

**WOLKITE UNIVERSITY**  
**COLLEGE OF BUSINESS AND ECONOMICS**  
**DEPARTMENT OF ACCOUNTING**  
**ASSESSMENT OF INTERNAL CONTROL OVER INVENTORY EVIDENCE**  
**FROM EDEN SPRING WATER S.C**



**RESEARCH PAPER SUBMITTED TO THE DEPARTMENT OF**  
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## **DECLARATION OF ORIGINALITY OF THE PAPER**

This report is the presentation of my original work wherever contributions of other are involved every effort is made to indicate this clearly, with due reference to the literature and acknowledgement of collaborative research and discussion. Information taken from published and unpublished work of other has been acknowledged in the text and list of reference is given.

We declare that this report has not been submitted in any form for another degree or diploma at any university or other institution or tertiary education.

The work has been done under the guidance of Alemayehu G. (Msc.)

## **APPROVAL**

The under signed certify that they have read and here by recommended to Wolkite University acceptance of the senior essay submitted by Mulugeta birlew-----SSR/0926/12

Entitled ‘Assessment of of internal control over inventory evidence from Eden Spring Water S.C in partial fulfillment of the requirement for the Award of BA Degree in Accounting and finance.

Advisor \_\_\_\_\_ signature \_\_\_\_\_ Date \_\_\_\_\_

Examiner \_\_\_\_\_ signature \_\_\_\_\_ Date \_\_\_\_\_

Head of Department \_\_\_\_\_ signature \_\_\_\_\_ Date \_\_\_\_\_

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## **ABSTRACT**

This study tried to assess internal control over inventory system in Eden spring water S.C. Inventory control is a system or a process concerned with the acquisition, storage, handling and use of inventories to ensure the availability of inventory whenever needed. The main objective of this study is, to assess internal control system over inventory in Eden spring water S.C. The research methodology used was descriptive method, which is concerned with describing, recording, analyzing, reporting, and presenting result. The researchers conducted the study by using census method of survey. The study used primary data, was collected through questionnaires' and self-structured interviews. The collected data was analyzed by using percentile (table). Major finding in the study was indicates that internal control practice system is ineffective. The researchers have seen problems related to internal control practice such as Failure to records adequate documentation, inadequate policies and procedure. Finally, conclusion and recommendation was made on internal control over inventory. Researchers' major finding was found, that averagely factory approved a well-written policies and procedure, which was importance role and the best guidance in internal control over inventory for the company. Recommendation was addressed "It's better to follow strategic technique to increase effectiveness of internal control over inventory and give technical assistance to the employees.

## **ACRONYMS**

<b>FIFO</b>	<b>First in first out</b>
<b>LIFO</b>	<b>Last in first out</b>
<b>EOQ</b>	<b>Economic order quantity</b>
<b>JIT</b>	<b>Just in time</b>

# CHAPTER ONE

## INTRODUCTION

### **1 Background of the study**

Inventory is commonly used to describe the goods and materials that a business holds for the ultimate purpose resale or repair. In most manufacturing and service company today continues the second largest inventory is commonly used to describe the goods and materials that a business holds for ultimate category asset and shown on the balance sheet exceed by physical facility and equipment (James,2011).

The institution of chartered accountants of India has defined inventory as “tangible property held, for sale in the ordinary course of business or in the process of production for sale including maintenance supplies and consumables other than machinery spares.” Naturally the type of inventory carried by a firm is dependent on the type of business it engaged on manufacturing firms carry supplies of raw material, machinery and appliance semi-finished goods and finished goods as well as spare parts. The inventories are part of the business asset, which are vital for operation and contributed for customer satisfaction (Stevenson, 2010).

A good internal control system is a dynamic not static, a company such as Wal-Mart or general motor stock hundreds of thousands of different items (the sale or use of individual items) can rise or fall quite separately from rising or falling overall corporate sale. As the usage rate for an individual item begins to rise or fall. The inventory management or control must adjust its balance to avoid running short ending up with obsolescence item if the change in usage rate appears to be permanent, the safety stock level should be considered ,and the computer model usage in the control process should be reprogrammed (Brlgrham, 1999).

Inventories consist of good held for sale to customer, partially completed goods, material and supplies to be used in production. Inventory items are acquired and sold continuously by a merchandising enterprise or acquired, placed in production .Convert to finished product and sold by a manufacturing enterprise. The sale of merchandise or finished product is the primary source of revenue for most non-service business enterprises (Mosich, 1998).

Inventory management and control is concerned with keeping enough product on hand to avoid running out while at the same maintaining a small enough inventory balance to allow for a reasonable return on investment. Proper inventory management is important to the financial health of the corporation being of stock forces customers to turn to competitor or result in a loss of sales. Excessive level of inventory in the warehouse fees capital up in insurance etc. The significance of the benefits and cost associated with holding inventory is, it is important that the efficiently control the level of inventory investments (Bhallathe 1994).

An inventory control manager in raw materials inventory and production departments are the same as those in production control. The primary objective however shifts from supply to cost minimization. Specifically the primary objective of inventory control is to minimize the cost of the material inventory minimizing the cost of inventory chiefly requires reducing its size and possible its availability in all of the departments under inventory control jurisdiction (Levis, O.D, 1976).

### **1.1 Statement of the Problem**

Inventory is the largest portion of current asset. It needs better protection and strength of inventory management. Inventory management also deals with keeping accurate record of finished goods that are ready for shipment. Poor inventory management affects finished goods of an organization. Generally poor inventory management practices are overstocking, under stocking; bad issuing system and absence of stocktaking are the main causes. Over stocking is storing material over the needed quantity. In addition, it may result in damage of materials because of limited place to keep it.

Under stocking on the contrary is maintaining small number of material below the demand of the organization it has negative impact on the over work of the organization to achieve its goals. If materials at certain area cannot be controlled it is difficult to properly record incoming and outgoing materials (Hornngrene et al, 1998).

