

ST. MARY'S UNIVERSITY COLLEGE

FACULTY BUSINESS

DEPARTMENT OF ACCOUNTING

Assessment of Financial reporting standards in not-for profit

Organization (in case of Selam tesfa HIV/AIDS prevention case

Support organization)

By

TARIKU DEBALA KUMA

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SMUC

ADDIS ABABA

ST.MARY'S UNIVERSITY COLLGE

FACULTY OF BUSINESS DEPARTMENT OF ACCOUNTING IN CASE

SELAM TESFA HIV/AIDS PREVENTION CARE AND SUPPORT

ORGANIZATION

BY TARIKU DEBELA KUMA

FACULTY OF BUSINES DEPARTEMENT OF ACCOUNTING

APPROVED BY THE COMMITTEE OF EXAMINERS

DEPARTMENT HEADS

SIGNATURE

ADVISOR

SIGNATURE

INTERNAL EXAMINER

SIGNATURE

EXTERNAL EXAMINER

SIGNATURE

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III

ACRONYMS

GAAP ; General accepted accounting principle.

VHWO ; Voluntary human welfare organization

NGO ; Non – Government organization

SHICCSO ; Selam Hiwot Integrated Children & Community Support
Organization

DPPA ; Disaster prevention & preparedness Authority

NFP; Not for profit organization

Deficiency syndrome

ARV ; Antiretroviral medicines

OVCS ; Orphans & vulnerable children

FASB ; Financial accounting standard board

DFC; Designated fund certificate

HIV/AIDS ; Human immune virus/Acquired immune

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CHAPTER ONE

INTRODUCTION

1.1. Background of the study

The major of theme of the research paper is to assess the application of accounting in nongovernmental not for profit organization. On governmental not for profit organizations are established by single or group of individuals who are established or who are willing to help the public without considering any benefit from, except satisfaction such as education or health care provided on anon profit basis with in community. /Smuc Module 1-3/

Financial reporting for governmental and not for profit organizations involve concepts, standards and procedures designed to accommodate the uniqueness of the environment in which they operate and the unique needs of the financial report users. Not for profit organizations prepare statement of activity, statement of financial position and statement of cash flow. Some different in accenting and reporting of the business organization and NFP organization arise from their very nature of activities. NFP organization characters by governmental units but have no power to levy taxes /leon E-RAY 1983/. The accounting practice for both type of organization is governed by GAAP and nationally or internationally established accounting practice and reporting like /Financial accounting standard board /Lynn's and j.Free man 1993/

1.2. Background of the organization /Selam Tesfa/ HIV/AIDS;

Selam tesfa HIV AIDIS prevention care and support organization is an Ethiopian, nongovernmental, non profitable, non partisan and secular organization in established and empowering our society to protect itself from all forms of HIV/AIDS transmission. Hiwot tesfa organization was established is sebeta in 1997E.C. providing care and support to ADIS affected and infected people, families and supporting the diseases multiples imp ace SHICCSO was established in 1999 by an Ethiopian nurse sister Tibebe Maco. SHICCSO currently support over 1000 or phones and vulnerable children/OVC's/ in various ways about one third of these ovcs receive comprehensive care and support including financial

assistance school uniforms, materials and nation support OVC'S receive psychological support form volunteer care givers, nurses and have the opportunity of attending life skills and vocational trainings in order to support themselves as well as any younger sibling SHICCSO has an income generation program through which it provides skill and vocational sex education, skills training and income generation activities to female ex-commercial sex worker.

GOLALS;

Build the capacity resources to the community to provide care and support provide an effective home based on care program.

Empower health professional to care for people living with HIV/ADIS/PLHAS/ and assit them to scope with the problems they face, including the uninterrupted supply of antiretroviral medicines /ARV'S/ there correct usage psychological and counseling support to HIV/ADIS patients and phones vulnerable children /Ovc/ and their families.

Hold educational activities or HIV/AIDS including safe sex practices

Design and support income generating activities for low income and child Loaded families,

Give continuous training and advice for community to aware about HIV/AIDS

1.3. Statement of the problem;

It is general fact that the success of management planning and controlling of an organization depends, to a large extent, on the accuracy, adequacy, and timely financial information derived from the accounting system. Accounting plays an important role in our economic and social system. Sound decisions made by individual, business. Government and other entities are essential for the efficient stakeholders must have reliable information provided by an accounting

system. Non governmental organizations as non-profit organization should keep their book of accounts for efficient fund organization and reporting to donors and different governmental agencies. If the accounting system of an organization is

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weak it will be result for having wrong financial statement, such statements do possess the power of leading different stakeholders down to a wrong decision making path. In light of the fore mentioned point this study will search answers for the following major question:-

1.4. Basic research question;

1. What accounting and financial reporting standards are followed by Selam Tesfa HIV/AIDS prevention, care and support?
2. What special requirement do donors impose that affect their recording and reporting practice?
3. On what aspect does their practice vary with GAAP guidelines and other government polices?

1.5. Objective of the study;

This study is under taken with an aim of attaining the following objectives.

1.5.1. General objective;

The main purpose of the research paper is to assess the application of accounting and financial reporting standard in Selam tesfa HIV/AIDS prevention, care and support organization.

1.5.2. Specific Objective;

To identify and asses the current accounting and financial reporting standards followed by Selam Tesfa HIV/AIDS prevention care and support organization to identify and assess donor requirements that affect recording and Reporting practice.

1.6. Significance of the study:

The outcome of this study was believed to be of great use to parties like researchers students and academicians who would like to broaden their knowledge on the manner nongovernmental not for profit entities record and report their transaction. Moreover, the findings of this study are to be of great help to the management, in identifying factors which make compliance with ser recording and reporting standard difficult, if not impossible and take the appropriate measures.

