

# Financial, Cost, and Budgetary Accounting Practices of Manufacturing Firm Organized as Private Limited Companies (P.L.Cs) in Tigray Region, Ethiopia

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## Abstract

This study Incorporated manufacturing firm organized as P.L.Cs of financial, cost and budgetary accounting practices and changes therein in Tigray Region, Ethiopia explores the extent to which company reporting may have responded to the regulatory requirements and best financial, cost and budget accounting practices for external reporting (Commercial Code of Ethiopia, 1960 and Modern Financial Accounting view) that has not been the subject of previous interpretive accounting research. The findings in pilot survey shows that both bad practices and areas needing improvement as the modern code regarding the constitution and activities would demand. The objective of this study is to suggest best practice to reform corporate accounting and financial reporting; achieve credible, realistic book of accounts and prevent financial failure. The study also makes a contribution towards the need for compliance with Commercial Code of Ethiopia focusing on “realistic” accounting reporting; call for policy makers to be more concerned with the side-effects of regulatory failure on business taxation, great attention to the control of commerce, orderly development of the economic life and improve understanding of technical assistance needs of these firms for effectiveness. In order to achieve the objective, a survey type of study using qualitative and quantitative approaches was conducted. The target population of the study was 200 manufacturing firm organized as P.L.Cs as their initial capital is greater than 500,000 birr and out of the target population, 25% which is 50 P.L.Cs and out of 50 P.L.Cs, the response rate is 80% (40 P.L.Cs) in Tigray Region, Ethiopia were selected using proportional stratified random sampling techniques, from each strata 25% were covered in this study. The structure questionnaire accomplished by Owners, General Managers, Accountants, Finance Managers, Marketing Managers, and Production Managers was the research instruments used for the data-gathering. After the relevant data were collected, the study was summarized and analyzed using tables, ratios, percentages and graphs. In this study the researcher has argued that there are bad, inconsistent or incomplete financial, cost and budgetary accounting practices by the majority of the incorporated P.L.C Tigray Region, Ethiopia that demand compliance to the Commercial Code of Ethiopia regarding the maintenance of book of accounts; and that needs adherence to the modern Financial, Cost and Budgetary Accounting Practices. This study is an indication that significant gap between the amount of tax collectable from these firms’ and that which is actually collected because of either lack of maintenance of book of accounts or holding only incomplete accounts. Hence, this study strongly recommends that there is an urgent need of intervention by the regulatory bodies; particularly the Ethiopian Revenues & Customs Authority authorized to levy and collect business income tax; and the Federal Audit General of Ethiopia authorized for the proper collection of the state revenue, inspected and controlled to curb the malpractices.

**Key word:** Accounting practice, maintenances book of account, incomplete account, malpractices

## 1. Introduction

The business dictionary ([www.businessdictionary.com](http://www.businessdictionary.com)) defines accounting as practice and body of knowledge concerned primarily with (1) methods for recording transaction, (2) keeping financial records, (3) performing internal audit, (4) reporting and analyzing financial information to management, and (5) advising on taxation matters. It is a systematic process of identifying, recording, measuring, classifying, verifying, summarizing, interpreting and communicating financial information. Several researchers and organization have done a lot of work on the accounting practice adopted by business organization in Ethiopia and abroad. For example, Gouws and Cronje (2008) state that, the accounting practices generate accounting information and corporate annual reports reflect these practices. It shows that an interdependent relationship between traditional accounting practices and contextual accounting practices and therefore, the contextual accounting practices have the potential to evolve into GAAP. Xun Wu (2004) state that, corporate sector as the main source of corruption problems in Asia, with particular emphasis on the impact that firm accounting practices have on the level of bribery. Wu suggest that better accounting practices can help reduce both the incidence of bribery activities and the amount of bribe payments, but conforming to high quality accounting standard alone will not necessarily enhance the quality of accounting practices and thus will not automatically bring down the level of bribery.

The Commercial Code of Ethiopia regulating the constitution and activities of all business organizations and working to present day made it compulsory the following Codes of Business regarding Maintenance of Book of Accounts and Annual Reporting Practices (Commercial Code of Ethiopia, 1960). The Ethiopian Constitution which is approved in 1995 has given the power to the federal and regional government to collect the taxes. The constitution and the proclamation No. 33/1992 have clearly classified the revenue that belongs to the federal, regional and jointly shared revenues. According to the council of ministries income tax regulation No. 78/2002 those business income tax payers are classified into three major categories, i.e., Category A, Category B, and Category C. As article 18(1, 2, and 3) of the regulation have clearly classified those category of tax payer. As article 19(1 and 2) of the regulation have clearly stated that, the category “A” and “B” tax payers are required to submit the financial statement which includes the balance sheet and profit and loss statement to the tax authority at the end of the fiscal year whereas the category “C” tax payers are not required to submit the financial statement.

In countries like Ethiopia, the low revenue yield of taxation can only be attributed to the fact that the commercial code requirements are not properly enforced either on account of straight corruption or inability of the administrators to coup with them. But factors on the other side of the system get little attention, that is minor attention is given to the technical and educational background of the tax payers, their awareness level, compliance behavior and its determinants when designing a given tax system. The tax system must be fair; both to promote the objective of an equitable distribution of income and to assure continued voluntary compliance by the tax payer. In line with the above problems, there are many researchers such as Blake and Wallace (1997) and Zubaidur, et al., (2007) has conducted research on accounting standard system.

Blake and Wallace (1997), arguing that although previous research has cast doubt on the idea that employment of accountants improves the standard of financial reporting in developing countries, they are needed in other roles, e.g. management accounting and financial planning. In the finding of his researcher that Ethiopia has no standard accounting system, that taxation depends upon individual negotiation with the tax inspector and that most loan applicants lack the skills to produce a business plan. Zubaidur, et al., (2007) Says that the Government of Ethiopia is committed to increasing private investment in its economy towards reaching its development and growth objectives. Strengthening the country’s financial architecture will make available quality financial information to facilitate investment decisions and to help reduce the risk of financial crises and corporate failures together with their associated negative economic impacts that have been witnessed in many industrialized and developing countries. The research is based on a review of corporate sector accounting, auditing, and financial reporting practices and supporting infrastructure in Ethiopia. The accounting practices in Ethiopia vary among institutions and differ from the IFRS. The above studies shows that there are no accounting standards as well as there are no general studies at macro-level to bring to the fore the most important problems of business organizations carrying out commercial activities with regard to accounting practices.