According to Curtis, Rahaja, 1994, various factors affect the management of inventory, and leads to the poor management system of the organization. As shown his identification, so many problems affect inventory management practice in effectively and wisely. In most factories, the following problems are faced on inventory management practice.

Those problems are; unclear policy and procedures, lack of clear registration and records, absence of immediate supervision and follow-up, absence of skilled labor, lack of adequate awareness, , and other problem that could disrupt ongoing activities are some of the company that limit effectiveness of internal inventory control over inventory, so as to fill this gap the researchers would be interested to assess on the internal control over inventory in Eden spring water S.C

### **1.3 Research question**

1. What are the main challenges faces for internal control over inventory in Eden spring water S.C?
2. What strategies should be followed to conduct effective internal control over inventory?
3. What policies and procedures practice in Eden spring water S.C to control inventory?
4. What are the formal evaluation criteria is in internal control inventory system?

### **1.4 Objective of the study**

#### **1.4.1 General objectives**

evaluate the internal control over inventory in Eden spring water S.C is effective and efficient or not.

#### **1.4.2 Specific objective**

1. To identify major problem of Eden spring water S.C over inventory.
2. To insure a well-developed strategies and system with respect to controlling of inventory.
3. To identify techniques in safeguarding of inventory in Eden spring water S.C.
4. To assess well standard formal evaluation for managers and employees with regarding to internal control over inventory.

### **1.5 Significance of study**

This study is believed to create understanding about the reasons behaves in efficient internal control over inventory. The outcome of this study has helped the organization mainly by providing information regarding the weakness and strength in the internal control system, not only this it will guide other researchers study effectively and allow recommendation for internal control system. It

can show the way to deal with the problem and challenges especially in internal control over inventory.

### **1.6 Scope of the Study**

This study would be more attractive and important if it was conducted on country level. However, because of the existing time and finance constraint, this study would be provided only a detailed information about evaluation of the internal control over inventory in Eden spring water S.C

### **1.7 Limitation of the Study**

This research paper has faced some limitation because of any study is not free from limitation. While conducting a study we encountered with some factors such as unwillingness of respondent in giving information, lack of experience of the researchers also limit the effective work of the study.

### **1.8 Organization of the Study**

The study has been organized into five chapters. The first chapter contained the problem and its approach which mainly contains background of the study, objective of the study, statement of the problem, significance of the study, and scope of the study, limitation of the study and chapter two is about review of related literature, the third chapter is about research methodology and design, chapter four is about data analysis and presentation or interpretation and the last chapter is about the conclusion and recommendation of the study.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

This chapter gives an extensive review of the available theoretical and empirical literature to the problem being investigated, critique of the existing literature relevant to the study, summary of the literature review and finally the research gaps. Additionally, objective, importance and policies of internal control over inventory were included. Not only this but also other related issues were raised.

#### 2.2 Theoretical Review

##### 2.2.1 Bureaucratic Procurement Procedures

As organization become large and more complex, the authoritarian- paternalistic patter gave way to increased functional specialization with many layers of middle and lower management for coordinating organization effort. Bureaucracy expects conformity in behavior rather than performance (Kenneth & Kenneth, 2005). According to Osborne and Plastrik (1997), the advantages of bureaucracy are many folds. Apart from consistent employee's behavior, it eliminates overlapping or conflicting jobs or duties and behavior of the system is predicable. Despite the above advantages, bureaucratic organization has some significant negative and side effect. Too much red tapes and paper work not only lead to unpleasant experiences but also to inefficient operations. Since employees are treated impersonality and they are expected to rely on rules and policies, they are unwilling to experience individual judgment and avoid risks (Osborne et al., 1997). During the financial year 2011 -2012 various Government Ministries and department in Kenya returned billions of money meant for critical projects to Treasury .The head of Public Service blamed it on bureaucratic procurement procedure while the Prime Minister on the other hand, blamed Procurement rules for slow implementation of the projects (The Standard Newspaper, 2012, July 26).

##### 2.2.2 Documentation /Stores Record

According to Susan & Michael, (2000) accuracy of inventory records is necessary to provide satisfactory customer service, determine replenishment of individual items; ensure that material

availability meets repair or project demand, analyze inventory levels and dispose of excess inventory. Bailey and Farmer (1982) state that stock recording are expected to maintain particulars of receipt, issues and balances remaining in stock for each individual item held in the storehouse daily According to Susan & Michael (2003), Stock records provide the management with the information which is used to ensure accountability through stocktaking and stock audit exercise. Jessop and Morrison (1994) states that records can be posted manually but where the volume and complexity of the documents handled is of major proportion mechanical methods are often to be more effective. Manual posting is comparatively slow, there is high risk of filling the wrong detail, and it can be easily misplaced or lost due to multiple handling as compared to Computer posting system.

### **2.2.3 Funding**

With enough funds, the organization can run its activities efficiently and effectively while with inadequate funds, an organization may have difficulties in running its activities (Carter & Price, 1993). According to Burt (2006), Funds can be a constraining factor to effective inventory control when funds allocated cannot cater wholly for the organizations material requirements within the budget period. According to Burton (1981), other factors that may affect allocated funds include the variability in user demand patterns and frequent price variations. The stature of financial management in the organization can affect adversely its effectiveness and in the finance resource application in various activities. The 2005/2006 government financial settlement meant that many government institutions were forced to make substantial cuts in their services. Staffing levels have also been affected and many government institutions have had to make staffing cuts. Although this has meant that redundancies have been made, many authorities have chosen to leave positions vacant rather than choose this option. The loss of staff has resulted in the loss of specialist staffs with most institution employing clerks, and this has affected the individual services.