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1.7. Scope of the study

The scope of this study is limited to the assessment of application of Accounting standard on Selam Tesfa HIV/AIDS prevention, care and support organization in Sebeta town. That mainly focuses on the checking of the degree of compliance between thirteen governmental accounting principle and the organization policies and procedures for recording and reporting activities the will be conducted based on the data gathered from the organizations finance department. Finally draw conclusion and recommendation on areas were standard is different from actual practices.

1.8. Research design and methodology

1.8.1. Research design method; The research design which is used descriptive research design method. I choose this method in order to describe the organizations accounting and reporting practice briefly.

1.8.2. Types of data collected;

The study is conducted based on primary and secondary sources of data. The primary sources were individuals who are believed to be directly related with recording and reporting of transaction. The secondary sources of data were documents from finance department, policy and procedure manuals, company annual report, and other published document.

1.8.3. Method of data collection:

The study is conducted based on primary and secondary sources of data. The primary data is collected through interviewed individuals who are believed to be directly related with recording and reporting of transactions the organization the secondary data is obtained through an appropriate inspection from Jan, 1/1999

to Dec. 30/2001 and consultation of relevant document such as financial state of the selected period.

1.8.4. Population and sampling technique;

For a sound conclusion to be reached, the study dwell son an interview with selected employs from purpose sampling technique to select I top official from a total population size of 5 who are believed to be related with recording and study.

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1.8.5. Data analysis method;

The collated primary and secondary data are analyzed using descriptive analysis technique. In addition to this, for a sound analysis, the collected data is analyzed through a paper comparison with the arterial background of the study.

1.9. Limitation of the study;

Research work requires sufficient time. Money and other resources made the timely completion of this study difficult.

1.10. Organization of the paper:

This paper contains four chapters. The first chapter narrates the introduction. Statement of the problem, objective of the study, significant of the approach and scope of the study. The second chapter shades light on the arterial base of the study. The third chapter dean on the presentation, interpretation and analysis of data collected , the last and fourth chapter summary of findings. Conclusion and recommendation for awarded by the study.

CHAPTER TWO

Literature review

Accounting is capable of supplying financial information that is essential for the efficient operation and for the evolution performance of any economic unit in society. Accounting provides information essential about the financial activities of an entity to various individual or groups for their use in making informed judgments and decision. After the effect of the individual transactions has been determined the essential information is communicated to users to users. The accounting system that communicate this information are collected financial statement /fess warren 16th/

Neither the FASB nor the GASB has yet issued a comprehensive set of financial report standard for all NFP organizations. Although the FASB is in process of issuing standard for selected items of revenue and expense which have been treated differently by different categories of not for profit organizations and the GASB has several projects in progress which are expected to affect financial report by NFP organizations related to governmental units /Leone hay and Earl Wilson; 1989/.

Since FASB, GASB and AICPA projects are likely to extend in the next decades: I present my literature review in accordance with audit of voluntary health and welfare organization and financial reporting guidance in the audit guides consistent with FAXB and GASB standard.

2.1. Accounting and financial reporting capabilities:

A governmental accounting system must make it possible both.

- A. To present fairly and with full disclosure the financial position and result of financial operations of the funds and account groups of the governmental unit in conformity with GAAP and
- B. To determine and demonstrate with finance related legal and contractual provisions.

The VHWO audit guide state that;

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A fundamental purpose of the financial statement is to disclose how the entity's resources have been acquired and used for accomplishing the objective of the organization. Thus the organization financial statement showed to the extent possible reflect the total resources available to carry out various program services to which it is committed and the use made of those resources /Fess warren; 16th ED/

The guide state notes that a wide variety of persons and groups are interested in the reports of VHWO.

Contributors to the organization,

The organization's trustees or directors

Executives of the VHWO governmental that have authority to control /regulate/ charitable solicitation through legislation the local, state and federal governments which grants tax exemption to charitable organization /Edward Lynn, 1983/.

A governmental accounting system must make it possible both

- A. To present fairly and with full disclosure the financial position and result of financial operations of the funds and accounting groups of the government unit in conformity with generally accepted accounting principles.
- B. To determine and demonstrate compliance with financial related legal an contractual provision.

2.2. Funds accounting by not for profit organization;

The internal accounting unit for many NFP is the fund which is an accounting entity with self balancing set of accounts recording cash and other financial resources together with which are segregated for the purpose caring on specific activities in accordance with special regulations, restriction or limitation; separate funds may be necessary to distinguish between asset that may be used as authorized by the board of Director and whose use is restricted by donors /SMUC; Module 1-3/

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Funds commonly used by some NFP include;

1, Unrestricted fund /current unrestricted funds/ in many respects it is similar to the general fund of government entity. The unrestricted fund includes all the assets of NFP organization that are available for use as authorized by board of directors and are not restricted for special purpose. Thus alike general fund of government entity it is residual in nature /Lynn/ free man; 1983/.

The revenue and gains of unrestricted fund; derived from different sources.

Revenue services

Contributed material

Pledges /promise to give/; is a commitment by prospective donors to contribute a specific amount of cash or property of a future date.

Revenue from pooled Investment:

Many of NFP have such available for investments securities are other money market instrument programs, the investment program resources of all funds may be pooled for investment by single portfolio manager. Each of the funds participating in the market pool debits investment and credit gains on investment /Lynn/ free man; 1983

Expense and Looses of unrestricted fund;

Expense of NFP, May by classified in two groups.

1. Program Service; are the organization activates that resent in the distribution of goods and members that fulfill the purpose or mission of the organization.
2. Supporting Service: are all activities other than program, service, such as management, general fund raising and membership development activities.

Assets and Liabilities of unrestricted fund;

Most assets and fund liabilities of NFP are unrestricted fund are similar to the current assets and current liabilities of business enterprise. NFP that use fund Accounting

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generally account for plant assets in a plant fund, although some entities account for such assets in the general fund.

The liabilities of unrestricted fund include payable accrual and deferred revenue similar to that business enterprise as well as amounts payable to other fund.