In Tigray region there is a substantial tax gap between the taxes that is theoretically collectible from commercial activities and the tax that is actually collected. One of the main reasons for the tax gap is non-compliance has been related to “failure to Keep Books of Accounts or partial/incomplete maintenance of Books and financial reporting”. It is important to study the financial, cost, and budgetary accounting practices of business organizations in particular incorporated private limited companies in order not only to influence government policy regarding the maintenance of reliable books of accounts and protecting the nation’s tax base but also to enable the traders understand the importance of keeping accounts in accordance with modern financial accounting principles.

The study also observed in the review of literature that there are no studies conducted mainly to understand the problems related to maintenance of book of accounts and financial reporting practices of manufacturing firm organized as P.L.Cs in Tigray region that are required to be in accordance with the Commercial Code of Ethiopia of 1960 & council of ministries income tax regulation No. 78/2002 special issue in respect of business organization for income tax purposes. Therefore, the study felt it appropriate to take up the present study entitled “financial, cost, and budgetary accounting practices of manufacturing firm organized P.L.Cs in Tigray Region, Ethiopia” to investigate whether the current practices are in line with the regulatory requirements as well as based on Modern Financial, Cost, and Budgetary Accounting Principles so as to recommend best courses of actions for the identified problems and accounting failures.

## 2. Objective of the study

The objective of this study is to explore the extent to which company reporting may have responded to the regulatory requirements and best financial, cost and budgetary accounting practices for external reporting. To fulfill this objective, the following sub objectives are set for the study:

- To examine the current financial accounting policies of manufacturing firm organized as P.L.Cs.

- To assess how assets, liabilities, and capital and reserves are recorded and reported in the balance sheet of manufacturing firm organized as P.L.Cs.
- To examine how revenue and expenses are recognized and recorded in the profit and loss accounts of manufacturing firm organized as P.L.Cs.
- To investigate the methods and techniques of determining costs and price of manufacturing firm organized as P.L.Cs.
- To investigate the system of internal control and budgeting and budgetary control system of manufacturing firm organized as P.L.Cs.

### 3. Literature Review

Even as not complicated as today, accounting has been part of human life since the first beginning. It is a well-known fact that there were accounting records in Ancient Greeks & Roman Empire in 3600 BC within context of accounting principles. According to the accounting historians, the first book concerning accounting was Luca Pacioli's *Summa de Arithmetica, Geometria, Proportioni et Proportionalita* written in 1494. Accounting is kind of a system in which there is an ongoing knowledge flow (CNC (Conseil National de Comptabilites), Plan Comptable General, Imprimerie Nationale 3e Edition, Paris, 1983, p.VII) (Orten, 2007, P.2). Accounting can be defined as "the process of identifying, measuring and communicating economic information to permit informed judgments and decisions by users of the information" (John and Edwards, 1987, P.5). The information in accounting systems relates mainly to financial data about business transactions, which is represented in monetary terms. In addition to collecting data about past transactions the accounting system may be required to generate forecasts and predictions about likely future circumstances as an aid to decision making. It reveals profit or loss for a given period, and the value and nature of a firm's assets, liabilities and owners' equity. Accounting provides information on the (1) resources available to a firm, (2) the means employed to finance those resources, and (3) the results achieved through their use (<http://www.businessdictionary.com>).

The accounting literature identifies quite a number of specialized fields of accounting. Among them, financial accounting is the original form of accounting. Its main purpose is to classify and record transaction details in monetary terms, so as to enable the preparation of periodic income statements and balance sheets. Accounting information has obvious uses and applications within a firm; the main focus of financial accounting is to satisfy the needs of external users of published financial statements. The study of financial accounting involves detailed aspects of identifying, recording, measuring and communicating the firm's financial results. Cost accounting, as a specialized field of accounting, is primarily concerned with the identification, measurement, recording, reporting and analysis of costs associated with production and marketing goods/services and other decisions areas. Cost accounting is broad and extends beyond calculating product costs for inventory valuation, which GAAP dictates. In fact, the focus of cost accounting is shifting from inventory valuation for financial reporting to supplying cost information for decision making (APO-ILO, 1997, P.828). The importance of accounting can be discovered from the fact that accounting principles such as double entry bookkeeping are compulsorily to be followed by all companies to avoid any future mishaps and this is clear when you look back at larger company crisis, small businesses can suffer more than larger companies through accounting ledger errors as they are less likely to have the assets available for sale should finances go wrong. Accounting asset of a company is calculated so that banks can easily provide loans and fund any projects you wish to take on in future. The strategy to be followed to establish a new business varies with accountant planning. With this in mind, if you wish to have a well established business then you need to take accounts for business very seriously from the start (Terry, 2009, P.65). Following correct accounting procedure is an important factor for the success of an organization, especially in today's competitive business environment.

The Commercial Code of Ethiopia regulating the constitution and activities of all business organizations and working to present day made it compulsory the following Codes of Business regarding maintenance of Book of Accounts and Annual Reporting Practices: Any person or business organization except petty traders carrying on trade shall keep such books and accounts as are required in accordance with business practice and regulations. Every trader shall keep journal in chronological order and given a serial number where any business shall make daily entries regardless of the nature of business and at least once a month balance the proceeds, preserve and filed all documents such as original as well as copies of letters, messages or telegrams received that means preserved for ten years for necessary checking the day-to-day activities. And every trader shall prepare an inventory and balance sheet. Which means at the end of the financial year, the trader prepare an inventory asset and liabilities and balance for the purpose of preparing the final balance sheet and profit and loss accounts. The final balance sheet and profit and loss should be keeps in special books (Commercial Code of Ethiopia, 1960, P.13).

#### 4. Material and Methods

The study used a survey type, which was basically designed to examine the accounting theory and practice of manufacturing firm organized as P.L.C of Tigray Region, Ethiopia.