### **2.2.4 Knowledge and Skills Possessed by Staff**

Stock Control is no longer considered a clerical function performed independently by untrained individuals within a governmental agency (National Institute of Governmental Purchasing, 2001). Qualified staff that is competent and skilled will help the organization to achieve its goals and objectives by being efficient and effective when carrying out their various functions. For an organization to succeed, qualification is therefore a pre-requisite and must be matched with job requirement, hence the need to hire and develop ambitious personnel. If staff involved in stock

control is not qualified and competent, then there will be ineffectiveness in inventory control. Bailey and Farmer (1982) says that for Stock control function to achieve a superior performance, it's necessary to recruit, train and develop personnel with the capacity and motivation to do better job. Carter and price (1993) indicate that training of staff is vital if full use is to be made of their abilities and talents. Coe (1989) says that it is important to ensure that sufficient number of the appropriate caliber is available to the organization in pursuit of its objectives. Incompetent employees can render stock control virtually ineffective.

### **2.3 Critique of past studies/Empirical Review**

According to Curtis, Rahaja, 1994, various factors affect the management of inventory, and leads to the poor management system of the organization. As shown his identification, so many problems affect inventory management practice in effectively and wisely. In most factories, the following problems are faced on inventory management practice. Those problems are; unclear policy and procedures, absence of segregation of duties among employees, lack of clear registration and records, absence of immediate supervision and follow-up, absence of skilled man power, lack of adequate awareness, Deterioration of row material obsolescence of stock, a high stocking cost, and excess of investment on Inventory are basic problems that influence the management of inventory effectively.

There were studies that had comprehensively been done on factors influencing effective inventory control in public and private sector and hence the study intended to fill those gaps (Vigoroso, 2005).

Various researchers concerning the effectiveness of inventory control in both public and private body with the aim of identifying the causes of the ineffectiveness comprehensively have conducted studies. Several have embarked on the problem of inadequate funds, long procurement procedure, inadequate qualified personnel, and inadequate stock control procedure.

### **2.4 Summary of the Literature review**

Sunder. S (1997) established that there are three motives for holding inventories, which are transaction, precautionary and speculative motives. Lyson (1996) states that inventory serves as an insurance policy against the unexpected breakthrough, delays and other disturbance that could disrupt ongoing activities. According to review poor documentation/records keeping, bureaucratic procedure, poor funding are some of the factors that limit effective inventory control. Dobler and

Burt (1996) emphasized that stock represents money and similar control measures should be taken on stock as it the case of cash. It is important to have a good stock record system as it help in preventing stock out, overstocking, deterioration, obsolescence and high carrying cost. A sound stores record system is therefore vital for procurement decision making. Effective stock records are important to an organization, which expects to operate profitably or offer quality services. Late posting have undesirable effects.

## **2.5 Meaning of Inventory**

Inventories are stock of materials & any kinds stored for future user in the production process. It is total amount of good in store or factory at any given time stock owner need to know the precise numbers of items on their shelves and storage area in order to place or in order to control loss. Inventory items are acquired & sold continuously by merchandizing enterprise or acquired, placed in production, converted to finished product and sold by a manufacturing enterprise (Mosich, 1989).

Many companies take an inventory of their supply on regular basis in order to avoid running out of popular item bother take inventory to insure the number of item ordered much actual numbers of item counted physical storage or overage after an inventory can indicate problem with the following or in accurate accounting practice. Thus, today's inventory is Tomorrow's production. However, semi-finished good a waiting use in the next process of finished goods (A.K Data, 2004, 1993).

### **2.5.1 Concept and Definition of inventory**

Internal control is a system or a process being controlled by an inventory control system in operation & ordering, storing, making available when needed within the organization various. (Cushing Romney). The basic building block for the inventory management system and inventory control activities are sales forecasting or demand management sales and operations planning production, material requirement planning and inventory reduction (Horngren, 1996).

### **2.5.2 Objectives of Internal controls**

The main objectives of an internal control system are to ensure that; orderly and efficient conduct of the business, adherence of management policies, safeguarding of assets, the prevention and detection of fraud and error, accuracy and completeness of the accounting records, and the timely presentation of reliable finance information

Despite the emphasis on the objectives of internal controls, most organizations have failed to achieve the objectives due to differing hindrances like incompetent personnel, human error, and Collusion and control procedures being directed at routine transactions most of the time.

### **2.5.3 Importance of internal control**

Internal controls are incorporated within an organization's accounting system to ensure that; Transactions are carried out in accordance with appropriate authority that is to measure compliance with company's policies, to record all transactions at the correct amount in the correct account; in the proper period to enable management prepare financial statement. This helps in the detection of fraud and error within an organization, to compare their coded assets with existing assets periodically and corrective action taken in case of differences. This helps in safeguarding organizations resources, promoting accuracy, dependability of accounting records and reports, to assets and records as authorized, and to evaluate the operational efficiency

## **2.6. Internal control policies**

The main internal control policies include; hiring and terminating of employees, risk management policies, complete safety programs that comply with the company's procedures, land books, manuals, forms and training aids, accounting process flow charts for the company, and business laws that should be read by every senior manager.

## **2.7 Inventory Management**

### **2.7.1 The concept of Inventory Management**

Inventories are defined as stocks of products a company is manufacturing for sale and components that make up that product (Kilby, 2001) inventory is a term used to indicate the merchandise held for sale in the normal course of business and materials in the process of production or held for production (Warren, et al 1997). Pandy (1998) concurred and added that inventories are classified as current assets because typically they will be sold within a year or during firm's normal operating cycle if it should be longer than a year for retailing firms. Inventories are usually the largest and most valuable current assets.

Inventory is not restricted to manufacturing firms only but other institution both commercial and non-commercial institutions have inventory for example financial institutions have stock of money

in banks, hospitals have inventories of medicine and medical supplies, government agencies have inventories of office supplies and soldiers have inventory of fire arms (Donnel, et al, 1990).

## **2.8 The need for inventory in an organization**

Most well managed companies find it necessary and desirable to maintain large varied inventory. The prevailing affluence of our society and the related buyer habits now considered customary have probably made large valuable inventories on operating necessity for most retailing firms (Kilby, 2001).

