

**EVALUATING ACCOUNTING PRACTICE AND PROCEDURE IN NON-
GOVERNMENTAL NOT FOR PROFIT ORGANIZATION IN THE CASE STUDY OF RED
CROSS SOCIETY IN WOLKITE TOWN.**



**WOLKITE UNIVERSTY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE**

**A RESEARCH PAPER SUBMITTED TO ACCOUNTING AND FINANCE DEPARTMENT
FOR THE PARTIAL FULLFILMENT OF BACHELOR OF ART (BA) DEGRE IN
ACCUNYING AND FINANCE**

BY:MEKDES NIGUSSIE

ADVISOR: MULUALEM H. (Msc)

**January 2021
Wolkite, Ethiopia**

Abstract

The research was conducted evaluating accounting practice and procedure in non government not for profit organization in case of Red Cross society in Wolkite town. The object of this study to evaluate the accounting practice and procedure that the organization use an effective the accounting system and main problem related with the accounting systems in the organization and the problem in financial center. Specific objective of the study first to evaluate accounting system of the organization is accordance with GASB or not ,to evaluate how financial information is analyzed and report to donors and other stake holder when requested ,to evaluate the accounting record form of register where designed by red cross society in Wolkite branch ,to examine the accounting practice of the organization in accordance with FASB. The research design of the study would be descriptive in nature. For obtaining information regarding the accounting system the organization the researchers used both primary and secondary data. Primary data are gathered by questionnaires and interview, secondary data are gathered by referring to the organization manual and document was used. The researcher used Judgmental sampling techniques from nonprobability sampling techniques; since total employee of the organization are only 19 employees among this 4 selected and participate in the survey. Fifteen questionnaires have been distributed. Those all questionnaires are success. The organization employees have a clear understanding of accounting practice and financial report covers all funds and its financial transactions. The internal control mechanisms of the organization are very weak to minimize or detect corruption, fraud and errors. So the organization should be uses different control mechanism.

List of Table Content.

| | |
|--|----|
| <i>Abstract</i> | ii |
| List of Acronyms | v |
| CHAPTER ONE | 6 |
| INTRODUCTION | 6 |
| 1.1 Background of Study | 6 |
| 1.2 Statement of the problem | 7 |
| 1.3 Research questions | 9 |
| 1.4 Objective of the study | 9 |
| 1.4.1 General objective | 9 |
| 1.4.2 Specific objective | 9 |
| 1.5 Significance of Study | 9 |
| 1.6 Scope of the study | 10 |
| 1.7. Organization of the of the paper | 10 |
| CHAPTER TWO | 11 |
| 2 LITERATURE REVIEW | 11 |
| 2.1 Theoretical literature review | 11 |
| 2.1.2. Financial statement | 12 |
| 2.1.3 Source of fund | 13 |
| 2.1.5 Fund accounting by not profit organization | 13 |
| 2.1.6 Valuation of fixed asset..... | 14 |
| 2.2 Empirical Review..... | 15 |
| CHAPTER THREE..... | 17 |
| RESEARCH METHODOLOGY | 17 |
| 3.1 Introduction..... | 17 |
| 3.2 Description of the study area | 17 |
| 3.3 Research Design..... | 17 |

| | |
|---|-----------|
| 3.4 Target Population | 17 |
| 3.5 Sampling size and technique | 17 |
| 3.6 Sources of data and type | 17 |
| 3.7 Data collection methods..... | 18 |
| Chapter 4..... | 19 |
| 4. Data presentation and analysis and interpretation..... | 19 |
| 4.1 General information about respondent..... | 19 |
| CHAPTER FIVE..... | 29 |
| 5.CONCLUSION AND RECOMMEDATION | 29 |
| 5.1 Summary | 29 |
| 5.2 CONCLUSION..... | 29 |
| 5.3 RECOMMENDATION | 30 |
| REFERENCE | 32 |
| APPENDEX..... | 33 |

List of Acronyms

FASB: Financial accounting standard board

NGO: Non-government organization

RCS: Red Cross society

NPO: Not Profit organizatio

CHAPTER ONE

INTRODUCTION

1.1 Background of Study

Nongovernment not for profit organization is well known on the Twenty-one century, nongovernment not for profit organization is created by legal person who are not a part of government its fund is mostly raised by government and maintained nongovernment position. These types of organization are also known as civil society organization and divided its extra fund between its shareholders and owners but use them for the organization purpose (Shelton ,2006).

The role of nonprofit organization is increasingly becoming more perceived in the day to day activities of society and providing the largest proportion of the employment opportunity. Nonprofit organization is an organization whose objective is not to get profit but to provide services to the society. They are usually owned collectively (Mutual fund) by their constituents. Those contributing financial resource to the organization do not necessarily receive a direct or proportionate share of its good or services (Letenah, 2004,)

Not for profit is an entity that distinguished from business enterprise these Characteristic like Contribution by provider who do not expect common future return operating purpose other than to earn profit (Wilson 2016) the role of accounting in these types of organization is very important so accounting is essential for decision making that many people refers and its terminology is a language of business because its widely describe all types of business activities .its defined as the process of identifying .measuring and communicating the financial information about the economic entities to the interested parties (Douglass 2015)it plays important role in our economic and social system sound decision making by individual non government and other entities are essential for efficient distribution and use of national resource and to make such decision users should be compliance with the organization provided by (Hay 1998).