##### 4.1. Information sources and data collection methods

The study used both primary and secondary sources of data. The primary data were collected from respondents through structure questionnaires and unstructured interview questions. The secondary data sources were obtained from the companies' records, brochures, accounting manuals, reports, books, journals, related websites in the internet, and other documents that were related to the topic under study. The structure questionnaire was designed and distributed to selected owners, managers, and accountants of manufacturing firm organized as P.L.C of Tigray Region, Ethiopia. Maximum care was taken to maintain the questions short, simple, and objective; but not at the expense of the necessary data. The study was clarified those terms that was considered unclear to some of the owners, managers and accountants while they filled the questionnaires. The target respondents to whom structure questionnaires was distributed to: - Owners, General Managers, Accountants, Finance Managers, Marketing Managers, and Production Managers. The unstructured interview question was conducted to enhance and support the information gain through the questionnaires.

##### 4.2. Population and Sample of the study

The study was classified manufacturing firm organized as P.L.C of Tigray Region, Ethiopia based on the product wise classification. The following table were classified manufacturing firm organized as P.L.C Tigray region based on the product wise and their initial capital were greater than birr 500,000. The target population for this study was the manufacturing firm organized as P.L.C in Tigray Region. Out of the 200 P.L.Cs in the target population, 25% of the total target population (50 of P.L.Cs) were covered by the survey after being selected using proportional stratified random sampling, from each strata 25% each were covered that is 2 plastic, 1 garment, 25 engineering, 4 soap, 5 tile, 8 food, 2 cement, and 3 printing for analyzing the data of manufacturing firm organized as P.L.Cs in Tigray Region, Ethiopia.

Table 1.1 List of P. L. Cs in Tigray region industrial sectors based on product wise

No.	Type of Product	No. of Industry	Sample size (25% from each strata)	80% from total sample was collected	Representative sample out of the 40
1	Plastic material processing	8	2	2	5%
2	Garment and textile processing	4	1	1	3%
3	Engineering, metal & wood work processing	100	25	20	50%
4	Soap & Liquor processing	16	4	3	8%
5	Tile, brick & hydro form block processing	20	5	4	10%
6	Food processing	32	8	6	15%
7	Cement, marble, & crushed grain product processing	8	2	2	5%
8	Printing processing	12	3	2	5%
Total P.L.C of Tigray region in industry form		200	50	40	100

(Source: Tigray Region Trade, Industry, & Investment Office – 2011 and Calculation of the sample)

##### 4.2.1. Data Analysis

After the relevant data were collected from the primary as well as secondary sources, the study summarized and analyzed the data using tables, ratios, percentages, and graphs.

#### 5. Result and Discussion

According to the literature and Commercial Code of Ethiopia; all companies in general, P.L.Cs in particular, are required to keep complete accounting books and records sufficient to show and explain the company's transactions. Since the focus was on the manufacturing firms organized as P.L.Cs, the preparation of financial and cost records needs to be part of the companies' functions from various points of view. Only in this way, there is any guarantee that the books, will be understood, analyzed and used for both internal and external purposes. It is clear, however, that the types of books needed for internal management might be different than that called for outside users. The P.L.C has to maintain two types of records such as i) financial records and ii) cost records. The preparation of financial statements such as income or profit and loss account and balance sheet is mandatory, if the business is to operate legally. In the light of above condition and requirements, P.L.C ought to maintain and file audited accounts annually. The operation of any accounting system requires a better knowledge of the mechanics of book-keeping as well as accounts in such a way as to comply with the Code. Keeping the above view, an attempt is made to study financial, cost, and budget accounting practice of those



manufacturing firm which is organized as P.L.Cs. The questionnaires were filled out by 50 manufacturing firms from this 40 questionnaires were collected, that represents a response rate of 80% of the total sample size. From the sample size of those manufacturing firms which classified based on the product wise, all questionnaires were collected from category of plastic, garment, and cement (2, 1, and 2). The questionnaire that was distributed to the category of engineering, soap, tile, food, and printing were collected 20 (25), 3 (4), 4 (5), 6 (8), and 2(3) respectively.

#### **Financial Accounting Practice of those manufacturing firm which organized as P.L.Cs:**

A simple accounting system for any P.L.C is necessary. Since many P.L.Cs do operate their accounts on their own rather having a separate accounting department to look after this function. As can be seen from Table 1.2., out of the total 40 sample units, 18 units representing 45% were having a separate accounting department with qualified accountant to look after the accounts, whereas the remaining 22 units representing 55% were not having a separate accounting department. But in this case, it is observed that accounts are prepared and managed by the owner himself or herself. The industry-wise analysis makes it clear that 11 units in Engineering (55%), 3 units in Food (50%), 1 unit each for Garment (50%), Plastic (50%), Soap (33%) and Tile (25%) industries were having a separate accounting department to large extent, where as 2 unit each for Liquor (67%), Cement (100%), & Printing (100%); and 3 units each for Tile (75%), & Food (50%) industry; 1 unit for Plastic (50%), & 9 units in engineering (45%) accounting function was not separate from owner. More than 67% of the units in these 4 sectors were not having a separate accounting department although it required by the law and GAAP. It is clear that, though accounting function has significant role to play, it is not treated as a separate functional area in many manufacturing firm of those P.L.Cs and thus it has become one of the routine functions of owners.

The principles of accounting and the techniques of book keeping are basically same in all types of organizations irrespective of their size and nature. Whether it is sole trader, ordinary partnership, General partnership, Limited partnership, P.L.Cs, and/or share companies, the type of books and records may differ but the principle followed is the same (The commercial registration & business licensing proclamation number 67/1997 and the Federal Government Commercial Registration and Licensing Council of Ministers Regulation number 13/1997). Accounts are usually maintained under double-entry system. However, single entry system has also its own field. But, double entry system has been found to be the most suitable for the purpose of recording transactions. Under this system each and every transaction is split up into two aspects and both these aspects are recorded. The term single is significant only in the sense that this system does not observe the rules of double entry accounts in all cases. Under this system books maintained differ according to necessity and circumstances of each business unit. It is evident from Table 1.2., that out of 40 sample units, 24 units representing 60% were following double entry accounting system whereas remaining 40% i.e., 16 units were following single entry accounting system. Out of the 16 units, 8 units were found in Engineering (40%), 3 units were found in Tile (75%), and 2 units were found in Food (33%) industry and 1 unit each were found in Plastic (50%), Soap (33%) & Printing (100%) industries.