If production and delivery of goods were instant, there would be no need of inventory except as hedge as price changes automation and scientific management, the manufacturing and merchandising process still do not function quickly enough to avoid the need for having inventories. Inventories must be maintained so that customers can easily be served immediately or at least quickly so that he or she does not turn to another source of supply. In turn production operation cannot flow smoothly without having inventories of direct materials, work in progress finished goods, parts and supplies. Horngren (1982)

Lucey (2002) also noted that many firm especially those that sell in seasonal markets buy in excess of their needs when supply prices are favorable. They store the goods for a period and then maintain sales during a period of unfavorable supply price. Nicholas (1989) noted that inventories are crucial in every kind of business organizations for they act as cushions for Absorbing planning errors and unforeseen fluctuations in demand and supply and Facilitating smooth production and marketing operations.

Nicholas (1989), further noted that inventories help to isolate or minimize the interdependence of all parts of the organization for example departments or functions so that each may work effectively especially where many parts and sub-assemblies may be purchased or manufactured, stored or used as needed .this avoids nerve-racking reliance on pin-point timing of deliveries from others.

## **2.9 Definition of Inventory management**

Horngren (1982) defined inventory management as the activity of determining the range and quantities of materials and products, which should be stocked and the regulation of receipts and issues of materials. The scholars added that those entrusted with inventory management must

ensure that the business has the right quantity of goods in the right place, at the right time and at an optimum level.

### **2.9.1 Reasons for managing inventories**

Inventory management is an extremely important but difficult task. With this in mind, therefore they must be properly managed to ensure smooth running of the firm's operations (Morse J, 1981).

In any profit making organization, it is very necessary to ensure that the organization overcomes the costs related to maintaining inventories if such an organization is to remain profitable (Lucey, 2002). He also agrees that most common costs related to maintaining of inventories include ordering costs, carrying costs and stock out costs and they can only be overcome by maintaining inventory at an optimum level.

#### **a) Ordering costs**

These were defined as costs of acquisitions and transportation of raw materials (Lucey, 2002). The ordering costs usually consist of clerical costs of operating the purchase order of production and special processing and receiving costs relating to number of orders processed.

#### **b) Carrying costs**

These are costs incurred on maintaining a given level of inventory and they include; material-handling costs, costs of insurance, pilferage costs and obsolescence costs (Lucey, 2002). Usually such costs are affected by such factors as personal property taxes, insurance, variable storage costs among others.

#### **c) Stock out costs**

These are costs incurred when a firm has inadequate stock and yet an item is demanded on the market (Kilby, 2001). They result from under stocking and short deliveries. The implication of this is that they lead to missed opportunities as well as customer dissatisfaction. This as a result makes it crucial for the organization to maintain an optimum level of inventories and thus a need to maintain an effective inventory management system.

### **2.9.2 Inventory management techniques**

The major goal of inventory management is to discover and maintain the optimum level of inventory from Raw materials and supply of finished goods (Pandey, 1995 & Morse J, 1981). The

scholars suggested the following inventory management techniques for any successful inventory management system.

**a) JIT (Just in time)**

A production strategy strives to improve a business return on investment by reducing in process inventory and associated carrying costs. In addition, a system is aimed at producing the required amount of quantity at the exact time specified. (Pandey, 1995 & Morse J, 1981)

To achieve Just in Time objectives, the process relies on the signals between different points on the process, which will tell when to make the next part. The implication of this is that holding costs will not arise and as a result, obsolescence costs will be reduced and there will always be continuous improved quality and efficient flow of goods and increase supplier relationship. (Pandey, 1995 & Morse J, 1981)

**b) A-B-C approach to inventories**

This approach allows several different approaches to inventory management to be applied to the same inventory at the same time. It is based on the premise that in most inventories a small percentage of items, accounts for a small percentage of the annual dollar usage. The implication of this is that management will be enabled to place its efforts where results will be greater and therefore there will always be optimum level of inventory and a profitable level of investment in inventories. (Pandey, 1995 & Morse J, 1981)

**c) Economic Order Quantity technique**

The economic order quantity is one of the oldest and common known inventory techniques dating back to 1915 publication (Render and Stair, 1994). It is the optimal quantity and it is the calculated reorder quantity, which minimizes the balance of costs between carrying and ordering costs. This technique answers the inventory control question of “how much to order?” and “when to order?” (Drury, 1995). Re-order level is defined as a point when replenishment should be ordered with inventory. There is always a time lag between placing an order for new stock and the receipt of this will be made nearly when the stocks are still available. The implication of this is to ensure smooth operation of the company or else this will mean excess stock and its related costs.

### **2.9.3 Relationship between internal controls and inventory management**

Internal control over inventory is important to any business because inventory is the lifeblood of a merchandiser and manufacturer. Horngren and Harrison (1992) argued that successful companies take great care to protect their inventory.

Elements of good internal control over inventory include; physically counting inventory at least once each year no matter which system is used, maintaining efficiency purchasing, receiving and shipping procedures, storing inventory to protect it against theft damage and decay, limiting access of inventory to personnel who do not have access to the accounting records, keeping perpetual inventory records for high unit cost merchandise, purchasing inventory in economic quantities, keeping enough inventories on hand to prevent shortage situations, which lead to lost sales, and not keeping too large stock piled, thus avoiding the expense of tying up money in unneeded items.

### **2.10 Research gap**

Various researchers have embarked on the problem of inadequate funds, long procurement procedure, inadequate qualified personnel, and inadequate stock control procedure. There were studies that had comprehensively been done on factors influencing effective inventory control in public and private sector and hence the study will intended to fill those gaps (Vigoroso, 2005).

Other researches were conducted research on inventory management and control in Bahar Dar Textile Share Company by using both qualitative and quantitative approach and apply census Method but no research has been conducted in Eden spring water S.C. Therefore, the researchers were also motivated to fill this gap according to Eden spring water S.C to overcome only on internal control over inventory.

Even though, the other researchers work in tittle related to factor affecting effective recording system and inventory management to an organization, but there were different findings and results, according to review poor documentation/records keeping, bureaucratic procedure, poor funding, deterioration ,and high carrying cost, Late posting, delays and other disturbance that could disrupt ongoing activities are some of the factors that limit effectiveness of internal inventory control over inventory, so as to fill this gap the researchers would be interested to assess on the internal control over inventory in Eden spring water S.C which is very important

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.1. Research Approach

This chapter describes the procedures that were used in carrying out this research. This chapter deals with research design, population of study, sampling frame, sample and sampling techniques, research instruments, data collection procedure and pre-testing of questionnaire and data processing and analysis.