1. Fund balance of unrestricted fund:

Because most NFP do not have owners account the net assets of the organization unrestricted funds are represented by a fund balance similar to that of most funds of government entity.

The board of director may designate apportion of unrestricted fund not asst for a specific purpose. The ear marked position is accounted for as segregation of the unrestricted fund balance rather than as a separate restricted fund /Lynn/ free man; 1983

2. Restricted fund;

Not for profit organization established restricted funds to account for assets available for current use. But it is expendable only if authorized by the donors of the assets. Thus it resembles the special revenue fund of a government entity because the assets of both types of funds may be expended only for specified purpose (Lynn/ free man 1983).

The assets of restricted funds are not derived for the operations of NFP. Instead the assets are obtained from;

Restricted gifts or grants from individuals or governmental entities

Revenues from restricted fund investments

Realized and unrealized gains or investment of the restricted funds

Restricted income from endowment funds

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These assets are transferred to unrestricted fund at the time the designate expenditure is made with credit to an account with a title such as net assets released from restrictions.

3. Endowment fund;-

An endowment fund of NFP organization similar to and expendable trust fund, a governmental entity,

A permanent fund is one of which the principal must be maintained in definitely revenue producing investments. Only the revenues from permanent endowment funds investment may be expended the NFP organizations. In contrast the principal of a term endowment fund may be expended after the passage of a period of time of the occurrence of an event specified by the donor of the endowment principle a quasi endowment fund is established by the board of directors of NFP organization rather than by an out side donor.

At the option of the board that principle of quasi endowment fund later may be expended by the entity that established the fund. The revenue of endowment funds are accounted in accordance with the instruction of the donor or the board of directors, if there are no restrictions on the use of endowment funds, income it is transferred to NFP organization, unrestricted fund other wise the endowment fund revenues are transferred to an appropriate restricted (Lynn/ free man 1983)

4. **Agency fund;** an agency fund of NFP organization used to account for assets held by a MFP organization as custodian. These assets are disbursed only as instructed by their owner. The undistributed cash of custodian is reported as a liability of NFP agency fund rather than as a fund balance because the NFP has no equity in the fund.
5. **Annuity fund;** assets may be accounted to NFP with stipulation that the organization pay specific fixed amounts periodically recipients for a specified time period.
6. **Life income fund;** it is used to account for stipulated payment to named benefits during the beneficiary's life time.

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7. **Loan fund;** it may be established by any NFP organization but loan funds most frequently are included in the accounting records colleagues.
8. **Plant fund;** the components of plant funds varying among NFP. In addition to plant assets, plant fund may include cash and investment ear market for additions to plant assets and mortgages notes payables and other liabilities collateralized by the plant assets.

Governmental accounting systems should be organized and operated on a fund basis; a fund is defined a fiscal and accounting entity with a self balancing set of accounts recording cash and other financial resources activates or attuning certain objectives in accordance with special regulations, restriction or limitation (Edward Lynn, 1983).

Not for profit organization often receive amount designated by the contributor as being for a specific purpose with specific restrictions place on these amounts, the organization require a mechanism where the amounts allocated to particular purpose may be identified and racked. In many not for profit organizations, a basic objective of financial reporting after becomes the tracking of changes in each fund balance over the years and associated stewardship (Ear/Wilson; 2001). The total of assets less liabilities of NFP organization will equal the total of funds balance, the same way that in busyness organization, assets les liabilities equally owners equity.

2.3. Types of funds; The following types of funds should be used by state and local governments;

A. Governmental funds;

1. **General funds;** to account for all financial resources except those required to be accounted for in other fund (SMUC; Module 1-3).
2. **Special revenue funds;** to accounts for the proceeds of specific revenue sources other than expendable trusts or for the major capital projects that are legally restricted to expenditures for specified purpose (SMUC Module 1-3).

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3. Capital project funds; To account for financial resources to be used of the acquisition or construction of major capital facilities. (Other than those financed by proprietary funds) and trust funds,

B. Proprietary funds.

1, Enterprise funds;

- A. To account operations that are financed and operated in manner similar to private business enterprise where the intent of the governing body is that the cost (expense) including basis be financed or recovered primarily through user charges or
- B. Where the governing body has decided the periodic determination of revenues earned, expense incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, other purpose.

2, Internal service fund; To account for the financing of goods or services provided by one department or agency to other department or agencies of the governmental unit or to other governmental units or accost reimbursement basis.

C. Fiduciary funds;

- 1) Trust and agency fund. To account for assets held by a governmental unit in trustee capacity or as an agent for individuals' private organizational other governmental units and/or other trust funds these include;

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- A. Expendable trust fund,
- B. Non expendable trust fund.
- C. Pension trust and agency fund (Leon-E-Hay, 1983)

2.4. Number of funds:

Governmental units should establish maintain those funds required by sound financial administration. Only the minimum number of funds consistent with legal and operating requirements should be established because unnecessary fund resulting in flexibility,

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undue complexity and inefficient financial demonstration (Lynn and freeman; 1983).

2.5. Reporting capital assets; At the fund financial statements level, capital assets are not reported in government all funds but reported in proprietary and fiduciary funds. Governmental fund capital assets will be accounts for and reported in the schedule for non current governmental assets (Ibid).

2.6. Valuation of capital assets; Capital assets should be accounted for at cost or if the costs are not practically determinable, at estimated cost. Donated fixed assets should be recorded at their estimated fair value at the time they are received (Ibid).

2.7. Depreciation of capital assets (fund financial statement); Depreciation of capital assets should not be reported in the accounts of governmental funds. Depreciation of capital assets accounted for in a proprietor fund should be recorded in the accounts of that fund. Depreciation is also recognized in those trust funds where expense net income and/or capital maintenance is measured.