The first step in writing books of account is maintenance of voucher register. Vouchers are the office documents authenticating the book-keeper to pass the necessary entries. So, voucher maintenance is a must for every accounting system to exist. It is very interesting to observe from Table 1.2., those 24 units which representing 60% out of 40 sample units were maintaining the vouchers without fail but the remaining 16 units which representing 40% were not maintaining voucher. It indicates that P.L.Cs is fully aware of registering the documents and supporting papers. Voucher maintenance is an art and very useful for cross-checking of accounts. Auditing of accounts will also take place with the help of the vouchers in an order is very important. Vouchers are mainly grouped as debit vouchers and credit vouchers.

Generally vouchers are maintained date wise. But, in some cases, vouchers are separated transaction wise without mixing vouchers of other works. This practice is applied where contract works or job works are taken. In such, vouchers are prepared job wise or contract wise. As it can be seen from Table 1.2., those 13 units out of total 40 sample units, representing 33% were keeping the vouchers in the order of dates, and 11 units out of the total 40 sample units, representing 28% were keeping the vouchers based on transaction and job-wise, whereas the remaining 16 units were not used any of these basis of voucher because they did not use voucher system at all. Industry-wise analysis shows that, out of these 11 units, 1 unit each in Plastic (50%), Garment (100%), Cement (50%), and Printing (50%), 4 units in Engineering (20%); and 3 units in Food (50%) industries where contract works and job works were common. Out of these 13 units, 1 unit each in Tile (25%), Food (17%), & Cement (50%), 8 units in Engineering (40%); and 2 units in Soap (67%) were keeping the vouchers in the order of dates. The remaining 16 units which is 1 unit each in Plastic (50%), Soap (33%), & Printing (50%); 8 units in Engineering (40%), 3 units in Tile (75%); and 2 units in Printing (50%) were not uses any voucher basis. Thus, it is clear that though date wise classification is generally followed for voucher maintenance, job wise classification has also its own field where contract works are common.

Next to voucher register, the very important and first step in establishing a sound record-keeping system is to develop the necessary journals which will be used to record business transactions. From these, financial information can be transferred to appropriate ledgers which serve as a mean of preparing final statement.

Depending upon the size of the business, the P.L.C must prepare the journals in the chorological order; and the general journal is one in which all of the business activities except petty trader must record (Commercial Code of Ethiopia, No.3, 1960). This is very familiar with two column journal used in P.L.C. After transactions become numerous, special journals are used. Sometimes, general journal is prepared along with cash journal. Since many owners prepare their own records in P.L.Cs they feel it convenient and time saving in preparing one journal. Table 1.2., shows that majority of the companies are following one journal method. Out of 40 sample units, as many as 12 units representing 30% were in favour of one journal system. Industry-wise classification shows that Engineering, Soap, Tile, Food, Cement & Printing industry which is 30%, 33%, 25%, 33%, 50%, & 50% respectively stands in priority in maintaining one journal. The two journals are set up respectively for (i) disbursements and purchases and (ii) receipts and sales. The study shows that out of 40 sample units, 8 units which are 20% were using this type of journal set preparation. In the industry-wise classification the Plastic, Garment, Engineering, Soap, & Cement industry which is 50%, 100%, 20%, 33%, and 50% respectively was popular in implementing two set journal. The four journals are set up respectively for (i) Cash receipt journal (ii) Cash disbursement and purchase (iii) Sales Journal, and (iv) General Journal. This journal arrangement is useful where the business sells on account and buys for cash and on account. The study shows that out of 40 sample units, 4 units which are 10% were using this type of journal set preparation. In the industry-wise classification the Engineering and Food industry which is 10% and 33% was popular in implementing four set of journal. Out of 40 sample unit, 16 units which are representing 40% was not use any of the journals set. In the industry-wise classification the Plastic, Engineering, Soap, Tile, Food, and Printing which is 50%, 40%, 33%, 75%, 33%, and 50% was not used journal entry set. Thus, the overall analysis of preparation of journals reveals that many P.L.Cs were predominantly using one journal set with cash book and two journal set and four journal set are lesser popular in the order due to the size of the unit and scale of business operations. Once the transactions are recorded in the appropriate journals, they need to be posted to the ledger accounts. Ledgers provide a convenient way to systemize the financial activities and prepare them for use in the trial balance, profit and loss account and balance sheet.

Table 1.2.