The paramount role of accounting is to record the financial information about entity accounting and standard are designed to enforce transparency and provide accountability in the organization. entities ultimately should provide information in way that most fairly and clearly. Generally in Ethiopian red cross society established Hamle / 1/ 1927 /and special in

Gurage zone Wolkite town the red cross society established in 1995 E.C. therefore the aim of this paper is to evaluate the accounting practice and procedure for nongovernmental not for profit organization in case of red cross society in Wolkite Town. The manner in which they report the financial information about their entities to donors and stock holders.

In our country context there are so many nonprofit Organizations are spread all over Ethiopia, example Christian Aid Ethiopia, Action for development, World vision Ethiopia, Ethiopian Red Cross association. Between Nonprofit Organization and for profit organization there is no different in the accounting system both used double entry method but, Nonprofit Organization is not targeted for profit. They use accounting, how budget is allocated properly and so on. According in Non-Profit Organization affected by two types of legal and administrative provision this are: - use of fund and the role of budget (Letenah 2001). Due to the fact that to be conduct on the research title of accounting practice and procedure in non-government not for profit organization is so much important.

1.2 Statement of the problem

Non-government not for profit organization exist because the community in our society is necessary or desirable to provide a certain good and service to its group a whole, basically most government and non government organization are primary responsible for society to provide the best and highest level of service possible with the available resource and to prevent human being from different emergence. So accounting system provides information for the management to record update, summarize and reliable financial information .every accounting system practice of non government not for profit organizations must compliances with Government accounting standard board and financial accounting standards board .Government accounting standards board is an organization whose main purpose is to improve and create accounting reporting standards or generally accepted accounting principles (GAAP) .These standards make it easier for users to understand and use financial records both local and state government The most commonly identified weaknesses of the NGO sector include; limited financial and management expertise, limited institutional capacity, low levels of self-sustainability, isolation/lack of inter-organizational communication and/or coordination, as well as lack of understanding of the broader social or economic context (Malena,2015).

Besides all these advancements the field of NGO, Financial Reporting process and application of accounting is disgraceful. NGOs have increasingly become subject to

question and criticism from the government, political parties, intellectuals and the public in genus for misuse of funds, gender discrimination, and nepotism. Absence of proper guidelines in preparing financial statements and reports makes it more complex. Financial accounting standards board (FASB) is a private nonprofit organization standards setting body whose primary purpose is to establish and improve generally accepted accounting principle in public interest Accounting is very important for nonprofit organization in way providing comparability, relevance and transparency of financial information to the donors and the stock holder (Ears on 1992).

Since not-for-profit organizations receive a large volume of grants to meet certain revenue expenses, it is recommended that both the grant (to the extent utilized during the period) and the relevant expense should be disclosed separately in the income and expenditure account. Such a disclosure would be useful in appreciating the operations undertaken by the NGO during the period (AnandPagaria, 2006).

According to the IAS-1, non-profit, government and other public sector enterprises seeking to apply this standard may need to amend the description used for certain line items in the financial statements and for the financial statements themselves. BRAC prepare the Micro finance program's financial statements under the historical cost convention on a going concern basis. BRAC Micro finance program generally follows the accrual basis of accounting or a modified form thereof for key income and expenditure items. The financial statements have been prepared in accordance with the comprehensive guidelines and policies.

Today globalization is not just affecting the companies but also non-governmental organizations, which are beginning to recognize the importance of finance systems that can manage multi-lingual, multi-currency requirements (Kandasamy 2008). National borders are losing their importance as the multinational corporate world develops at a rapid pace. Ambitious NGOs are expanding internationally, and finance managers working in this multinational environment face increasingly complex issues. To be successful, they must understand the challenges and differences of doing business in a foreign country, from differences in international accounting. Therefore, the research problem for this study will be evaluating the accounting practice and procedure in non-government not for profit organization of Red Cross society in Wolkite Town.

1.3 Research questions

1. What is the finance problem in the organization?
2. How well each financial statement and information of (RCS) consistently record and report?
3. Does accounting record forms and register where designed by the way that promotes internal control?
4. Does existing accounting system of the organization to conforming the FASB?

1.4 Objective of the study

1.4.1 General objective

The general objective of the study is to assess accounting practice and procedure in not for profit organization in case of Red Cross society of Wolkite Town.