2.8. Reported long term liabilities

There are three categories of long term liabilities;

Long term liabilities related to proprietary fund should be reported in those funds,

Long term liabilities relate to fiduciary funds should be reported in those funds and all other long term liabilities not reported in one or two will be accounted for and reported in schedule of non current government liabilities /Lynn/ free man 1983/

2.9. Measurement focus and basis of accounting; Basis accounting refers to when revenues, expenditure or expense, transfer and related assets and liabilities are recognized in the accounts and reported in the financial statement. Both the accrual and modified accrual basis of accounting are used in governmental accounting system as appropriate.

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Accrual basis of accounting is appropriate for proprietary funds and similar to fiduciary funds and modified accrual basis of accounting is appropriate for governmental funds and similar to fiduciary funds (Ibid)

1. The modified accrual basis of accounting is applied as follows;

A. Revenue is recorded or recognized when it is both objectively measurable and available to finance expenditure of the current period. When the recognized on cash basis and other on accrual basis.

B. Expenditure are recognized in the period in which the related liabilities arise or incurred if measurable, except for UN matures interest on general long term debt, which should be recognized when due or paid (Ibid).

2. The accrual basis of accounting is applied as follows;

A. Revenue is recognized in the accounting period in which it is earned and becomes measurable.

B. Expense should be recognized in the period incurred and become measurable.

2.10. Data classification;

Data in governmental units may be classified as follows;

1. **Resource inflow and outflow;** Resource inflow contain revenue and other financing sources, such as transfer in, proceeds of bond issuance, acquisition of

general fixed assets on capital less. Acquisition and acquisition of fixed assets by donation and resources out flow may contain expenditures and other financing uses/or transfer out/.

Revenues of governmental funds should be classified first based on types of fund and thereafter by source. Whereas expenditures should be classified first by types of fund and thereafter by function, program organization units, activity character and principal classes of objective. But proprietary fund revenues and expense should be classified in essentially the same manner as those of similar business organization that is by functions or activities (Larsson; 1975).

2. Accounts; Accounts of government funds are classified proprietary and budgetary, proprietary accounts include balance sheet account (asset, liability and fund equity) and operating statement accounts (revenue expenditure other

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financing source and other financing budgetary accounts include estimated revenues, appropriations encumbrance, budgeted other financing users (Larson 1975)

2.11. Budgeting, budgetary control and budgetary reporting. An annual budget(s) should be adopted for every governmental unit. The accounting system should provide the basis for appropriate budgetary control (Lynn/ Freeman 1983).

It is a common practice in not for profit organizations to set up the approved budget in the accounts.

This practice permits actual expenditures to be tracked against budget; so that the difference may be tracked for management purpose (Ear /Wilson, 2001). Additional control is maintained by recording various expenditure when first approved, rather than when approved are referred to as "encumbrance," the related expected obligation, as reserve for encumbrance.

2.11.1. Encumbrances;

Encumbrances are commitments related to unperformed or executed contracts for goods or services. The encumbrance account does not represent GAAP expenditure only a commitment to expend resources.

Likewise 'reserve for encumbrance,' is not synonymous with a liability account since the liability is recognized only when the goods received or the services are performed.

At the end of the fiscal years, the encumbrance account is closed to the unreserved fund balance, so as to restrict unreserved fund balance for the potential liability of goods and services ordered. On the first day of the next fiscal year the entry closing the encumbrance account is reserved and the budget for the subsequent year is increased in like amount to provide for the potential expenditures authorized in the previous year (Ibid).

2.11.2. Setting up the budget; the budget is an essential ingredient in the financial, control and evaluation process of not for profit organization. The budget is an estimated financial plan the represents the spending author it for the various purposes of the organization and the means of financing those expenditure.

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The basis on which the budget is prepared should be consistent with the measurement focus on particular.

Fund modified accrual for governmental funds and full accrual for proprietary funds. To record adopted budget, debit estimated revenues and appropriated fund balance and credit appropriations (SMUC; Module 1-3)

2.11.3. Budget modification:

2.11.4. Since, the budget is an estimate situations inevitable will arise when it will be necessary to amend the budge. The governing board must authorize budget modification. Generally an appropriation can be increased or created by;

Transferring from unexpected balance of another appropriations,

Transferring from appropriation for contingency, if any,

Appropriating UN reserved fund balance or unanticipated revenues received or expected to be received,

Borrowing pursuant to the local finance law

2.11.5. Closing entries in fund accounting system.

In a not for profit, as with a business all temporary accounts are closed at the end of the fiscal period (Ear Wilson 2001).

Close budgetary accounts, to provide for the “set up” of next year’s budget.

Close out standing encumbrance to expenditure for the period, so that encumbrance are charged against the budget in the year approved (entry is reversed at the beginning of the next period).

Close actual revenue and expenditure accounts, up dating the fund balances.

And clearing the accounts for the following year's expenditures,

Not that commitments remain on the balances sheet, and represent the amount of approved expenditure undelivered at the end of the fiscal year.

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As the entry to close encumbrance was reversed, when invoices are actually received and expenditures entered, encumbrance are cancelled Against commitments in the normal manner (Leon – E-Hay, 1989)

2.12. Expenditure accounts in governmental fund

Since the primary measurement focus of government fund is on financial position, activities financed through such funds are usually planned, authorized, controlled and evaluated in terms of expenditure. Therefore expenditure is the primary "out flow" measurement governmental fund. Account expenditure is a different measurement concept that expense.

Expenditure is a measure of fund liabilities incurred or fund financed resources used during a period for operations, capital outlay and dept service (Engestrong & Copes 2004)

Expense is a measure of costs expired or consumed during a period.

Inter fund transfer and proceeds of general long term debt issues should.

Be classified separately from fund revenues and expenditures or expenses,

Governmental fund revenues should be classified by fund function (Program), organization unit, activities and character principal classes of

Objects,

Proprietary fund revenues and expenses should be classified in essentially the same manner as those of similar business organization functions or activities (Ibid)

2.13. Interim and annual financial reporting.

Financial reports of state and local governments according to the governmental accounting standard board are used primarily to compare actual financial results with the legally adopted budget;

Assess financial condition and results of operations.