Maintenance of Accounting Department									
Item	Plastic	Garment	Engg	Soap	Tile	Food	Cement	Printing	Total
Yes	1	1	11	1	1	3	0	0	18
	50%	100%	55%	33%	25%	30%	0%	0%	45%
No	1	0	9	2	3	3	2	2	22
	50%	0%	45%	67%	75%	50%	100%	100%	55%
Total	2	1	20	3	4	6	2	2	40
	100%	100%	100%	100%	100%	100%	100%	100%	100%
Accounting Principles Followed									
Item	Plastic	Garment	Engg	Soap	Tile	Food	Cement	Printing	Total
Single Entry	1	0	8	1	3	2	0	1	16
	50%	0%	40%	33%	75%	33%	0%	50%	40%
Double Entry	1	1	12	2	1	4	2	1	24
	50%	100%	60%	67%	25%	67%	100%	50%	60%
Total	2	1	20	3	4	6	2	2	40
	100%	100%	100%	100%	100%	100%	100%	100%	100%
Preparation of voucher register									
Item	Plastic	Garment	Engg	Soap	Tile	Food	Cement	Printing	Total
Yes	1	1	12	2	1	4	2	1	24
	50%	100%	60%	67%	25%	67%	100%	50%	60%
No	1	0	8	1	3	2	0	1	16
	50%	0%	40%	33%	75%	33%	0%	50%	40%
Total	2	1	20	3	4	6	2	2	40
	100%	100%	100%	100%	100%	100%	100%	100%	100%
Basis for voucher register									
Item	Plastic	Garment	Engg	Soap	Tile	Food	Cement	Printing	Total
Data wise	0	0	8	2	1	1	1	0	13
	0%	0%	40%	67%	25%	17%	50%	0%	33%
Transaction wise	1	1	4	0	0	3	1	1	11
	50%	100%	20%	0%	0%	50%	50%	50%	28%
Not used any	1	0	8	1	3	2	0	1	16
	50%	0%	40%	33%	75%	33%	0%	50%	40%
Total	2	1	20	3	4	6	2	2	40
	100%	100%	100%	100%	100%	100%	100%	100%	100%
Type of Journal Maintained									
Item	Plastic	Garment	Engg	Soap	Tile	Food	Cement	Printing	Total
One Journal set	0	0	6	1	1	2	1	1	12
	0%	0%	30%	33%	25%	33%	50%	50%	30%
Two Journal Set	1	1	4	1	0	0	1	0	8
	50%	100%	20%	33%	0%	0%	50%	0%	20%
Four Journal Set	0	0	2	0	0	2	0	0	4
	0%	0%	10%	0%	0%	33%	0%	0%	10%
Not used any	1	0	8	1	3	2	0	1	16
	50%	0%	40%	33%	75%	33%	0%	50%	40%
Total	2	1	20	3	4	6	2	2	40
	100%	100%	100%	100%	100%	100%	100%	100%	100%

(Source: Own Survey)

Entries made from the specific journals are recorded in debit and credit sides of this ledger. It is from this ledger that final statements are prepared. Though many units maintain the general ledger, sometimes two other ledgers such as account payable and account receivable ledgers are separate from the general ledger and prepared separately. If the firm has many suppliers and large number of customers it becomes very difficult to record all these in one ledger. Consequently these two ledgers are prepared in addition to general ledger. It is evident from Table 1.3., that out of 40 sample units, as many as 18 units representing 45% reported that they were following general ledger & subsidiary ledger to maintenance accounting payable and account receivable; whereas 6 units representing 15% reported only general ledger. The rest 16 units representing 40% were not maintaining ledger. In industry-wise classification shows that 1 unit Plastic (50%) & Garment (100%), 9 units Engineering (45%), 2 units each for Soap (67%) & Cement (100%), and 3 units Food (50%) industry was maintenance general ledger

and subsidiary ledger whereas 1 unit each of Tile (25%), Food (17%), & Printing (50%) industry; and 3 units in Engineering industry were maintenance only general ledger. The remaining manufacturing firm of that P.L.Cs was not maintenance ledger accounts.

The cash journal is a multiple-column book of original entry designed to accommodate the entry of all classes of cash transactions. The cash book combines the functions of a book of prime entry, being chronological records of all cash transactions and of cash account itself. There may be single column cash book in which all cash and bank transactions are passed through the same column. In double column cash book, cash column are maintained separately. In triple-column cash book discount column is also maintained for recording discount allowed and discount received. The Table 1.3., shows that out of 40 sample units under the study only 14 units which are 35% are not maintaining the cash book, from this the industry-wise classification is that, 1 unit each of from Plastic, Soap, Food and Printing, 8 units from Engineering, and 2 units from Tile industry. It supports the view that the important characteristic of accounting system in P.L.Cs is maintenance of cash book.

Petty cash book is generally prepared to record the petty expenses. The most effective system is the imprest petty cash system in which exact expense of the preceding period is reimbursed at the beginning of the next period from cash book. In the P.L.Cs, maintenance of petty cash book is popular. The Table 1.3., shows that out of the 40 sample units under the study only 12 units which are 30% are not maintaining the petty cash book, the industry-wise classification is that, 1 unit each from Plastic, Soap, Food and Printing, 6 units from Engineering, and 2 units from Tile industry was not process the maintaining of petty cash book.

Before the trial balance is finally prepared, the entries in the bank column in cash book and bank statements or pass book are compared. If these two balances are not compared on the same date cash book and pass book will show different balances, which is not true. As such it is necessary to prepare a reconciliation statement by comparing the differences of these two balances and giving explanation to each reason. Keeping this in view, an attempt was made to know whether P.L.Cs was preparing this statement before finalizing their accounts. The Table 1.3., reveals that 19 units representing 48% reported that they were preparing bank reconciliation statement before finalizing their accounts whereas 21 units representing 52% reported that they were not preparing these accounts. The study shows that the preparation of bank reconciliation statement was found in Engineering of 8 units, 2 units each from Soap, Tile, Food and Cement and the other is in Plastic, Garment, & Printing industry of which 1 unit respectively. It was found that, 12 units in Engineering, 2 units in Tile, 4 units in Food, & 1 unit each from Plastic, Soap and Printing industries were not preparing this statement. It is due to lack of a qualified accountant in many cases, and also lack of proper skill in preparation of this statement.

In general, the decrease in value of fixed assets arising out of wear and tear through use or for any other reason is recognized as depreciation. Because of it, fixed assets are valued on the balance sheet date according to the principle cost less depreciation. Providing for depreciation in conventional accounting refers to allocating the original cost of plant, machinery etc., as expense to the successive years during which services would be derived from them uninterrupted. Thus, it is process of allocation and not valuation. The concept of depreciation is closely related to the question of determination of profit or loss for the period. Unless depreciation is charged against the revenues, one cannot be said to have ascertained the income properly. The old view of depreciation was that it was meant it be a provision to replace depreciable asset. Therefore, it was left to the discretion of the management to provide or not provide for depreciation. Even under the Commercial Code of Ethiopia of 1960, it is interesting to note that the provision for depreciation are intended to provide for the reduction in the value of some of the assets which can reasonably be expected. Even the accounting practice of showing profits before depreciation and profit after depreciation tends to confirm the view that some regard it as an appropriation of profits. But, the modern view of depreciation is different. So it must be understood that the process of charging depreciation is a technique of recovering the cost of fixed assets over a period. Keeping this in view, an attempt was made in the study to know the position of depreciation policy being adopted by industries units. The position on this point is presented below and it is evident from Table 1.3., that 65% i.e. is 26 units out of 40 sample unit revealed that they were providing depreciation whereas the remaining 14 units which are 35% were not providing depreciation. In the industry-wise classification of not providing depreciation shows that, 1 unit each in Plastic, Soap, Food, & Printing industry respectively, and 8 units of Engineering and 2 units of Tile. It can be inferred from the above analysis that about 65% of the industries units under the study were aware of the providing depreciation against their profits.