1.4.2 Specific objective

- ✓ To assess the finance problem in the organization. Red cross society in Wolkite town.
- ✓ To assess each financial statement and information of RCS about consistently record and report. Red cross society in Wolkite town.
- ✓ To evaluate accounting record forms and register where designed by the way that promotes internal control. Red cross society in Wolkite town.
- ✓ To assess existing accounting system of the organization conforming to FASB. Red cross society in Wolkite town.

1.5 Significance of Study

The study will conduct at Red Cross society in Wolkite Town. Its primary concerned to evaluate the accounting practice and procedure of the organization so that the outcome of the study will be a great significance for other researcher who wants to study the same area. Since this study is replicable research so the results the gains from this study will be used as an input by the future researchers if it studies related to these problems. For government to know the accounting system of the entity and design and formulate new policies for the entity accounting practice and also help the organization employees and society to create awareness in the accounting practice and procedure. It's important for stock holder and donor to get adequate financial information or report. It is a good opportunity to have a clue about accounting system for not profit organization special in Red Cross society. For

organization this study will be enables to solve the weaknesses of the NGO sector include; limited financial and management expertise, limited institutional capacity, low levels of self-sustainability, isolation/lack of inter-organizational communication and coordination, as well as lack of understanding of the broader social or economic context.

1.6 Scope of the study

The study will be limited to the accounting system of the organization which was followed by Red Cross society in Wolkite town. Its focus on the accounting practice of the organization, the source of fund, internal control system, the role of accounting in keeping report and way of reporting information to the manager and external users like donor and other interested parties. So, this study will be focused on the accounting practice of the Red Cross society in Wolkite Town. Collect the data for both primary and secondary will be contains only from 2009- 2011.because of recent data and relevant data.

1.7. Organization of the of the paper

The proposal will be divided four chapters. These are, the first Chapter about the introduction part, which contains, back ground of the study, statement of the problem, research question, objectives of the study, scope and limitation of the study and significance of the study, the second Chapter deals about the literature review regarding the theoretical framework and related empirical research, the third Chapter deals about research methodology of the study which consists of research design, research approach, source of data, data collection method, target population, and sampling techniques and procedures, sample sizes, and lastly presents information about time and cost budge

CHAPTER TWO

2 LITERATURE REVIEW

2.1 Theoretical literature review

Accounting is the process that analyzes, records, classifies, summarizes, report and inter financial information fees and warren Also its the process of identifying, measuring and communicating economic information to permit informed judgment and decision by user of information. accounting is as service society defined as it a function to provide quantitative information can be both internal and external users of information.

2.1.1 Objective of financial reporting by not for profit entities

accounting system is work of communication employee within an organization to provide basic components like records ,procedure and data processing method .it is also proper configuration and classification of account together with the opening of adequate journals and ledgers so that establishment of proper procedure and control over asset liability revenue and expenses that sound information can provide to all stock holder of the organization for sound economic decision making (Agrowal ,1995) .

accounting and book keeping are the process of identifying, measuring, recording and communicating economic information about an organization or entity. book keeping encompasses the record keeping the record aspect of accounting and therefore provide much of data to which accounting principle are apply in predation or statement and other financial information (Enactors ,2006).

the authority to establish financial reporting standard for not for profit organization can split between general accepted standard board and financial accounting standard board because a sizable number of not for profit organization are government related but many other are independent of government like organization for red cross society of Ethiopia in Wolkite town Accordingly the general accepted standard board responsible for establishing accounting and financial reporting standards for not profit organization which are considered to be government related. Financial accounting standard board has responsibility to establish accounting and financial report standards for non government not for profit organization (Hoyle, 2013)

Financial report of state and local government according government accounting standard board are used primarily to compares actual financial result with legal adopted budget, assist financial condition result of operation, assist in determining compliant with finance related law and regulation, and assist in evaluating efficiency and effectiveness.

Financial report of not for profit organization are similar uses but in recognition of fact that the financial operation or not for profit organization are generally not subject to as detail legal restriction as government (Hay, 1995)

The objective of financial reporting for non government not for profit organization entities stress the need for public to understand and evaluate the financial activities and management of these organizations.

2.1.2. Financial statement

Due to intangible nature of many service offers by not profit organization it is practically impossible to place monetary value on them. The basic financial of the financial reporting process for not profit organization are limited to provide information on how the resource of the organization are limited and used during the period, Presenting the resource available for the future use at end of period, and reporting on the organization ability to continue supply service in the future (J.P, Rozik 2000). Provide the financial information to the management of the organization three basic financial statements is prepared. Statement of financial position: organization that have only unrestricted resources should classify asset and liabilities as current and raked or long term board designate fund shall be reported as unrestricted fund, but it is considered proper to disclose amount designate by the board for specific purpose .FASB statement no 116 requires non-government not for profit organization to report all unconditional contribution receives including unconditional pledges or support in the period receive.(Robert,1999).

Thus items are reported in the statement of financial position of non government not for profit organization as a part of temporary restricted net asset rather than as differed revenue. (Hay, 1995).