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Assist in determine compliance with finance related laws,

Rules and Regulations,

Assist in evaluating efficiency and effectiveness.

Financial reports of NFP organization voluntary health and welfare organization colleges and universities, hospitals, religious organization and other have similar uses but, in recognition of the fact that the financial operation of NFP organization are generally not subject to as detailed long restriction. The Financial Accounting standards Board (FASB) is an independent organization no government or professional affiliation. The FASB's pronouncements called statements of Financial accounting standards (SFAS). The FASB aims for financial statements that best meet user need for business information Accounting information appears in for statements; the balance sheet, the income statement, the statement of owner's equity, and the statement of cash flow the FASB provides definitions foe the element that make up these statements. Financial information presentation to be most useful to the area test number of statements user must be presented in a standard format with well defined terms.

FASB concepts statement No. 3 provides authoritative definition of the elements of financial statements

1, Balance sheet elements

- Assets are future economic benefits obtained or controlled by a particular entity as a result of past transactions.
- Liabilities are the obligation of an entity to transfer asset or provide services to other entities as a result of past transactions.
- Equity is the interest in the assets of an entity that remains after subtraction/its liabilities. It is the ownership interest in the entity.

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2, Income statement elements

- Revenues are inflows of assets that arise from delivering or producing goods rendering services, or performing other activities that constitute the entity's ongoing central operations.
- Expenses are out flows of assets or the incurrence of liabilities that arise from delivering or producing goods. Rendering services or carrying or producing goods, rendering services, or carrying out activities that constitute the entity's ongoing central operations.

As are those of governments, the FASB believes the financial reports for not profit organization should provide.

Information's useful in making resource allocation decision,

Information useful in assessing services and ability to provide services,

Information useful in assessing management stewardship and information about economic results obligation net resources and change in the (Leon-E-Hay 1989).

CHAPTER THREE

3.1. Data presentation and analysis;

In the previous chapter the concept approach of accounting and financial reporting standard were discussed. Here in this captor the data analysis of the study obtained from SHICCSO is presented. Data is collected through, by preparing interview questions for the executive finance officer who is more related with recording and reporting of transaction. The data gathered is presented in descriptive method.

3.1.1. Accounting and reporting capabilities.

The organizations reporting capabilities are in accordance with GAAP functionalized expenditure and revenue expenditure reports are prepared on a monthly and quarterly basis.

Special reports designed for government reporting purpose is made annually. The accounting system is designed in a way that it makes possible to report in conformity with GAAP. The organization prepares three different reports the differ only in formats;

Report for donors, two kinds of reports are prepared for donors these are;

1. Functionalize expenditure report, this report is prepared on a monthly basis; it is a report is prepared of expenditures made on each program area. There are seven programs areas the organization is engaged on. The program area are; Health and sanitation

Nutrition

Early chide development

Basic education

Income generating activates

Emergency aid

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Program support consultation service for HIV/AIDS carries.

Revenue and expenditure report, this is a summary report that shows the sources and application of funds. Basic components in the report are balance carried forward from previous month or year, current period received funds, expenditure of the period and ending balance. The ending balance is the fund available for next period operations.

Report for DPPA

This report is made quarterly and annual. The report is made on standard forma designed by DPPA. The report formant consist the following.

Organizations name, address and reporting period,

List of activities by program,

Quantity and unit of measurement for each activities

Budget year to date, budget in caption to date,

Current period budget and current period expenses,

Expense year to date and expense in caption to date variance,

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These implies that accounting and reporting capabilities are preformed in accordance with governmental accounting principles and VHWO audit guidelines which are applied in accordance with generally accepted accounting principles/GAAP/

3.1.2. Fund account system:

As describe in the previous chapter funds are used to distinguish between assets that may be used as an authorized by the board of directors and whose use is restricted by donors. Considering the above topic I tried to gather data from the finance office wither the organization accounting system organized and reported on fund basis and if so how do they define fund on their context?

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The organization accounting system is organized and operates on fund basis fund on the organization sense is a self contained accounting entity with its own asset,

Liabilities, revenues, expenditures, or expense and find balance or equity. They establish fund in order to control earmarked resources management also designate specific purpose for which certain resources must be restricted i.e. there may be limited to specified purpose or activates. This data implies that from one of the thirteen governmental accounting principles the organization fund accounting system is presented fairly related with GAAP.

3.1.3. Types of fund;

As can be seen in the literature review is three government accounting funds. These are general fund and special revenue funds and capital project fund I tried to come up with whether SHICCSO apply the above three governmental accounting funds, if so; to explain funds under each category and their sources of revenue?

Major sources of revenue are;

- I) Sponsorship funds; This is funds obtained from children sponsorship programs and is the main sources of fund for the organization.
- II) Designated fund certificate (DFC); is obtained from child sponsors as a special gift to the sponsored child.
- III) Grant funds; is obtained based on specific proposal submitted to donors for activities that cannot be covered by sponsorship

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Funds, each grant, when received are described in full and recorded as grant income.

Revenue from grant funding is recognized by donor's name. Individual grants identified using the sources of funding code.

Grants – Us Government.

Grants – Other government.

Grant – Combined government.

Grants – Foundation.

Grants – Others.

IV) Community contributions; community contributions can be cash, in kind or services (Ibid).

V) Miscellaneous income; this category is provided to recognize any revenue receipt that does not fall under any of the revenue categories described above, Example, sales of bid documents. In SHICCSO any revenue receipt from donors, whatever the sources will individual entered in to the system and classified by its source. At the end of each of reporting period (monthly, quarterly, or annually) summery of report will be made.

In the organization funds are classified based on their sources of funds, which is sponsorship funds can be transferred program to program within the fund by

getting approval from DPPA and also grant fund which is obtained based on specific proposals submitted to donors can be transferred to other funds or used for other purposes only if the donor approved the transfer request. But designated fund certificate could not be transferred to other funds because it only allocates for sponsored child.