It is very interesting to point out that though most of the P.L.Cs is aware of the depreciation provision, many of them are not able to compute the depreciation of their assets. As it can be seen from the Table 1.3., that as many as 10 P.L.Cs representing 25% reported that they were depending on private auditors for computation of depreciation amount & rate, and 12 P.L.Cs representing 30% they were not reported on the depreciation. Whereas 18 P.L.Cs representing 45% reported that they were aware of the rates of depreciation and its computation. Industry-wise analysis shows that 10 units in Engineering, 3 units in Food, 1 unit each in Plastic, Garment, Tile, Cement, and Printing industry were able to calculate the depreciation amounts.

Table 1.3.

Type of Ledgers									
Item	Plastic	Garm ent	Engg	Soap	Tile	Food	Ceme nt	Printi ng	Total
GL	0	0	3	0	1	1	0	1	6
	0%	0%	15%	0%	25%	17%	0%	50%	15%
G & SL	1	1	9	2	0	3	2	0	18
	50%	100%	45%	67%	0%	50%	100%	0%	45%
Not used any	1	0	8	1	3	2	0	1	16
	50%	0%	40%	33%	75%	33%	0%	50%	40%
Total	2	1	20	3	4	6	2	2	40
	100%	100%	100%	100%	100%	100%	100%	100%	100%
Cash Book Maintenance									
Item	Plastic	Garm ent	Engg	Soap	Tile	Food	Ceme nt	Printi ng	Total
Yes	1	1	12	2	2	5	2	1	26
	50%	100%	60%	67%	50%	83%	100%	50%	65%
No	1	0	8	1	2	1	0	1	14
	50%	0%	40%	33%	50%	17%	0%	50%	35%
Total	2	1	20	3	4	6	2	2	40
	100%	100%	100%	100%	100%	100%	100%	100%	100%
Petty Cash Maintenance									
Item	Plastic	Garm ent	Engg	Soap	Tile	Food	Ceme nt	Printi ng	Total
Yes	1	1	14	2	2	5	2	1	28
	50%	100%	70%	67%	50%	83%	100%	50%	70%
No	1	0	6	1	2	1	0	1	12
	50%	0%	30%	33%	50%	17%	0%	50%	30%
Total	2	1	20	3	4	6	2	2	40
	100%	100%	100%	100%	100%	100%	100%	100%	100%
Preparation of Bank Reconciliation									
Item	Plastic	Garm ent	Engg	Soap	Tile	Food	Ceme nt	Printi ng	Total
Yes	1	1	8	2	2	2	2	1	19
	50%	100%	40%	67%	50%	33%	100%	50%	48%
No	1	0	12	1	2	4	0	1	21
	50%	0%	60%	33%	50%	67%	0%	50%	53%
Total	2	1	20	3	4	6	2	2	40
	100%	100%	100%	100%	100%	100%	100%	100%	100%
Depreciation Provision Allowed									
Item	Plastic	Garm ent	Engg	Soap	Tile	Food	Ceme nt	Printi ng	Total
Yes	1	1	12	2	2	5	2	1	26
	50%	100%	60%	67%	50%	83%	100%	50%	65%
No	1	0	8	1	2	1	0	1	14
	50%	0%	40%	33%	50%	17%	0%	50%	35%
Total	2	1	20	3	4	6	2	2	40
	100%	100%	100%	100%	100%	100%	100%	100%	100%
Source of Calculation of Depreciation									
Item	Plastic	Garm ent	Engg	Soap	Tile	Food	Ceme nt	Printi ng	Total
Accounti ng Dept.	1	1	10	0	1	3	1	1	18
	50%	100%	50%	0%	25%	50%	50%	50%	45%
Private Auditors	0	0	4	2	1	2	1	0	10
	0%	0%	20%	67%	25%	33%	50%	0%	25%
Not Processe d	1	0	6	1	2	1	0	1	12
	50%	0%	30%	33%	50%	17%	0%	50%	30%
Total	2	1	20	3	4	6	2	2	40
	100%	100%	100%	100%	100%	100%	100%	100%	100%

(Source: Own Survey)

There are several methods of allocating depreciation over the useful life of the assets, such as straight-line method, written down value method, depletion method, sum of year digits method, etc. The accounting standards do not recommend any particular method. An organization selects the most appropriate method based on various important factors such as type of asset, the nature of the use of such asset and circumstances prevailing in the industry. But based on the Commercial Code of Ethiopia of 1960, the code provides that amortization is the accounting measurement of the loss sustained by the fixed assets that necessarily depreciate with time. In Income Tax Proclamation No. 286/2002 also provides the provision of depreciation. In the determination of taxable business income, the owner of the business assets may deduct depreciation for business assets and it required to depreciate at the method of straight-line bases at the different rates. Keeping this in view, an attempt was made in this study to know the methods of depreciation being followed by P.L.Cs. The Table 1.4., shows that as many as 22 units representing 52% were following straight-line method whereas the remaining 8 units representing 19% were following diminishing balance method. The 10 units were found from Engineering, 3 units each in Tile, & Food industry, 2 units in Cement, and 1 unit each in Plastic, Garment, Soap, and Printing industry respectively. But the remaining 12 units representing 29% were not used & analysis depreciation method and the industry-wise analysis were Plastic, Engineering, Liquor, Tile, Food & Printing industry. The consideration for adopting such a depreciation policy was assessed from P.L.Cs. They are mainly, deriving the maximum tax benefit, tradition prevailing in industry and the influence of the auditors.