Statement of activities: like statement of financial position it focusses on the organization as whole and reports the changes in the net asset by cancels level restriction for the period. these changes should articulate with the changes in the net asset on the statement of financial position. statement of activities provides information about, the effect of

transaction and other events that changes the amount and nature of the asset, the relationship of these transaction and other event circumstances, and how the organization resources are used in provide various program or service.

Statement of cash flow: Statement of cash flow provide the users of financial statement with the information on cash receipt and payment of the organization during the same period as the statement of activity. the statement is organized so that effect of operating and financing activity on cash flow are hearty Shaun (Rose ,2000).

2.1.3 Source of fund

fund raising is both art and science .the art is developing nurturing relationship with people ,the science lies in using date research and tested fund rising model to achieve the organizations goal whatever words are used to describe it ,all NPO are in fund raising business weather we undertake capital complain to raise fund or to create and endowment ,social corporation for contribution to an educational foundation ,fund raising is an essential element for NPO s contributions variability and success (smith 2000)

2.1.4 Characteristics of nonprofit organization

NPO often render service to society as whole. the members of this society may range from limited number of citizens in a community almost the entire population of city, state or nation. Not profit maturation NPOs do not operate in the objective of earning profit consequently NPOs generally are exempted from and state income taxes .financing by the citizen most NPOs depend on the general population for substantial portion of their support ,because revenue from charges for their service are not intended to over all their operating cost .stewardship for resource because of their substantial portion of the of the resource of not profit organization is donated ,the organization must account for the resource on stewardship basis . stewardship requirement make fund accounting appropriate for many NPOs. importance budget, the four preceding characteristics of NPO s caused the annual budget to be as important as for governmental entities (E J Larson 1999).

2.1.5 Fund accounting by not profit organization

separate fund may be necessary to distinguish between asset that may be used as authorized by the board of directors and asset which their uses are restricted by donors. fund commonly used by some of nonprofit organization covered in this chapter include the following

Unrestricted fund /general fund, restricted fund agent, fund annuity fund and life income and fund living trust fund (E J Larsons1999).

Unrestricted fund /general fund The unrestricted fund sub group include those financial resource of the institution have not been restricted externally /by grantors, donors etc. for specific purpose are expendable for any legal and reasonable purpose agreed upon by boards who carry out the primary purpose of the institution .more ever unrestricted fund is similar to the general fund of government entity ,which includes all the asset of NPO that are available for use as authorized by board of directors and are not restricted for specific purpose .thus similar to the general fund of governmental entity on unrestricted fund is residual in nature .(EJ Larson 1999)

Restricted fund NPO established restricted fund to account to asset available for current use but expendable only as authorized by the donors of an assets. earning or contribution to restricted current fund are not recognized as revenue when received. instead is revenue is recognized when fund resources are expended for their intended purpose. (EJ Larson 1999)

Annuity fund Asset may be contributed to NPO is stipulation that the organization on pay specified fixed amount periodically to designated receipt for specific period .an annuity fund is established by NPO to account for this arrangement.

Agency fund An agency fund NPO is used to account asset held by a NPO as a custodian the assets are dispersed only instructed by their owner. for example a nonprofit organization may act as a custodian of cash of the organization. the organization disbursed the cash as directed by the appropriate officers of the organization. (EJ Larson 1999)

2.1.6 Valuation of fixed asset

The fixed asset account should be maintained on the basis of original cost ,or estimated cost of the original cost is not available ,or in case of gift the appraised value at the time of received NPO frequently acquire properties by gift rather than through purchase where asset are acquired in this manner ,on the other hand the question a rises as to whether the net appraised value should be initial recorded as net figure or whether the donors original lost and accumulative allowance for depreciation should be set up on the NGO units books since a recording of the donors original cost provides more completed historical disclosure of the asset value and provide and provides better basis for subsequent depreciation however the

committee recommends this method of recording the asset in account of the NGO units (Larson 1999).

2.2 Empirical Review

Stanislaw Sokolov (2008) he studied financial analyzes on Red Cross companies conclude that liquidity was negatively associated with liability because the negative liquidity ration indicate that complain cannot easily pay their liability within short period of time. The research gap that the previous researchers have done about the financial performance of the organization but not study about the accounting practice and procedure in Red Cross society so the present researcher's study about accounting practice and procedure internal controlling mechanism and source finance.

Kirubael (2016) investigated assessment of fund accounting practices the case of common vision for development association Dilla coordination office, SNNPR, Ethiopia. The general objective of this study was is to assessment of fund accounting practices the case of common vision for development association Dilla coordination office, SNNPR, Ethiopia. In order to achieve the main research objectives, this study was applying a mixed methods approach which adopts both quantitative and qualitative. In order to gather relevant information, possible methods the researcher was selected, that are both primary and secondary data. For data collection the researcher was used open and close ended questionnaire and direct observation. It also uses data collected by previous researchers, individuals or organizations.