In accordance with the data gathered the organization differentiates their activities in to eight programmed areas. Because of that expense that is incurred in SHICCSO are so grouped with those programmed areas.

- Health and sanitation
- Nutrition
- Early child development,
- Basic education

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- Income generating activities

- Emergency aid
- Program support
- Consolation service of HIV/AIDS carriers,

In SHICCSO expenditures are easily defined as to functions they serve (health and sanitation, nutrition, easily child care development, education, income generating activities, emergency aid and program support). For example a school uniform bought for children would normally be treated as an education program expense. But in case of expense that is incurrent for support of the program deliver such as utilities, postage and salaries for staffs are classified in the organization as program support costs that benefit more than one program are located based on the amount of budget earmarked for the program.

Expense in this category is salaries and benefit of general managers, program manager, etc.

Accounting to the data gathered SHICCSO differentiate their funds in order to control the earmarked resource which is in conformity of generally accepted accounting standards.

3.1.4. Number of fund;

Some governmental units often need several funds of single type. Such as special revenue of capital projects funds. For selecting specific funds NGO requires professional judgments and the funds in use should be reviewed from time to time to assure that all funds needed are in use and that no unneeded funds are in use.

Based on the above topic I tried to gather data like how many funds are available and whether these funds are in conformity with the requirement of the law and sound financial administration?

Based on the study made as I tried to state on the previous points a total of three funds are established under two major categories. Sponsorship fund and a non sponsorship funds, two of the funds (grant and DFC) are listed under non sponsorship funds. A sponsorship fund is in conformity with the requirements of the law and sound financial

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administration. Non sponsorship funds are not directly reported to the government body. But the established accounting system and internal control system of the organization shows sound financial administration. From the study I come up with a conclusion that the organization uses an optimum number of funds since unnecessary funds result in flexibility, undue complexity and inefficient financial administration. And it's understandable that they establish and maintain those funds required by sound financial administration. This assures that they are working in accordance with standards of GAAP.

3.1.5. Reporting capital assets.

Every asset purchased for more than thousand birr and which is expected to serve more than one year will be considered as fixed assets. Related capital assets I asked the executive finance officer about three questions to gather data whether the organization purchases fixed assets (procedures) and which fund have they found appropriate for their capital assets. Based on the study made the organization makes major capital acquisition. The organization purchase policy requires a minimum of three Performa invoices for may purchases made for birr five hundred. The purchases procedures are as follows;

The appropriate personnel fill a purchase requisition.

Availability of budget will be checked.

The organizations purchase and parent committee representative collect

Performa invoice parent committee is a committee representing beneficiaries in conformity.

The Performa in voice will be selected and purchase be accomplished accordingly

Capital assets acquired are directly expensed and reported in the revenue and expenditure report in the accounting period in which the fund liability incurred. Most capital acquisition is made from sponsorship funds. It can also be made from grant funds. Any capital acquisitions from sponsorship or grant funds are recorded in their

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respective funds. From this I conclude that SHICCSO apply its activities with no deviation from standards of GAAP.

3.1.6. Valuations of capita assets;

Capital assets are valued at their acquisition costs. These costs are directly expensed. SHICCSO record their sources from donation at their current fair values. The market value will be determined by organization an assessment committee that will work in the market. Because the organization are followed one of the thirteen governmental accounting principles I conclude that there accounting system in valuation of capital assets are in agreement with GAAP standards.

3.1.7. Depreciation of capital assets;

Depreciation accounting is an important element of the income determination process. Whether depreciation is recognized depends on expense or expenditure is being measured rather than whether the cash is or accrual basis of accounting is used. Depreciation is calculated only for the purpose of planning replacement of the assets and for disposals. The organization apply straight line method is in consistent with generally accepted accounting principle. For the above data I tried to forward a conclusion which is the organization do not account depreciation and fund financial administration.

3.1.8. Reporting long term liabilities.

SHICCSO finance resources through short term loans, donations and others. But the organizations do not finance through long term liabilities. From this I can conclude that there is deviation from standards.

3.1.9. Basis of accounting and measurement focus.

Accrual as is of is appropriate in measuring financial position and operating result. It allows recognizing revenue in the accounting period in which they become available and measurable and expense in the accounting period in which the fund liability is incurred.

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The above data indicates that they use accrual basis of accounting which is consistent with GAAP.

3.1.10. Budgeting, Budgetary, Control budgetary reporting.

Annual budget is set for sponsorship funds. Revenue will be estimated based on number of children sponsored. The number of children in the previous year is used to calculate estimated budget. Estimated revenue= no of sponsored children @ monthly support per child @

Appropriations will be planned for each activity under each program. There is no annual budget for activities financed by AFC and grants funds, the accounting system provides the basis for appropriate budgetary control by allowing comparisons between plans and actual performance any variance below or above 5% requires explanation and facilities administrative control. Activities under each program will be listed and expressed in monetary term estimated revenue computed as in above will be allocated for activities listed under each program. The budget details will be set to DPPA for approval. DPPA will examine and compare the budget against the plan made for the project life and usually approved the plan if there are no major deviations. Once a budget is approved operations will start. The actual performance will be compared with plans on a monthly basis and any variance of-or-of 5% will be examined so that corrective actions will be made.

Budget modification is possible in the middle of the budget year if it is required, but the revision should be approved by DPPA. The accounting system provides basis for appropriate budgetary control by allowing comparisons between plans and actual performance and made decisions, According to the study made the organization works in agreement with standards of GAA

3.1.11. Transfer, Revenue, Expenditure, and expense accounts classification.

Information we assess that Selam Tesfa HIV/AIDS prevention, care and support organization have no inter fund transaction but sponsorship funds can be transfer from program to program within the fund by getting approval from DPPA. Funds are classified based on their sources and appropriations are made accordingly;

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Grant funds be transferred to other funds or used for other purposes only if the donor approves the transfer requests. DFC could not be transferred from program to program within the fund by getting approval from DPPA. From the given

3.1.12. Common terminology and classification; SHICCSO organization

Uses consistent terminologies and classifications that are agreed with standards of generally accepted accounting principles.