#### 3.2. Research design

The study used descriptive survey design. According to Mugenda (2003), descriptive survey design was appropriate because it involves collecting data in order to answer questions concerning the status of subjects of the study. Kothari (1995) noted that descriptive design is concerned with describing, recording, analyzing and reporting conditions that exist or existed approach

The data collected from respondents analyzed by using mixed approach or both qualitative and quantitative. Qualitative approach implies the subjective assessment of attitude, opinion and behavior. It implies the recognition of process that is not readily susceptible to measurement in term of quantity, amount and frequency. It is concerned the developing natural phenomena (Cothari, 1998).

Quantitative measures help the research to interpret the idea that was gathered through interview. Because quantitative approach involves the generation of data in quantitative form which subject to rigorous quantitative the study is analysis in a proper manner. It is susceptible to measure in term of quantity, amount and frequency (Bent. D. H, 1989).

#### 3.3. Research approach

A research instrument is any device constructed for recording of measuring data. It is the means for generating pertinent information used for solving the research problems (Olakunori 1997). Therefore, in order to obtain valuable data for analysis, interpretations and appreciation of problems aforementioned census method and set of questionnaires were employed to design and administer to concern employees of Eden spring water S.C

### **3.4. Method of data collection**

The researchers have used primary source of data. The primary sources of data were the questionnaires and personal interview. The questionnaires were both open ended and close ended and the interview that conducted with manager of the organization was self-administered question.

### **3.5. Target population**

Scholars do not agree on the exact proportion of the accessible population that should form the sample size. Mugenda (2003) suggest that in descriptive studies ten percent (10%) of the survey population is representative enough to generalize characteristics was observed. According to Egbu (1998), sampling involves the selection of a number of study units from a defined study population, a small representative of a large population. In drawing a small sample for the study, the researchers considered how many people that are needed in the sample and their category first to be selected. Therefore 30% of the accessible population constitutes the sample size in the study.

The total population (employees) of Eden Spring Water S.C was 24. Since the total population of the organization was limited, the researchers conducted the study by using census method of survey because employees in the factory were below 30. Therefore, the researchers have distributed questionnaires to all 24 employees or researchers have selected total population of the Firm.

### **3.7. Methods of data processing and analysis**

The researchers have used the descriptive statistical tools (Tables and percentages) in preparing and analyzing the data generated from this study. The responses were presented in table while percentages were used to analyze each questions contained in the questionnaires and its responses.

The findings of the study were described clearly to address the basic issue of the study targeting Examining the Internal control over Inventor management System, Case Study on Eden spring water S.C As a result, the forthcoming sections discussed in detailed on the study carried o

## CHAPTER FOUR

### DATA PRESENTATION AND ANALYSIS

#### 4. Introduction

This chapter covers data presentation, analysis and interpretation of findings. This chapter is divided into three parts. The first is the demographic data of the respondents; the second part is the findings on internal control over inventory in Eden spring water S.C. Third part is the general policies and procedure practiced in the company. Data was collected to answer the question, which exemplified the study objectives. In the presentation of findings, the researcher used frequent table together with percentage.

#### 4.1. Demographic data of the respondent

The researchers have distributed 24 questionnaires for respondents and only 22 questionnaires were filled and received back, so the response rate is 91.67% and the non-response rate is about 8.33%

**Table:** 4.1 Genders of the Respondents

Sex	Frequency	Percent	Cumulative percentage
Male	15	68.18%	68%
Female	7	31.81%	32%
Total	22	100%	100%

**Source:** Own Survey, 2023

From the table 4.1 above, 68% of the respondents were males and 32% were female. This shows that many males are participated in the study. Because of the factory gave priority to male during requirement of employing. Therefore, male worker dominates Company.

**Table:** 4.2 Age distribution of the Respondents

Age distribution	Frequency	Percentage	Cumulative percentage
18-25	8	36.36%	36%
26-33	7	31.8%	32%
34-41	4	18.18%	18%
42-49	2	9.09%	9%
50 and above	1	4.54%	5%
Total	22	100%	100%

**Source:** Own Survey, 2023

From the table 4.2 above, 36% of respondents were between 18-25, 32% were between 26-33 years, 18% were between 34-41 years, 9% were between 42-49 years of age and 5% were above 50 years and this implies that most of the respondents were in between 18-25 and 26-33 with the approximate percentage. The higher percentages of the respondents are in the age of productive labor therefore it would have a good approach to the internal control.

**Table:** 4.3 Educational Statuses of the Respondents

Educational level	Frequency	Percentage	Cumulative percentage
Below grade 12	5	22.73%	23%
Grade 12 complete	8	36.36%	36%
Diploma	6	27.27%	27%
BA degree	3	13.64%	14%
Masters and above	0	0	0
Total	22	100%	100%

**Source:** Own Survey, 2023

From the table 4.3 above, 23% are below grade 12, above 36% had completed grade 12 and 27% of the respondents had completed Diploma, 14% had completed Degree and no individual had attained qualifications of masters and above. From this the researchers described that most of employees are found in the working age group and able to perform their work effectively as well as capable to achieve the role of the organization. Today most of the companies hire educated individuals to be more profitable.

**Table:** 4.4 Year experience of the respondents

Year of experience	Frequency	Percentage	Cumulative percentage
Below 4 years	12	54.54%	55%
4-10	8	36.36%	36%
11-15	2	9.09%	9%
16-21	0	0	0
21 and above	0	0	0
Total	22	100%	100%

**Source:** Own Survey, 2023

From the table 4.4 above, 55% of the respondents have working experience below 4 year. 36% have working experience of 4-10 years, 9% have working experience of 11-15 years. This shows

that the majority of the respondents are not experienced and this leads the factory not to reach the maximum anticipated or expected planned level.