Tafa (2011) accounting practices of small and medium sized enterprises and its effect on access to finance in Addis Ababa. The general objective of the study was to construct an empirical study of the accounting practice and its effect on access to finance of SME's in Addis Ababa. Quantitative research approach was adopted to carry out this study particularly the survey design. The researcher was used both primary and secondary data was used for the achievement of the study objective. For data collection the researcher was used open and close ended questionnaire and interview.

Fikre (2014) investigated assessment of financial performance of selected not-for-profit NGOs in Ethiopia. The general objective of the study is to evaluate the performance of three selected NGOs in Ethiopia. This study was used descriptive research method as the study

aimed to assess the effectiveness of good financial management practices. For this study the researcher used both primary and secondary data were used. In addition to this the researcher used questionnaires and interviews for data collected. The conclusion of this research was Financial statement validation is made by both internal and external independent auditors. All of the CSs statement is audited by external auditors annually. The recommendation of the researcher study was A strong accountancy body is needed to formulate country specific accounting and auditing standards that best fits to the legal and environmental factor. The world is becoming one because of globalization. Therefore, I recommend adopting the international accounting and auditing standards for Charities and Societies in Ethiopia.

2.3 Summary and Knowledge Gap

There might be other prior studies that will be corresponding to this study. The research gap that the previous researchers have done about the financial performance of the organization but not study about the accounting practice and procedure in Red Cross society so the present researcher's study about accounting practice and procedure internal controlling mechanism and source finance. The previous study was assessing only the factors that affect fund accounting practice but not mention the solution of this problems but our study will be fill this gap. In addition to this the previous study was not assess the financial problems of the study area but our study is included this assessment. This study fills the gap the time of data collections our research uses more recent data but the pervious researchers used old data. Since the collect data will be available as well as most effective.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter was discussing on a detail analysis of the methodologies which will be use by researcher to collect data, analyze them and presentation. It is very important section as it gives the design of the study, area of which the research will be assess the accounting practice and procedure of Red Cross society in Wolkite town.

3.2 Description of the study area

We study Red Cross of Gurage zone Wolkite branch. These branches introduce to Wolkite in 1995 E.C. The organizations were establish by foreign and domestic voluntary civil society. The branch has 19 permanent employees, and this Red Cross society in Wolkite town are far 158(km) from Addis Ababa.

3.3 Research Design

The study was used descriptive study design because it describes and Cleary present the fact and condition of accounting practice and procedure. This study also uses both quantitative and qualitative research approach. The quantitative approach uses because it applicable to phenomena that can be expresses in terms of quantity like numerical, table while qualitative also appropriate for this research study.

3.4 Target Population

The total populations of this study are representing by the total employee's that works on the red cross society in Wolkite town. Since the total employees are around 19.

3.5 Sampling size and technique

The researcher selected 19 of the total employees for this study. The researcher employed census method because the study believe that the relevant information can be obtained from these individuals or respondents. Because the respondent is minimum so the researcher used this method in order to get accurate information.

3.6 Sources of data and type

The study would be used primary and secondary data. The primary data would be including firsthand information which is collect from sample population using questionnaires. The

secondary data will use second hand information it includes written document in the organization like financial statement and audit report.

3.7 Data collection methods

The study was used two types of data these are both primary and secondary sources. The primary sources of data will collect by questioner include open end and close end question, observation and unstructured interview are use. Also in order to collect information from secondary sources, the researcher refer previously exist material like financial statement and audit report

Chapter 4

4. Data presentation and analysis and interpretation

This chapter deal with presentation and analysis on the evaluation accounting practice and procedure in nongovernmental not for profit organization in Wolkite town

The data were collected by using questionnaires and observed organization document. The questionnaires were distributed to employee. All the distributed questionnaires returned from employ Therefor this chapter is organized as follow. Section 4.1 presents the general information about respondent and finally researchers question are presented and jointly analyzed in section 4.2.

4.1 General information about respondent

Table 4.1 sex respondents this section to present and analysis of the classification of the respondent on their sex age and education back ground year of service for each individual respondent. There following table show the general information of respondent

Table 4.1 sex respondent

| Sex | Number of respondent | Percentage |
|--------|----------------------|------------|
| Male | 8 | 42.12% |
| Female | 11 | 57.88% |
| Total | 19 | 100% |

Sources: own questioner 2020

The above table shows the gender distribution of 57.88 .% sample respondent are female, who have major share of respondent. While 42.12% of respondent are male from this distribution the female are greater as compared to respondent therefore the most dominant are female employee.

Table 4 .2 age of respondent

| Age category | Number Of respondent | Percentage |
|--------------|----------------------|------------|
| Below 30 | 10 | 52.63% |

| | | |
|-------|----|--------|
| 30-40 | 9 | 47.37% |
| Total | 19 | 100% |

Source: own survey 2020

From the above total observed those 52.63% are below 30 years old and 47.37% are between 30 up to 40 years. based on this condition the organization have productive age employee.