3.1.13. SHICCSO prepares interim financial statements and other pertinent

Information to the management. SHICCSO prepares the report in monthly, quarterly, and annually basis.

SHICCSOPRE prepares financial statement to provide relevant information to meet the common interest of donors, Creditors and others who provide resources for the organization. Those external users of financial statement have common interest in assessing.

The service the organization provide and its ability to continue those services.

How managers discharge their stewardship responsibility & other aspects of their performance

More specially, the purpose of financial statement include, Accompanying notes are to provide information about.

The amount and nature of the organization assets, liabilities, and net assets,

The effect of transaction and other events and circumstances that change

The amount and nature of net assets,

The amount and kinds of inflow and out flow of economic resources during.

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A period and the relationship between the inflow and outflow,

How the organization obtains and spends funds.

The scope of the financial statement of the SHICCSO include a statement of financial position as of the end of the reporting period, a statement of activities and a statement of cash flows for the reporting period, and accompanying notes to financial statements.

The organization prepares revenue and expenditure report that shows sources and application of funds. Basic components in the report is balance carried forward from previous month or year, current period received funds, expenditure of the period and ending balance. The ending balance is the fund available for next period as beginning balance. A standardized format is used for both budgeting and revenue and expenditure reports. The format is designed to segregate expense by each program areas. The format consists of a list of income and expense line items that are used for budgeting, controlling and monitoring activities.

The income section includes sponsorship, subsidiary income, other SHICCSO income, and DFC income, and income from other (Non SHICCSO) sources. Area program

coordination offices maintain separate bank accounts for fund received from other sources. This report is issued on a monthly basis.

Report for DPPA report is made quarterly and annually. The report is made on standard format designed by DPPA. The report format consists of the following

- Organization name, address and reporting period,

- List of activities by program,

- Quality and unit of measurement for the activities,

- Budget year to date, budget inception to date,

Variance, report must be the national office, international office and local government organizations, ministry of health, education and agriculture.... at the end of every quarter and annually.

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Because the organization uses a double entry accounting system, a trial balance is necessary. A trial balance is a rest to the preparation of monthly financial reports.

Government policies procedures and principles are clear and understandable. But there is no feedback from the government appoints external auditors and depends on audit reports, annual audit report is a requirement to renew license. The gathered information indicated that interim financial statements and other pertinent information to the management. From this we can understand that SHICCSO have no designated reporting format that helps them to report to the government.

Setting accounting and financial reporting standard for nongovernmental NFP is the responsibility of financial accounting standard board.

SHICCSO use this standard to report depreciation of their plant asset, accounting for contributions received and contribution made.

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Donors use financial information (reporting) to make their decision. Most donors impose or encourage the organization to present non-financial and non-

Quantity information, such as service effort and accomplishments information that documents well the organization accomplished its mission.

Funds received from the federal governments are most likely to be in the form of grants in which the government is expecting performance and a report at the end of the grant period as to how the funds were used is prepared.

The objective of audited annual financial statement is to assure that statements conform to generally accepted accounting principles, so that donor can play a part of eliminating a variation with GAAP by ordering the organization to present audited financial statements.

CHAPTER FOUR

4. Summary, conclusions and Recommendations.

This chapter includes summary of conclusion, recommendation of the study based on the research findings.

4.1. Summary of major findings; based on the analysis made for following major

Findings are summarized. The accounting system is designed in a way that it makes possible to report in conformity with GAAP. The organization prepares three different reports that differ only in formats, because of the donors impose the organization to prepare the report based on their standards. And the government also has their own formats.

The organization accounting system is organized and operated on fund basis. The organization fund accounting system is presented fairly related with the principle of GAAP.

The only funds applicable in the organization are fund and special revenue fund. The system is centers on types of funds that are related to its function which is in agreement with the standards .From the study it is understandable that they established and maintain those funds required by sound administration. This assures that they are working in accordance with standards of GAAP.

Major acquisition made and capital assets are directly expensed and reported by programs in the revenue and expenditure report .capital acquisition from sponsorship or grant funds is reported in the respective fund. From the can assess that they have no deviations from standards of general accepted accounting principles.

Capital assets are valued at their acquisition cost and donation of fixed assets is valued at their current fair value, this in agreement with GAAP. The organization use depreciation to calculate only for the purpose of planning, replacement of the asset and for disposables, they applies straight line method of accounting which is consistent with generally with generally accepted accounting standards.

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The study shows that there long term liabilities by the organization because SHICCSO do not use long term liabilities for financing purpose.

Accrual basis of accounting is appropriate in measuring financial position and operating results. The data indicates that they use accrual basis of accounting which is in consistent with GAAP.

Annual budget is set for sponsorship funds. Appropriation will be played for each activity under each program. But there is no annual budget for activities financed by DFC & grant funds.

From the given information we assess that SHICCSO have no inter fund transaction but sponsorship funds can be transfer from program to program within the fund by getting approval from DP{PA.

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Interim financial statements and other pertinent information are prepared to the management. SHICCSO have no designated reporting format that helps them to report to the government.

4.2. Conclusions,

SHICCSO record fair and with full disclosure of the financial position and results of financial operations of the funds in conformity with generally accepted accounting principles. The organization prepares three different formats in order to full fill the needs of the donors as well as disasters prevention authority (DPPA).

The organization accounting system is organized and operates on fund basis.

The two types of funds are sponsorship and non sponsorship funds. Their sources are obtained differently within the two types atonal numbers of three funds are available. The established accounting system and the internal control system of the organization shows sound financial administration, this assure that they are working in accordance with GAAP.

Capital assets acquired are directly expensed in the revenue and expenditure report in the accounting period in which the fund liability incurred. And assets are valued at their acquisition cost. This shows that the organization uses accrual basis of accounting that is in conformity with GAAP. There are no long term liabilities available for financing

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purposes that ensure deviation from standards of GAAP.