The awareness of P.L.Cs about the depreciation policy is depicted in this study. It is quite interesting to note from Table 1.4., that 28 industry representing 70% were aware of the depreciation rates & methods followed by them. But the remaining 12 industry representing 30% revealed that the methods or the rates of depreciation policy were not known to them. They simply followed their auditors' advice in this regard & it required by the income tax regulation. The reason behind this kind of situation is due to lack of proper awareness in many cases & negligence in some cases.

In framing a suitable depreciation policy management usually has some specific objectives such as deriving the maximum tax benefit, generating sufficient funds to replace the old asset, and ensuring a uniform rate of return on investment. Keeping this in view, an attempt was made in the study to know the motives behind providing depreciation. The study also reveals the purposes of providing depreciation by P.L.Cs. It can be seen from the Table 1.4., that as many as 14 industries representing 35% felt that tax planning was the main motive behind creating depreciation amount, and only 5 industries (13%) were of the opinion that they could replace the old asset. But there were 9 industries (23%) who reported that they had both these objectives. The remaining 12 industries they were not preparing and analysis even depreciation provision, and the industry-wise analysis shows that 1 unit each in Plastic, Soap, Food, & Printing industries, 6 units in Engineering, and 2 units in Tile industries were not using depreciation analysis. Further insight into the study depicts that maximum number of units in Engineering (7); Tile (2); Food (3); and Soap & Cement (1 each) were having the tax benefit as primary



objective. 4 units in Engineering and 1 unit in Food industries were replacing the old assets with the depreciation amounts provided against to their profits. It is also evident from the study that maximum units in Engineering industry (3); Plastic, Garment, Soap, Food, Cement and Printing industry (1 each) were having both the objectives. It can be inferred from this analysis that P.L.Cs units are more bothered about short term objective such as tax benefit rather than the long-term objectives of replacing the old assets. This kind of situation leads to the problems in replacing the old machine by the time it becomes scrap. Because the amounts kept aside are not used for replacing the used asset but for some other purpose. As a result, many units are not able to replace their assets through internal financing.

Financial Reporting is the process of supplying general-purpose financial information to people through published financial statements to outside the organization including shareholder, creditors, Government agencies and the public (Meigs, et al., 1995, P.5-9). It is evident from the study that financial reporting of P.L.Cs mainly constituted profit & loss account and Balance sheet. It can be seen from Table 1.4., that out of 40 sample units, almost all unit was preparing these two financial statements. It is mainly due to the requirements demanded by financial institutions and tax authorities. The presentation of profit & loss account and Balance sheet generally take two forms – account form and reporting form. Accounting literature does not prescribe any form for profit & loss account and left the matter entirely to the companies. The account form is sometime called as traditional form which is the oldest one and is usually called ‘T’ form of presentation and prepared like a ledger account. Reporting form is sometime called as tabular form which is a recent addition to the form of presentation. The study reveals the presentation form of profit & loss account and Balance sheet in P.L.Cs. It is evident from the study that the account form of presentation is dominant in presenting financial statements. As can be seen from the study, 22 units which are representing 55% were presenting the Profit & Loss account and Balance sheet in account form. The remaining 18 units which are representing 45% were presenting the Profit & Loss account and Balance sheet in reporting form. Apart from Profit & Loss account and Balance sheet, most of the P.L.Cs was unique in presenting additional information such as Segment Reporting, Value Added Statement, & Five Year Results. As showing from the study, 34, 32, and 32 units respectively were not reported to give disclosure in these areas whereas only 6, 8, and 8 units respectively were reported. The reason is quite obvious that P.L.Cs units are totally unaware and negligent in such reporting practices. But, surprisingly, there were a few P.L.Cs who managed to present certain information in these annual statements. As showing from this study, there were 8 units representing 20% reported on related Financial Ratios and Fund Flow Statement, and 14 units representing 40% reported on related Accounting Policies and Directors Reports whereas the remain units did not show much interest in preparation of these reports. Most of the P.L.Cs was not so much interesting in preparing the ratios in relating to turnover, working capital, profitability, capacity utilization because of lack of capacity to work this. In the case of Fund Flow Statement, many companies are severe resource crash and working capital problems reported. There is a problem of disclosing of accounting policies for the past five year results especially related with inventory and depreciation. The other information which is to be annexed along with Profit & Loss account and Balance Sheet is Notes and Schedule. The Notes and Schedules are very important for understanding the various items shown in Profit & Loss account and Balance Sheet. The study shows that 18 units representing 45% were able to prepare Notes to Profit & Loss account and disclose them along with the final statement whereas 22 units representing 55% were not able to prepare. But surprisingly, there were many P.L.Cs who managed certain information in related with Auditor Report. As showing from this study, 30 units representing 75% prepared Auditors Report whereas the remaining 10 units representing 10% did not prepared Auditors Report. Thus, it follows from the above analysis that financial reporting practices in P.L.Cs are mostly restricted to traditional way of presentation; the modern concepts are not found place in their accounts. During the study, most of industries felt that modern trend of presentation of financial information were not suitable to them because it required skill accountants; more time consuming; more costly. Above all most financial report of this P.L.Cs was prepared by private consultant and they prepared for tax purpose only.

Table 1.4.

Method of Depreciation Followed									
Item	Plastic	Garment	Engg	Soap	Tile	Food	Cement	Printing	Total
SLM	1	1	10	1	3	3	2	1	22
	50%	100%	50%	33%	50%	50%	100%	50%	52%
DB	0	0	4	1	1	2	0	0	8
	0%	0%	20%	33%	17%	33%	0%	0%	19%
Not Processed	1	0	6	1	2	1	0	1	12
	50%	0%	30%	33%	33%	17%	0%	50%	29%
Total	2	1	20	3	6	6	2	2	42
	100%	100%	100%	100%	100%	100%	100%	100%	100%

Purpose of Providing Depreciation									
Item	Plastic	Garment	Engg	Soap	Tile	Food	Cement	Printing	Total
Tax Planning	0	0	7	1	2	3	1	0	14
	0%	0%	35%	33%	50%	50%	50%	0%	35%
Replacement of the Asset	0	0	4	0	0	1	0	0	5
	0%	0%	20%	0%	0%	17%	0%	0%	13%
Both	1	1	3	1	0	1	1	1	9
	50%	100%	15%	33%	0%	17%	50%	50%	23%
No	1	0	6	1	2	1	0	1	12
	50%	0%	30%	33%	50%	17%	0%	50%	30%
Total	2	1	20	3	4	6	2	2	40
	100%	100%	100%	100%	100%	100%	100%	100%	100%