Table4. 3 educational back ground of respondent

| Educational level | Number respondent of | Percentage |
|-------------------|----------------------|------------|
| College diploma | 9 | 47.37% |
| Degree | 10 | 52.63% |
| Total | 19 | 100% |

Source: own survey 2020

From the above table 52.63% respondent hold degree and 47.37% are college diploma From the researcher conclude that the employees who have degree equal with diploma that indicate positive impact to organization. This shows that the respondent easily fills questionnaires.

4.2 General question to practice

The staff accountant and finance administer have been asked whether have a clear understanding of accounting practice and reporting which first question just as a brain storming was.

Table 4.4 the opinion of the respondent regarding to the accounting practice of the organization.

| Question | Alternative | Frequency | Percentage |
|--|-------------|-----------|------------|
| Do you have a clear understanding of the accounting practice of your organization? | Yes | 19 | 100% |
| | No | 0 | 0% |
| | Total | 19 | 100% |
| .Does your financial report cover all funds and financial transaction? | Yes | 16 | 84.21% |
| | No | 3 | 15.79% |
| | Total | 19 | 100% |

Source: own survey 2020

As it is indicated above the organizations have a clear understanding of the accounting practices and their financial report cover all fund and financial transactions. This is due to the profession, qualification and short term training given.

4.3 Valuation of assets and methods of accounting fixed asset.

Two interrelated question were raised concerning the valuation and methods of accounting for fixed asset. the respondent has answered as follows.

4.5 the opinion of respondent concerning valuation fixed asset and accounting source of method

| | | | |
|---|----------------|----|------|
| How do you record contributed or donated asset? | At cost | 19 | 100% |
| | At CFU | 0 | 0 |
| | Total | 19 | 100% |
| What kinds accounting method use to record analysis financial data? | Accrual basis | 19 | 100% |
| | Modified Basis | 0 | 0 |
| | Total | 19 | 100% |

Source. Own survey 2020

It is clear that the donated fixed assets of the organization valued on the basis of original cost. The general rule that the entity use recording of fixed asset is at cost and fixed asset donated are capitalized. According to researcher conclude almost all respondents The accounting method usually followed by the entity is accrual basis of accounting.

4.4. Accuracy of record keeping (book keeping)

The staff accountant has been asked whether record is updated and reconciled and the reliability of each transaction the respondent replied as follows:

Table 4. 6 opinion of the respondent about the accuracy of record keeping.

| Question | Alternative | No of Respondent | Percentage |
|--|-------------|------------------|------------|
| Does your organization reconcile and update its record timely? | Yes | 10 | 52.63% |
| | No | 9 | 47.37% |
| | Total | 19 | 100% |
| Does each transaction reliable, valuable and | Yes | 19 | 100% |

| | | | |
|--------|-------|----|------|
| clear? | No | 0 | 0 |
| | Total | 19 | 100% |

Source: own survey, 2020

As it is indicated above, all respondent said that the organization have accurate recording, summarizing and evaluating process and reconciled and update with each other. This can be proved or done by checking the controlling ledger/general ledger with trail balance.

4.5 Financial statement in the organization

Two interrelated question were raised regarding to financial statement, preparation, reliability and relevance of financial statement.

Table4.7 The opinion of respondent regarding to the financial statement preparation.

| Question | Answers | No of respondent | Percent (%) |
|--|--|------------------|-------------|
| What type of financial statement do you produce? | Statement of revenue and Expenditure | 8 | 42.11% |
| | Balance sheet and statement of revenue and expenditure | 11 | 57.89% |
| | Total | 19 | 100% |
| Is your financial statements relevant and reliable | Yes | 19 | 100% |
| | No | 0 | 0 |
| | Total | 19 | 100% |

Source own survey, 2020

Financial statements of the organization are prepared to meet the need of financial users like donor, trustee or directors presenting the total asset, liabilities and the net asset. the balance sheet account

include assets section include fixed asset, investment, and current asset and Liabilities section include balance from various trades, sundry and tax payable.

Statement of revenue and expenditure comprise of: from donation, sales of goods and services and expenses incurred for administration, etc.

Financial statement prepared by the organization is relevant and reliable to the end users.

Financial statement is agreed with report format in general, reliable financial statements are produced for internal and external parties that are helpful to get additional funds.

4.6 financial reporting of Red Cross society

Regarding to the financial reporting of the organization the respondent replied as follows

Table4. 8the opinion of the respondent regarding to financial reporting system

| Question | Alternative | No respondent | Total percent |
|---|-------------|---------------|---------------|
| Does the system produces and report financial statement timely? | Yes | 19 | 100% |
| | No | 0 | 0 |
| | Total | 19 | 100% |

Source: own survey, 2020

The financial reporting of the organization from the table indicates that the financial statements are prepared timely to control financial operations.

Financial statement and schedules are prepared directly and exclusively from the account at the closing of each fiscal year of both internal and external parties to get Financial aid, donations and others.

