</td>
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<td>Total of Part (5) Self Finance.</td>
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<td>Surplus Self Finance of Companies.</td>
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<tr>
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<td>Decreased in Accounts Receivable and Other.</td>
<td>Part Group 1</td>
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<td></td>
<td>Increase in Accounts Payable to Others.</td>
<td>Part Group 2</td>
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<td>Banks - Credit Other Capital.</td>
<td>Part Group 3</td>
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<td>16 &amp; 17</td>
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<td>Total of Part (9).</td>
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<td>Total of Current Revenue (B)</td>
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<td>Total Revenue (A + B)</td>
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<td>Estimated</td>
<td>Acc. Code</td>
<td>Detail</td>
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<td>Long Term Loans Repaid Foreign.</td>
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<td>Increase in Investments.</td>
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<td>Increase in Accounts Receivable and Others.</td>
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<td>Decrease in Accounts Payable and Others.</td>
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<td>Other Current Transferred Capital Expenses.</td>
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</table>

Total of Capital Uses (A)  
Total of Current Uses (B)  
(131) Capital Transfers Revenue.  10  
(136) Decrease in Inventories.  

538
Table (A.4)

Specimen of the Types of Information Required by the Central Accounting Agency from the Public Enterprises in Egypt.
## TOTAL SALE

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>(2) as % of (1)</th>
<th>Previous Year</th>
<th>(2) as a % of (4)</th>
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<tbody>
<tr>
<td>Estimated 1</td>
<td>Actual 2</td>
<td>3</td>
<td>4</td>
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</table>

Sales of Goods for Sales Purpose:
- A) Sales - Local.
- B) Sales - Export.
- Sales for Other.

Total

## STOCKS

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>(2) as % of (1)</th>
<th>Previous Year</th>
<th>(2) as a % of (4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated 1</td>
<td>Actual 2</td>
<td>3</td>
<td>4</td>
</tr>
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</table>

Goods for Sales Purpose.
- Unfinished Product.
- Goods Held by Other.

Total
### SERVICES REQUIREMENT

<table>
<thead>
<tr>
<th>Working Expenses Done by Other.</th>
<th>Estimated</th>
<th>Actual</th>
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<td>Cost of Transportation.</td>
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<tr>
<td>Maintenance Costs.</td>
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<tr>
<td>Other</td>
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<td><strong>Total</strong></td>
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### EMPLOYMENT

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<th>Previous Year.</th>
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<td>Est. Actual</td>
<td>(1) (2) (3) (4)</td>
<td>(4) (5)</td>
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<tr>
<td>Casual Employees.</td>
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<td><strong>Total</strong></td>
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### TOTAL PURCHASE FOR SALES PURPOSE

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</table>

- Purchase - Local.
- Purchase - Foreign.
- Purchases, Expenses on Foreign Goods.
- Other Purchase.

Total of Purchase.


### PURCHASE FOR SALES PURPOSE ACCORDING TO TYPE

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<tr>
<th>Financial Year</th>
<th>Estimated</th>
<th>Actual</th>
<th>(2) as % of (1)</th>
<th>(2) as a % of (4)</th>
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- Local Purchase:
  
- Foreign Purchase:
  
Total
## STOCK OF GOODS FOR SALES PURPOSES ACCOUNTING TO COMMODITY AND PERIOD.

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<th>Commodities in the Stock</th>
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## COMMODITIES REQUIREMENT

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<td>Water and Electricity</td>
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<tr>
<td>Total</td>
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</tbody>
</table>
Appendix (2)

Interview Guide
NASCO's Financial Manager

Q1- When did your company begin to apply the uniform accounting system?

Q2- What type of accounting information do you prepare?

Q3- Do your accounts have any link with national income accounts?

Q4- Can you tell me, please, about the importance of the different financial statements that NASCO must prepare?

Q5- Do these financial statements satisfy the main objectives of the uniform accounting system in practice?

Q6- Can you tell me, please, about the types of accounting information required from NASCO by different governmental bodies?

Q7- Are these types of accounting information submitted to the governmental bodies on time? If not, please can you tell me about the problems in doing that?

Q8- What are the major problems facing your management?

Q9- Who audits your accounts?

Q10- What type of audit does your management and the auditor of the Central Accounting Agency conduct?
Q11- What sources of finance does NASCO have?

Q12- In your opinion, should Egypt accept the IAS? Why?

Q13- Please can you tell me about any suggestions you have for improving Egyptian uniform system?

Q14- What is the source of qualification for your accountants?

Q15- How do you value the experience of new accounting graduates from Egyptian universities?

Q16- What is your opinion about accounting education in Egyptian universities?

Q17- Have you any suggestions for improving accounting education in Egypt to meet the economic, social and cultural needs of Egyptian society?

Q18- In your opinion, what are the most important problems that affect the usefulness of the information provided as a result of the application of the Egyptian uniform accounting system?

Q19- In your opinion, what should be done to help solve these problems and to improve the usefulness of the information provided?

Q20- Can you tell me, please, about specific points in the financial statements where you think there is conflict between the treatment you would prefer and that required by the UAS?
Q21- Do you have any suggestions to solve this conflict, and why?
Q1- Do you follow any uniform cost accounting system?