SHICCSO uses accrual basis of accounting for measuring financial position and operating results. And the accounting system provides basis appropriate budgetary control by allowing comparisons between plans and actual performance and made decision. According to the study made the organization works in agreement with standards of GAAP.

4.3. Recommendations.

Based on the general funding and conclusion the researcher forwarded the following recommendation;

SHICCSO may use cash basis for recording were as GAAP requires use of the accrual accounting basis. In these cases the accounting system should provide GAAP reports. These requirement does not necessitate two accounting system rather the accounts

will be kept on one basis and the system should provide the additional data needed to convert the accounting to other basis.

The requirement to use different formats for government reporting purpose and using other formats for donor are time consuming. There for the organization should develop a standard report formats that can save time for both purposes.

Non-sponsorship funds (DFC & grants funds) are not directly reported to the government body. Therefore the organization should design a system to control the activities financed by these funds.

Once capital assets are purported as expense of the period in which acquisition is made. There is no way for the government body to control if the asset is missing or used for purpose other than the organizations objectives. There for, the government should design away to control capital assets throughout its operation.

The report submitted to DPPA doesn't have feed back in many in stances. There for; the DPPA should established feedback system so that organization can take immediate actions in areas that need improvement.

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Appendixes

Interview questions;

1. Accounting and reporting capabilities

I. How is your reporting in relation to GAAP?

II. Your accounting system make possible to report in conformity with GAAP?

III. Does your accounting system gives way to determine and demonstrate in compliance with financially related legal and contractual provision?

IV. What is your opinion on legal and contractual provisions related to accounting and reporting capabilities?

2. Fund accounting system;

I. Is your accounting system organized and reported on fund basis?

II. How do you define fund in your context?

3. Type of fund.

I. Do the three categories of government accounting fund apply to you?

II. Can you explain your funds under each category?

III. What are the major sources of fund?

4. Number of funds.

I. Do you make major capital acquisitions? If yes explain the organization's purchase procedure?

II. Are these funds in conformity with the requirement of the law and sound financial administration?

III. Do you have any comment on law requirements related to establishing number of funds?

5. Reporting capital assets.

I. Do you make major capital acquisition? If yes explain the organization's purchase procedure?

II. How are capital assets reported at the fund financial statements level?

III. Which fund have you found appropriate for your capital assets report?

6. Valuation of capital assets.

I. Explain your valuation method applicable for your capital assets?

II. How would you value donation of fixed assets received?

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7. Depreciation of capital assets (fund financial statement)

I. Explain your depreciation method applicable?

II. How is depreciation accounted for?

III. What is your comment on legal and contractual requirements related to capital asset management?

8. Reporting long term liabilities.

I. How many categories of long term liabilities does the organization have?

9. Basis of accounting and measurement focus.

II. What is the basis of accounting applicable with you?

- III. Explain why you choose the applied basis in relation to different funds?
10. Budgeting, budgetary control and budgetary reporting.
- II. Do you have annually adopted budget?
 - III. Does your accounting system provides the basis for appropriate budgetary control? If yes how?
 - IV. How is the practice of budgeting, budgetary control and reporting applicable in your organization?
11. Transfer, revenue, expenditure and expense accounts classification.
- II. Explain the classification of transfers, revenue, expenditure and expense accounts in relation to the appropriate funds?
 - III. Does the accounting system allows inters fund transfer? If yes how?
 - IV. Is there any legal and contractual provision preventing inter fund transfer? If yes, what is the magnitude?
12. Common terminology and classification.
- II. Are the terminology and classifications applicable used consistently throughout the budget the accounts and financial reports of each fund?
13. Interim and annual financial reporting.
- I. Are the terminology and classifications applicable used consistently throughout the budget the accounts and financial reports of each fund?
 - II. If applicable, how many times are they reported annual?
 - III. Is there a guiding manual development by the government body to control and monitor the activities of the organization? If yes, is the manual in agreement with your accounting system? If no explain
 - IV. How do you evaluate the overall government policies and principles related to your organization?

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DECLARATION

The undersigned declare that this senior essay is my original work, prepared under the guidance of Ato Mulusew Gurmessa, source of materials used for the manuscript have been duly acknowledged

2. Name _____

3. Signature _____
4. Place of submission _____
5. Date of submission _____

SUBMISSION APPROVAL

This research paper has been submitted to the department of accounting in part full fill men of the requirement of BA degree in accounting with approval as an advisor.

Name _____

Signature _____

Questioners

St.Mary's University College

Department of EDPM

The student research is conditions research on the store activity of Sawlla dry coffee sorting organization. Thus, you are kindly requested to give genuine or true response. Secret your response from another than you advances for your cooperation.

1. sex A, male B, Female

2. Level of education

A, 12 B, 12+1 C, 12+2 D, 12+3 E, above 12+4

3. How many years of experience do you have?

A, 0_5 B, 6_10 C, 11_15 D, 16 and above

4. Does your organization provide adequate and proper storage to preserve materials from damage and loss?

5. Does environmental condition affect material in the store?

6. Would four coffee enterprises ensure the accuracy of the inventory control system (during issues and receiving) through computer system rather than manual system?

A, Yes B, No

7. Does your organization use effective safety device to protect the store from internal and external hazard?

A, Yes B, No

8. The main object of store operation is to render service to customers do you think your store is giving this service effectively

A, Yes B, No

9. Does your organization use computer network to connect the store with other concerned department?

A, Yes B, No

10. What kind of method the store keepers follow to check the material used and the actual inventory during stock taking?

A, Periodic

B, Yearly

C, Monthly

11. How do you handle the movement of material in the store house?

12. What factors affect material handling activity in your store?

13. What is the benefit that the store department gets from proper material handling?

14. What kind of conditions system the stores use?

15. Does use ABC classification to store materials according to their value?