4.7. Internal control system in the organization

Regarding to internal controlling for accounting purpose the staff accountant and others answer as follows.

Table4. 9 the opinion of the respondent regarding to the internal control system

| Question | Alternatives | No respondent | Percentage |
|---|--------------|---------------|------------|
| Does your organization use different methods of implementing internal control system? | Yes | 8 | 42.11% |
| | No | 11 | 57.89% |
| | Total | 19 | 100% |

Source: own survey, 2020

Internal controlling mechanism of the organization provided 11 respondent or 57.89% show that the organization cannot use different methods of implementing controlling system to protect and detect errors, frauds and corruption. And 8 respondents or 42.11% show the organization cannot use different methods of implementing controlling system. In general, the controlling mechanism of the organization is very weak to minimize corruption, frauds and detect errors.

4.8 Source of fund

Questions like source of fund, failure of promised donations and their accounting effect have been replied by the respondent as follows.

Table4. 10The opinion of the respondent regarding to the organization source of fund

| Question | Alternative | No respondent | Percentage |
|---|-------------|---------------|------------|
| Is there any failure from promised donors of fund for your planned project? | Yes | 10 | 52.63% |
| | No | 9 | 47.37% |
| | Total | 19 | 100% |

Source: own survey 2020

The source of fund are donations, internal activates and government subsidies. according to that 10 respondent shows the sources of fund are very few and usually depend on external bodies. 9 respondents on the other hand, the prominent source from promised donors fails to keep their

promised. However, failures to keep promise do not have effect on the accounting treatment of the organization.

4.9 Accounting consistency with FASB

Questions were replied by the respondent about the organizations accounting consistency with FASB standard

Table 4.11 the opinion of the respondent regarding to the organization accounting of FASB

| Question | Alternatives | NO of respondent | Percentage |
|--|--------------|------------------|------------|
| Does your organization prepare it financial statement according to FASB statement? | Yes | 19 | 100% |
| | No | 0 | 0 |
| | Total | 19 | 100% |

Source: own survey 2020

From the tabular information provided that respondent of the organization accounting guides procedure in recording, summarizing, evaluating and interpreting accounting and prepares its financial statement according to FASB.

The evaluation is total based on the facts that have been collected through by looking at the organization document and audit report Stated here under and as follow.

4.10 Accounting system of the organization

4.10.1 Book keeping process of the organization

According to information from document analysis, which indicates the accounting system of the organization is double entry basis of accounting. The basis of accounting the organization use is accrual basis. Revenues are recognized in the period in which they become available or earned. A revenue is said to be available when it becomes legally usable and collectible within the period soon enough to finance the periods operations. expenditure is recognizing in the period in which the related liabilities are incurred whether for acquisition of fixed asset, purchase of supplies, payment for utilities and salaries and so on.

4.10.2 Financial data/ document/

As per information from document analysis shows that the organization has the following accounting system.

The accounting records at the organization which kept in the document are written up from the following item

The financial accounting system of organization uses various book accounts. The point in the accounting system where cash transaction is captured so it is very important that it is always accounted and completed and it should be updated every day. Organization cash book are backed by physical record made up of document supporting each transaction. The receipt should be entered on the left hand said and payment is on the right hand said .at the end of the month the cash book has to be summarized to show the total amount spent and received.

Journal /day books/

Journals are also book first entry and tend to be kept for recording transaction. It brings together information from all different account in one standard ways. It allows monitoring the total cash account/ amount spent or received on each account code over the whole month.

Ledger

After transactions have been journalized, the next step is to transfer information in to account ledger. It may occur at various times during the accounting period and it involves information from chronological system of each account when we post we bring all like together in one place.

The balance account

It is the different between the figures posted each said of it i.e. the different between the total of debit and credit.

Trial balance

At the end of each accounting period an adjusted trial balance of the ledger is prepared to determine that the mechanism of recording an operation have been carried out accurately. The unadjusted trial balance consisting of a listing of all the ledger account and their balance, it provider evidence that in equality or debit and credit exist in the general ledger and provides information that help to formulate adjusting entries.

Final account

The needed information is transformed from the ledger to the final account. All remaining ledger account balance will appear in the balance sheet and will be carried forward as opening balance to the next accounting period.

Closing entry

After financial statements have been prepared, the budgetary and actual revenue and expenditure are closed to them from the next fiscal year activities.

Financial statement

Using the information obtained from trial balance, the formal financial statements are prepared. These statements are the output of the accounting system and serve as input for many internal and external users. The basic financial statement of the organization is balance sheet, statement of revenue and expenditure and fund balance.

CHAPTER FIVE

5. CONCLUSION AND RECOMMENDATION

5.1 Summary

The major findings that included in this research summarized as follows.