Q2- Can you describe the present cost system in NASCO?

Q3- Do you have any idea about how to improve the present system?

Q4- Do you prepare any cost analysis in your management?

Q5- Do you analyse your total costs into variable and fixed costs?

Q6- Do you have any budgeting system?

Q7- Who is responsible for determining the production target and pricing policies?

Q8- In your opinion, what are the most important problems that affect the usefulness of the information provided as a result of application of the budgeting system?

Q9- In your opinion what should be done to help solve these problems and to improve the usefulness of the present budgeting system?

Q10- Can you tell me, please, about the types of planning that your company adopts?

Q11- Can you tell me, please, about the performance reports that your management must prepare?
Q12- Do you analyse variances between planned target and actual performance?

Q13- Are there rules as to what level of variance is acceptable?
EIO's General Manager of Financial and Commercial

Q1- What type of companies does your department follow-up?

Q2- How many companies do you supervise?

Q3- What is the function of your department with regard to the State enterprises?

Q4- What kind of audit does your department perform when auditing the final accounts and balance sheets of the companies?

Q5- What is the opinion of your department with regard to the accounting systems of these companies?

Q6- Do you receive the final accounts and balance sheets in reasonable time, and do they provide you with proper information about the profitability and financial position of the companies?

Q7- Are those companies fulfilling their objectives?

Q8- Do you have any more comments to make with regard to companies' reports?

Q9- What kind of intervention does the holding company exercise in companies affairs?

Q10- Can you tell me, please, about the problems of intervention and your suggestions to solve these problems in the future?
Q11- What is your opinion about the indicators used in performance evaluation? Do you have any suggestions to develop these indicators?

Q12- Do you think that the relationship between public organisations and their affiliated companies should be changed to improve the efficiency of these companies?
Central Accounting Agency
Public Sector Section

Member of CAA.

Q1- Would you briefly describe the role of CAA and its objectives?

Q2- What is the jurisdiction of the CAA's members?

Q3- What is the role of the CAA in preparing and implementing national plans?

Q4- What is your general view of the uniform accounting system in Egypt?

Q5- Can you tell me, please, about the major problems facing your section at the present time? Does the CAA face any problems in executing its responsibilities?

Q6- Do you have any more comments that you which to add to help in developing the role of the CAA?
Member of CAA

(CAA Office at NASCO)

Q1- What are the functions of your office?

Q2- How do you carry out your job?

Q3- What procedures do you follow in auditing NASCO’s financial statements?

Q4- Can you give me, please, your comments on NASCO’s financial reports?

Q5- Can you give me any suggestions as to how those reports should be developed?

Q6- Do you think the present financial reports are adequate to serve the purposes of NASCO and the government bodies at the same time?

Q7- How many members of staff are at present employed in your office? Is it enough, and why?

Q8- Can you tell me, please, about the services provided by your office to NASCO and CAA?

Q9- Do you think that the uniform accounting system must change or develop? If so, Why?

Q10- Do you wish to see changes in accounting education in Egyptian universities?

Q11- Do you feel, when you carry out your audit, that you are influenced by the fact that your office is
inside the NASCO building?

Q12- What is the end result of your audit report?
Central Agency for Public Mobilisation and Statistical

Head of Department of National Income Accounts.

Q1- Would you briefly describe the historical development of NIA in Egypt?

Q2- What is the role of your department?

Q3- What kinds of information and reports do you receive from the private and public sectors?

Q4- Do these information and reports provide a sufficient basis on which to prepare the Egyptian income accounts?

Q5- Can you tell me, please, about the cooperation between your department and the Planning Ministry?

Q6- Can you suggest any ways to increase the efficiency of this cooperation?

Q7- Do you follow the U.N. model when you prepare the NIA?

Q8- What are the major deficiencies of NIA in Egypt and your suggestion to solve them?

Q9- Do you think that the current operations account and the sources and application funds statement need some modification to provide adequate information for preparation of the national income accounts?

Q10- Do you think that the uniform accounting system is
successful in making linkage between financial accounting and national accounting?

Q11- Do you have any further comments about the EUAS?
Member of Egyptian National Planning Institute.

Q1- What is the main function of the planning institute?

Q2- What is the time span of Egyptian planning?

Q3- To what extent is the planning institute fulfilling its role?

Q4- What types of planning does Egypt perform?

Q5- What are the levels of planning?

Q6- Is there any Egyptian model for national planning?

Q7- What is the source of information for development of the national plan?

Q8- Would you briefly describe the steps in the preparation of the national plan?

Q9- What kind of reports must be submitted by the private and public sectors?

Q10- Can you give me your comments on these reports and your suggestions to develop them?

Q11- Do you think that UAS is successful in facilitating national planning and preparation of national income accounts?

Q12- Do you recommend that the UAS should be applied by the private sector in Egypt to improve planning at
Q13- Does the Planning Board interfere in the planning process at economic unit level?

Q14- Is there any cooperation between the National Planning Institute and CAPMS with regard to the preparation of NIA?

Q15- Do you have any further comments?
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