

87716  
P. D. 03  
24.2.83

87716  
P. D. 03  
24.2.83

ACCOUNTING FOR STATE INDUSTRIAL AND COMMERCIAL ENTERPRISES  
IN A DEVELOPING COUNTRY: WITH SPECIAL REFERENCE  
TO SRI LANKA

BY

M.H.B. PERERA

A Thesis Submitted to the Faculty of Economics  
of the University of Sydney in Fulfilment  
of the Requirements for the Degree of  
Doctor of Philosophy

87716  
P. D. 03  
24.2.83

Faculty of Economics  
The University of Sydney  
Sydney, N.S.W., 2006  
Australia  
1976

87716

01178

## SYNOPSIS

It has become clear that the developing countries such as Sri Lanka can no longer rely solely on the price mechanism for the efficient allocation and utilization of available resources. Free market competition, which is a prerequisite for the working of the price mechanism, may lead to the wastage or less than optimal allocation of resources. There has therefore been increasing acceptance of central planning as a policy tool in the strategy for economic development in emerging countries. Since public ownership of resources facilitates planning and control from above, economic development planning tends to encourage the expansion of public sector enterprises.

The Sri Lanka government is committed to a policy of establishing a mixed economy in which most of the major industrial and commercial enterprises belong to the planned or public sector of the economy. The changes in economic and business conditions towards state ownership have created new challenges for accounting and accountants. With the introduction of comprehensive planning in the public sector, the need for reliable financial information has greatly increased. That information is necessary for the efficient utilization of resources through state planning because any plan is only as good as the data on which it is based. Particularly pertinent for planning purposes is information about the present stock and disposition of resources.

The investigation on which this thesis is based led to the conclusions that: (a) the existing accounting systems used by state enterprises in Sri Lanka are defective, (b) there is no clearly defined function for accounting reports under existing accounting systems, (c) as a result, accounting is not serving satisfactorily as a source of information, and (d) there has not been any detailed study in this respect in Sri Lanka.

This thesis seeks to shed some light on a largely neglected area in

the study of accounting. The primary objectives of this exercise are: (a) to draw attention to the existing accounting problems of state industrial and commercial enterprises in Sri Lanka in relation to financial reporting, and (b) to try and develop a set of ideas which may be used in formulating a system of accounting suitable for the special needs of the state enterprises in Sri Lanka. The ideas developed point to the need for a system of accounting based on current market prices and which takes account of the full effects of price and price-level changes. It is argued that such a system will be of greater assistance in the process of decision making by interested outsiders, particularly regulatory bodies in regard to the financial affairs of these enterprises.

In developing the ideas referred to, some reliance is placed on the work of R.J.Chambers. The commercial activities of state enterprises are not in principle different from those of private enterprises. The proposed system of accounting, accordingly, is an adaptation of the style of accounting developed and advocated by Chambers and R.R.Sterling, with only minor modifications to allow for the special circumstances arising from the particular functions served and the ownership structure of enterprises.

TABLE OF CONTENTS

		Page
	<i>SYNOPSIS</i>	XII
CHAPTER		
1	<i>THE NATURE AND SCOPE OF THE STUDY</i>	1
	1.1 Introduction	
	1.2 Scope of the study	
	1.3 Methodology	
	1.4 Significance of the study	
2	<i>ACCOUNTING UNDER DIFFERENT SOCIAL SYSTEMS</i>	9
	2.1 Introduction	
	2.2 Accounting in a market economy	
	2.3 Accounting in a planned economy	
	2.4 Accounting in a mixed economy	
	2.4.1 The influence of foreign accounting concepts and principles	
	2.4.1.1 The cost side of the account	
	2.4.2 The difference	
	2.4.3 A new outlook	
	2.4.4 Accounting and economic development	
	2.4.4.1 Capital formation	
	2.4.4.2 Taxation	
	2.4.4.3 Economic planning	
	2.4.4.4 Control of public enterprises	
	2.5 Summary and conclusions	

Chapter		Page
3	<i>ACCOUNTING AND ITS ENVIRONMENT IN SRI LANKA</i>	44
	3.1 Introduction	
	3.2 The economy of Sri Lanka	
	3.3 State control in economic affairs	
	3.4 The emergence and growth of state industrial and commercial enterprises in Sri Lanka	
	3.4.1 The legal position of public corporations	
	3.5 The impact of public ownership on the accounting profession	
	3.6 The general state of financial reporting in Sri Lanka	
	3.6.1 The company legislation in Sri Lanka	
	3.7 Capital market	
	3.8 Regulation of accounting	
	3.9 Accounting education and training	
	3.10 Conclusions	
4	<i>THE FINANCIAL ASPECTS OF PUBLIC CORPORATIONS IN SRI LANKA</i>	73
	4.1 The concept of capital	
	4.2 'Public enterprise profits'	
	4.3 Financial structure of public corporations	
	4.3.1 Sources of finance	
	4.3.2 Statutory provisions: financing	
	4.3.3 Government, and the financial structure of public corporations	

Chapter		Page
	4.4	Financial objectives and accounting information: neutrality
	4.5	Conclusions
5	<i>THE GENERAL PURPOSE OF THE STATUTORY PROVISIONS REGARDING THE PUBLICATION OF FINANCIAL STATEMENTS</i>	98
	5.1	Introduction: Public accountability
	5.2	Public accountability and financial publicity
	5.3	Accounting in public corporations in Sri Lanka
	5.4	The development of company law in the U.K.
	5.5	The general purpose of statutory provisions
	5.6	Accounting reports based on historical costs
	5.7	Verification of published information
	5.8	Summary and conclusions
6	<i>RECONSIDERATION OF SOME CONCEPTS AND PRACTICES OF CONVENTIONAL ACCOUNTING</i>	122
	6.1	Introduction
	6.2	Asset classification
	6.2.1	An import from economics via the courts
	6.2.2	Managers' intentions and asset classification
	6.2.3	Conclusion

Chapter		Page
9	<i>A TWO TIER SYSTEM OF FINANCIAL REPORTS FOR STATE INDUSTRIAL AND COMMERCIAL ENTERPRISES IN SRI LANKA</i>	210
	9.1 Introduction	
	9.2 The double account system	
	9.3 The proposed two tier system	
	9.4 Application of proposed system	
	9.5 Valuation of revocable assets	
	9.6 Conclusion	
10	<i>GENERAL SUMMARY AND CONCLUSIONS</i>	225
	10.1 Introduction	
	10.2 (I) The function of accounting	
	(II) The nature of information	
	(III) The quality of information	
	10.3 The way the proposed system affects decision making	
	10.3.1 Performance evaluation	
	10.3.1.1 Rate of return calculations	
	10.3.1.2 Different rates for different purposes	
	10.3.2 Investment decisions	
	10.3.3 Pricing decisions	
	10.3.4 Reserves and provisions	
	10.3.5 Price justification	
	10.3.6 Creditors	
	10.3.7 Subsidies	
	10.3.8 Auditing	
	10.4 Some changes needed:	
	(I) Financing of state enterprises	
	(II) Accounting education and training	