- The researchers have tried to use primary source of information from the selected employees by census sampling. The questionnaires have been distributed
- the questionnaires for respondents totally 8 males and 11 females were participated.
- The educational background of employees of red cross bureau 9 employers are diploma and 10 employers are above diploma or degree .
- Financial statement are prepared to financial users which are relevant and reliable to those parties and financial report are prepared periodically.
- The internal control mechanisms of the organization are very weak.
- The donated or contributed fixed assets are valued at their original cost but, the general rule for recording fixed assets are at its current fair market value or net appraised value
- The data gathered in the examination period implies that some donors fail to keep their promise.

5.2 CONCLUSION

This chapter provides conclusions and recommendations from the study. The research have tried to evaluate and explain the accounting practice and procedure of the Red Cross society in wolkite Town. The researchers have tried to use primary source of information from the selected employees by census sampling. The questionnaires have been distributed. Those all questionnaires are success. Generally, the research has observed the following summary for the data analysis.

- The organization employees have a clear understanding of accounting practice and financial report covers all fund and financial transaction.
- Fixed asset are valued at their original cost and the organization uses accrual basis of accounting and the organization also has a better record keeping system, thus recording, summarizing and evaluating process are accurate and relied with generally accepted accounting principle.

- Financial statement are prepared to financial users which are relevant and reliable to those parties and financial report are prepared periodically. This is because to control financial operation and to satisfy the end users of the report like government and donor.
- The major financial statements prepared in the organization are balance sheet, statement of revenue and expenditure and fund balance.
- The internal control mechanisms of the organization are very weak to minimize or detect corruption, fraud and errors.

5.3 RECOMMENDATION

Over all activities of the organization have been tested in the examination of accounting and reporting practices. The following points are important for the improvement and well being of the entity.

- ❖ The donated or contributed fixed assets are valued at their original cost but, the general rule for recording fixed assets are at its current fair market value or net appraised value. Because helps the organization to deduct depreciation that was recorded in the memorandum forms. So, valuation of fixed asset at their current fair market value should be considered.
- ❖ Preparation of financial statements should be standardized. The organization mainly concerned with preparation of statement of revenue and expenditure, fund balance and balance sheet. But, FASB illustrates the financial statement includes, statement of financial position, statement of activities, statement of cash flows and statement of disclosures.
- ❖ The internal control mechanisms of the organization are very weak. The organization should be use different control mechanism, like bank reconciliation to control cash at bank and the entity book balance, Follow procurement procedures, use serially numbered invoices, check general ledger records and pre-numbered documents for accounting to minimize corruption, fraud and detect errors.
- ❖ The majority source of funds of the organization is donation /contribution i.e. if there is no donation the organization will stop in operation so, to avoid dependency the organization should be concentrate more on internal source and fund raising options.
- ❖ The data gathered in the examination period implies that some donors fail to keep their promise. Organization should solve those problems having discussion, and strong relation with donors so as to keep their promise.

- ❖ The government and non government bodies should encourage the institution to help humans from different emergencies in different circumstances.

REFERENCE

- AnandPagaria, (2006). Such a disclosure would be useful in appreciating the operations undertaken by the NGO during the period.
- Douglas (1995). Found Accountinggovernmentand not profit accounting 2edition.
- Doupuik (1998). the objective of financial reporting for not profit entities stress the need for public to understand and evaluate the financial activities and management of those organization.
- Fees and warren accounting principle (16 edition).
- Fikre (2014). investigated assessment of financial performance of selected not-for-profit NGOs in Ethiopia.
- Hayssean Edward (1995). Round Accounting for Government and non government entity 10 editions.
- John Shelton (2006) Non-government not for profit organization is created by legal person who are not a part of government and also known as civil society organization(p-18)
- Larson (1999) advance Accounting 10 edition.
- Letenah, (2004,) those contributing financial resource to the organization do not necessarily receive a direct or proportionate share of its good or services.
- Robert. N (1995), financial Accounting.
- Shelton,(2006). These types of organization are also known as civil society organization and divided its extra fund between its shareholders and owners but use them for the organization purpose.
- Smith (2000) All NPO are in fund raising business and fund raising is an essential element for NOP, s contributions variability and success(p158).

7. What kind of accounting method do you used to record analyzed of financial data? A. Accrual basis B. Cash basis

8. Dose each transaction reliable, valuable and clear?

A. Yes B. No

9. What type of financial statement do you produce and report?

_____.

10. Does the system produce financial information timely?

A. Yes B. No

11 If the answer is NO in question 10 WHY?

_____.

12 Does your organization prepare its financial statement according to Financial accounting standard ?

If you say no, WHY

_____.

13 If you the answer yes in question 12 how to use?

_____.

14 Does your organization use different methods of designing and implementing internal control system?

A Yes B No

15 If you the answer YES in question 14 which method are used?

_____.

16 If you say the answer no in question 14 why?

_____.

17 Is there any fail from promised donors of funds for planned project?

A. Yes B. No

18 is your financial statement reliable and relevant?

A. Yes

B. No

19 Does your organization reconcile and update its record timely?

A. Yes

B. No

In these questioners not necessary to translate or change English to Amharic language because employees of the organization are not blow diploma.