## 4.2 Findings on internal control inventory

Table: 4.5 Proper approval of polices and procedure

Are policies and procedures in internal is written and properly approved?	Frequency	Percentage	Cumulative percentage
Yes	19	86.36%	86%
No	3	13.64%	14%
Not sure	0	0	0
Total	22	100%	100%

**Source:** Own Survey 2023

From the table 4.5 above, 86% of the respondents have responded yes, and 14% replied no. This implies that, most of the respondents of Eden spring water S.C believe that the company has a written policies and procedures. The above table implies there is no uniformity in understanding the company policies and procedures Because of the respondents do not believe that the company has a proper policies and procedures to be followed.

Table: 4.6 types of polices and procedure

If your answer for the above table 4.5 is Yes, What types of polices and procedure practiced is applied?	Frequency	Percentage	Cumulative percentage
Hiring and terminating of employees polices	5	26.31%	26%
Risk management	7	36.84%	37%
accounting process flow chart polices	4	21.05%	21%
Business law policy	0	0	0
All of the above	3	15.78%	16%
Total	19	100%	100%

**Source:** Own Survey 2023

The above table 4.5 reveals that (26%) of the respondents replied that the company follow Hiring and terminating of employees polices, (37%) of the respondents responded that the company practice Risk management, (21%) of respondent are clearly know about the company polices practice accounting process flow chart polices, (16%) of the respondent are reacted to Hiring and terminating of employees polices, risk management complete safety programs, accounting process

flow chart polices, business law are applied in the company. Therefore, this implies that, more of the respondent is sure about company’s inventory control policies and procedures are applied. Then the researchers can analyze that however 14% of the respondent answered (There is no policies and procedures applied) large percent of the respondents sure about statement 4.5. Thus, the written policies and procedures have an importance role and the best guidance in internal control over inventory the company.

Table: 4.7 insurance polices

Are polices established to insure that the inventory are not stock or to prevent over ordering?	Frequency	percentage	Cumulative percentage
Yes	16	72.73%	73%
No	0	0	0
No answer	6	27.27%	27%
Total	22	100%	100%

**Source:** Own Survey 2023

From the table above, 73% of the respondents replied Yes about the statement, and 27% responded No Since majority of the respondents (73%) agreed with the statement, it means that the company policy established to insure inventory from not stock or to prevent from over ordering. This presentation helps the company to prevent obsolescence of stock.

Table: 4.8 evaluation of internal control

The formal criteria used to evaluate internal control over inventory are appropriate.	Frequency	Percentage	Cumulative percentage
Strongly agree	7	31.81%	32%
Agree	15	68.18%	68%
Disagree	0	0	0
Strangely disagree	0	0	0
Total	22	100%	100%

**Source:** Own Survey 2023

From the table 4.8 above, 32% of the respondents strongly agreed with the statement, 68% agreed. Since, majority of the respondents (68%) agreed with the statement, it means that the criteria to evaluate internal control over inventory in Eden spring water S.C is appropriate these have a grave impact for the controlling of company existing inventory.

Table: 4.9 formal organizational chart responsibilities

Is there a formal organization chart defining the responsibility of ordering, accepting, approving processing and recording of the inventory?	Frequency	Percentage	Cumulative percentage
Yes	16	72.72%	73%
No	4	18.18%	18%
No answer	2	9.09%	9%
Total	22	100%	100%

**Source:** Own Survey 2023

From the table 4.9 above, almost 73% of the respondent believed there is a formal organization chart defining the responsibility of ordering, accepting, approving processing and recording of the inventory or agreed with the statement, 18% replied No, and only 9% responded No answer. Since majority of the percent (73%), Respondents agreed with formal organizational chart can define the responsibility of employees. however, (18%) are not granted to the statement. Accordingly, to the above findings, even if large percent of the respondents are replied yes the rest of the percent is no small in number therefore it has a big problem on the internal control of the firm over inventory.

Table: 4.10 inventory control system

Which one is the most commonly used inventory control system types dose your organization uses?	Frequency	Percentage	Cumulative percentage
Fixed quality system	1	4.55%	5%
Fixed periodic system	1	4.55%	5%
Just In time	11	50%	50%
Material requirement	9	40.5%	40%
Total	22	100%	100%

**Source:** Own Survey 2023

From the table 4.10 above, 5% of the respondents' responded fixed quality and fixed periodic system respectively, 40% were material requirement, and half of them (50%) were just in time. Since majority of the respondents (50%), side the Factory uses just in time and it is also an implacable that half of the controlling systems have been covered by other controlling system. This analysis implied that there are many types of controlling system, which is implemented to the organizational controlling system.

Table: 4.11 inventory system

Which types of inventory system used in the store?	Frequency	percentage	Cumulative percentage
Periodic inventory system	17	77.27%	77%
Perpetual inventory system	0	0%	0%
Not sure	5	22.72%	23%
Total	22	100%	100%

**Source:** Own Survey 2023

From the table: 4.11 above, 77% of the respondents were replied periodic inventory system and 23% were not sure what type of inventory system is employed. From observing, the above data we can easily conclude that the company uses periodic inventory system in the store.

Table: 4.12 inventory system

When an order point is placed for the material?	Frequency	Percentage	Cumulative percentage
Always	8	36.36%	36%
Frequently	8	36.36%	36 %
Sometimes	3	13.63%	14%
When ends	3	13.63%	14%
Total	22	100%	100%

**Source:** Own Survey 2017

From the table above 4.12 36% of the respondents said that frequently ordered and always ordered, 14% of respondents replied sometimes and when ends. It implies that most of ordering transactions of the Factory are carried out, always and frequently ordering point respectively.

Table: 4.13 costing method

What kinds of inventory costing methods are used in the store?	Frequency	Percentage	Cumulative percentage
First in first out	15	93.75%	94%
Weighted average	1	6.25%	6%
Last in first out	0	0	0
Total	16	100%	100%

**Source:** Own Survey 2023

From the table 4.13 above, 94% of the respondents replied the inventory cost method of the company is FIFO method. 6%, weighted average, but six of the respondents do not recognize what costing method is applied in the store.

Table: 4.14 physical observation of inventory

Do procedures provide for physical counts?	Frequency	Percentage	Cumulative percentage
Yes	18	81.81%	82%
No	0	0	0
Not sure	4	18.18%	18%
Total	22	100%	100%

**Source:** Own Survey 2023

From the table above, it implies that majority of the respondent (82%) are sure about companies inventory control relies up procedures provide for physical counts and applied in the store. but 18% of the respondents do not sure how procedures provide for physical counts and applied in the store. From the analysis, more likely physical observation is supportive to the internal control in different observational directives.

Table: 4.15 physical observations

If your answer is “yes” for the above Question please mention in what manner the policies and procedures for physical count?	Frequency	percentage	Cumulative percentage
Adequate written instructions	3	16.67%	17%
Adequate supervision	3	16.67%	17%
Clearly marking damaged and obsolete inventory	2	11.11%	11%
Carefully investigation of significant overage and shortage	4	22.22%	22%
Properly accounting for goods that are consigned in and out	5	27.78%	28
All of the above	1	5.56%	6%
Total	18	100%	100%

**Source:** Own Survey 2023

The above 4.15 table reveals that (17%)of the respondents responded that there is an adequate written interaction and adequate supervision, ( 11%) of the respondents said that they agree about Clearly marking of damaged and obsolete inventory.(22%) of respondent are clearly know about

Carefully investigation of significant overage and shortage, (28%) of the respondent are replied Properly accounting for goods that are consigned in and out (6%) said all the procedures are applied such as adequate written interaction and adequate supervision, clearly marking obsolete inventory, careful investigation of significant overage and shortage, proper accounting for good consigned in and out. This implies that majority of the respondent (42%) are sure about companies inventory control relies up on adequate supervision, clearly marking obsolete inventory, careful investigation, proper accounting for good consigned in and out from the analysis more likely physical observation is supportive to the internal control in different observational directives.

Table: 4.16 the overall control of inventories

Dose internal control appear adequate for the inventory system overall?	Frequency	percentage	Cumulative percentage
Yes	16	72.72%	72%
No	6	27.27%	27%
Total	22	100%	100%

**Source:** Own Survey 2023

From the table 4.16 above, 73% of the respondents said yes, 27% of the respondent said no, from the above finding that the overall control over inventory in Eden spring water S.C is above half percent of the total percentage, these have an implication that the company practice a better internal control. However, some respondents have a default in controlling.

### 4.3 Interview questions Analysis

The factory general manager responded that” Economic Order Quantity technique is employed because this technique minimizes the balance of costs between carrying and ordering costs. Again it answers the inventory control question of “how much to order?” and “when to order?” the implication of this is to ensure smooth operation of the company or else this will mean excess stock and its related costs, despite the fact there is still some limitation on employing the technique.”

The manager replied that “the major problem we are facing now is inadequate documentation/records, key business cycle are not properly defined, lack of control with authorization of transaction, not conducive to ethical conduct, weak oversight and review, inadequate policies and procedure, responsibilities are note clearly defined, lack of separation of duties...”

According to the question the manager replied that” our firm has only one store and it is not adequate and create a lot of impact in safeguarding the inventory and as well as for the production, delay in loading and lading, minimize movement, increase operating cost...”

researchers collect this information from the general manager as” departments directly contacts with inventory are store keeper involve the invoice & proper inspection of material received from all sources, procurement officer duty with insuring materials accepted by the store house satisfy the ordering specification given on the purchase order, stock issuer and dispatch perform tools issued workmen at the store, RM are delivered to work point and finished products are delivered to the customer.

## CHAPTER FIVE

### CONCLUSIONS AND RECOMMENDATIONS

#### 5.Introduction

This chapter discusses the findings of the study in line with the study objectives and questions. It also gives conclusions and recommendations for Eden spring water S.C on how to improve its internal controls over inventory and, mainly its policies and procedures.

#### 5.1. Summary of finding

This study assessed internal control over inventory in case of Eden spring water S.C. This was carried out by analyzing the effectiveness of policies and procedures practice, strategy used in the company and factors that affecting the inventory controlling practices in the factory. The descriptive method was used for the study. By censes method of survey all 24 members was taken from the total population of the firm. Main sources of data used for the study was primary sources of data and Structured questionnaires as the main instrument to collect the primary data on the internal control of inventory.

The first part involved demonstrating the firm's demographic characteristics of respondents. Regarding the sex, the majority of the workers from the total employees of the factory were male. This indicates the proportion female workers in the factory were small. Regarding age majority of the firm workers were young. Concerning the educational level the majority of the workers were Grade 12 completed and Diploma holders respectively. No individual Masters and above. Almost the factor's employees were experienced below 4 years. This result shows. More of the factory's employees were grade 12 completed or unskilled human powers. As the result shows, these unskilled human powers were not effective for effective internal control practices of the firm.

The second part is the findings on internal control over inventory in Eden spring water S.C. Under internal control practices on inventory firm's alternatives to Proper approval of polices and procedure were analyzed. The study found that averagely factory approved a well-written policies and procedure. importance role and also the best guidance in internal control over inventory for the factory, insurance of polices on ordering policy followed helped them from over ordering, under

formal organizational chart and responsibilities the study found the firm with formal organizational chart define the responsibility of employees.

Under controlling system, it was found that the Eden spring water S.C had many types of controlling system, which is implemented to the organizational controlling system. Company used like just in time for ordering, periodic inventory system in the store, always and frequently ordering of inventory, costing by FIFO method.

Regarding with investigated physical observation of inventory physical observation is supportive to the internal control in different observational directives.

Finally, the study investigated policies procedure, strategies and internally segregation of duties practiced in the firm is good there are still gaps in addressing main factors that influence the internal control over inventory of the firm.

## 5.2 Conclusions

According to the findings of the study, the conclusions drawn were as follows:

- The study focused on internal controls over inventory specifically on a factory called Eden spring water S.C The findings revealed that the internal control policies and procedures at Eden spring water S.C is more than half percent. These can be concluding that the organization practicing a better internal control over inventory. However, a lot of work done should be included in general observation.
- Since the management and employees are not aware about the responsibility of strong internal controls, the company's staff does not have the ability to ensure accountability. Therefore, the researchers conclude that most of the transactions are carried out with the absences of a specific authorization.
- The findings of the study revealed that Eden spring water S.C did not employing perpetual records to control inventory, inadequate documentation, lack of control with authorization of transaction, not conducive to ethical conduct, weak oversight and review, inadequate policies and procedure, responsibilities are note clearly defined, lack of separation of duties. Therefore, the system did not Provide essential information to purchasing, sales and production-planning policies, and did not Allows factory to control high costs of holding excessive inventory and also the firm have no a fixed time period for ordering inventories, therefore some products get spoiled in the store due to time taken (obsolescence) and it is not adequate, shortage row materials during production and luck of sufficient skilled man power. These and other related problems greatly affect company's future productivity.

### **5.3 Recommendations**

The study was largely successful in different direction: - the researchers can achieve the expected data collection, more likely good approach of company manager and employees, thus the following recommendations were made;

- It is advisable that the company factory to use another additional inventory control system like perpetual inventory system.
- The researchers recommended using streamline its internal controls to reduce physical loss of inventories or excessive inventories. This can only be achieved if it sets specific levels for minimum and maximum stock levels.
- The researchers recommend that the company it is better to establish the best estimate for lead-time in delivery of materials. These will boost its effectiveness in inventory control; these can be applied by hiring educated or experienced employees by considering its cost benefit or giving training and promotion. In order to reduce deficiency of employee in taking responsibilities.
- In order to eliminate shortage of raw material, the company is better to implement strong work to the promotion of sufficient store or store division and proper inventory handling methods.
- Researchers advised the firm to revise or update Policies and procedure implemented in controlling inventory.

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# APPENDEX

Wolkite universty

College of Business and Economics

Department of Accounting and Finance

## Questionnaire I

**Dear respondents:** My name is Mulugeta Birlew

First, I would like to extend my sincere gratitude for helping me by filling this questionnaire.

The following questions are developed for the sake of gathering information in relation with inventory control practice of Eden spring water S.C. The information is required for the completion of a senior essay in accounting and finance as a partial fulfillment for obtaining a BA degree. This required information will be used for the academic purpose only.

Thank you for your cooperation, spend your precious and valuable time to complete this questionnaires.

**Instructions:** - Thick for your answer

- No need to write your name

- You can support on or more idea.

### I. Personal information/Demographic Information

1. Sex:

Male

Female

2. Age in year:

A. 18-25

C. 34 - 41

B. 26-33

D. 42-49

E,  $\geq 50$

3. Educational level:

A,  $\leq 12$

B, Grade 12 complete

C, Diploma

D, BA

E, Masters

4. Year of experience:

A,  $\leq 4$

B, 4-10

C, 11-15

D, 16-21

E,  $\geq 21$

**II. General information**

5. Do you think that policies and procedures of the company support internal control and are they properly approved?

- A. Yes       B. No       C. No answer

6. If your answer for # 5 is yes, what types of policies and procedures practice are applied?

A, hiring and terminating of employees policy

B, risk management polices

C, complete safety programs

D, accounting process flow chart polices

E, business law polices

F, Please specify if any other \_\_\_\_\_

7. After you select among the alternatives for # 6, would you explain why you prefer among the other alternatives please?

\_\_\_\_\_  
\_\_\_\_\_.

8. Are polices established to ensure that inventory are not stock or to prevent over-ordering.

- A, Yes       B, No       C, No answer

9. Please explain, in what manner does the factory policies and procedure support the firm from over-ordering and stock-out of inventory?

\_\_\_\_\_  
\_\_\_\_\_.

10. Did the formal criteria used to evaluate internal control over inventory and are they appropriate?

- A, Strongly agree       B, Agree       C, Disagree       D, Strongly disagree

11. Is there a formal organizational chart defining the responsibility of ordering, accepting, approving processing and recording of the inventory

- A, Yes       B, No       C, No answer

12. Which one is the most commonly used inventory control system type does your organization uses?

A, Fixed quality system

C, Just in time

B, Fixed period system

D, Material requirement

13. Which types of inventory system used in the store?

A, Periodic inventory system  B, Perpetual inventory system  C, Not sure

14. Please explain why, after you select answer for # 13 either periodic or perpetual?

\_\_\_\_\_

\_\_\_\_\_.

15. When an order point is placed for the row material

A, Always  B, Frequently  C, Sometimes  D, When ends

16. What kinds of inventory costing method is used in the store

A, First in first out  B, Weighted average  C, Last in first out

please specify If any other \_\_\_\_\_

17. Do procedures provide for physical counts

A. Yes B. No C. Not sure

18. If your answer is “yes” for # 17 please mention in what manner the policies and procedures for physical count

	Yes
Adequate written instructions	
Adequate supervision	
Clearly marking damaged and obsolete inventory	
Carefully investigation of significant overage and shortage	
Properly accounting for goods that are consigned in and out	
All of the above	

19. Does internal control appear adequate for the inventory system overall?

A. Yes  B. No

20. If your answer is “No” for # 18 please mentions the limitation of the system?

\_\_\_\_\_

\_\_\_\_\_.

21. In what manner does the firm get difficulties in internal control over inventory?

\_\_\_\_\_

\_\_\_\_\_.

## **Questionnaire II**

### **Interview questions for the General Manager**

1. What kind of technique is employed in safeguarding inventory of Eden spring water S.C?
2. What are the major problems of Eden spring water S.C to control inventory?
3. How many stores did your firm have and is/are it/they sufficient to keep inventory well?
4. Is there any division of responsibility for each department, which is directly contact with inventory?

Thank you for your cooperation!