Awareness of Depreciation									
Item	Plastic	Garment	Engg	Soap	Tile	Food	Cement	Printing	Total
Yes	1	1	14	2	2	5	2	1	28
	50%	100%	70%	67%	50%	83%	100%	50%	70%
No	1	0	6	1	2	1	0	1	12
	50%	0%	30%	33%	50%	17%	0%	50%	30%
Total	2	1	20	3	4	6	2	2	40
	100%	100%	100%	100%	100%	100%	100%	100%	100%

Form of Preparation of P & L A/c and B/S			
Form of Preparation	Units	%	
Account form	22	55%	
Reporting form	18	45%	
Total	40	100%	

Financial Reporting Practices								
Item	Yes	No	Total	Item	Yes	No	Total	
Directors Report	14	26	40	Five year results	8	32	40	
	35%	65%	100%		20%	80%	100%	
Profit & loss account	34	6	40	Financial Ratio	8	32	40	
	85%	15%	100%		20%	80%	100%	
Balance sheet	34	6	40	Accounting policies	14	26	40	
	85%	15%	100%		35%	65%	100%	
Auditors Report	30	10	40	Fund flow statement	8	32	40	
	75%	25%	100%		20%	80%	100%	
Notes on profit & loss account	10	30	40	Value added statement	8	32	40	
	25%	75%	100%		20%	80%	100%	
Schedules to Balance sheet	23	17	40	Segment reporting	6	34	40	
	58%	43%	100%		15%	85%	100%	

(Source: Own Survey)

### Cost Accounting Practice of those manufacturing firm which organized as P.L.Cs:

Every business must control all its costs if it wishes to remain competitive. It also needs to control costs in total as well as the costs of a particular department or activity. Sound business management depends upon timely and rational judgments or decisions; in turn effective and rational decision-making depends upon proper planning and control functions. The business plan either short run or long-run is the result of strategic analysis of a business and its environment. Once the plan is prepared, it provides a framework against which the performance can be measured and judged. Information derived from the control of a business will be used to plan for the future. Thus, planning and controlling activities are continuous and interrelated and the success would depend upon the quality of accounting data supplied effective decision-making. It is just a question of being able to disentangle the information and find costs that are relevant to this purpose. The cost data will be an important element in the decision. So; good cost accounting system supports the pricing technique while quoting the bids or accepting the offers. Keeping this in view, an attempt was made in the study knows the cost accounting systems and cost ascertainment practices in P.L.Cs. The first step in planning and controlling of costs is assess and ascertain cost pertaining to a unit or center department through a separate cost department headed by a qualified cost accountant. But, in many P.L.Cs undertaking do not have a separate cost accounting department. In this study gives information relating to the maintenance of a separate cost accounting department in P.L.Cs. As can be seen from Table 1.5., out of the 40 sample units, only 16 units representing 40% having a separate cost accounting department headed by a qualified cost accountant whereas the remaining 24 units representing 60%, was merged either with financial accounting department or looked after by the owner himself or herself. Further insight into the study shows that, 1 unit each in Plastic; Garment; Soap; Tile; Cement; and Printing; 8 units in Engineering; and 2 units in Food industries were having a separate cost department.

There are basically three cost systems such as job order costing, process costing, and activity base costing. According to the literatures, in job order cost system, a cost sheet is set up for each job or production order to be worked upon in the factory. In process costing system, an account is set up for each process or operation through which the product passes. Activity base costing system is costing system by focusing on individual activities as the fundamental cost objects. An activity is an event, task, or unit of work with a specified purpose. ABC systems calculate the costs of individual activities and assign costs to cost objects such as products and services on the basis of the activities needed to produce each product or service (Horngren, et al., 2003). Keeping this in view, a modest attempt was made to know the type of cost system used by P.L.Cs for ascertaining the total cost. As can be seen from Table 1.5., as many as 12 units representing 30% reported that they were determining cost by process costing system. Industry-wise analysis reveals that 1 unit each for Plastic (50%), Soap (33%), Tile (25%), Food (17%); and Cement (50%); and 7 units for Engineering (35%) industries were following process

costing system. It is evident from the study that 9 units representing 23% reported that they were determining cost by job order costing system. Industry-wise analysis reveals that 1 unit each for Garment (100%), Soap (33%), Printing (50%); 2 units of Food (33%); and 4 units for Engineering (20%) industries were following job order costing system. It is also interesting to see from the study that 5 units representing 13% reported that they were determining cost by activities, which is ABC system. Industry-wise analysis reveals that 1 unit each for Food (17%), & Cement (50%); and 3 units representing 15% for Engineering industries were following ABC system. It is very interesting to see from the study that 14 units representing 35% reported that they were not used any of these costing systems for determining the cost. Industry-wise analysis reveal that 6 units for Engineering (30%); 3 units of Tile (67%); 2 units of Food (33%) and 1 unit each for Plastic (50%), Soap (33%) & Printing (100%) industries were not followed any these costing systems.

Cost ascertainment is done by adding direct cost and indirect cost related to an object of costing such as a job or product. The word 'direct' refers to the practical and physical tracing of cost as incurred by the given cost object. Prime costs are simply the total of all direct costs. Indirect cost refers to over head expenses incurred by the given cost object. Direct costs include material, labour and direct overhead. Thus, the total cost of a unit will be the prime cost plus all other overhead costs. According to the literature, there are various methods of valuing issue of stocks such as FIFO, LIFO, Average method, and Weighted Average method etc. The study shows that material pricing by P.L.Cs. As is evident from Table 1.5., as many as 22 units representing 55% were following Average Pricing Method. This method is mostly popular in Engineering (55%), Plastic, Food, & Printing (50%), Cement & Garment (100%), Soap (67%), Tile (25%), and Food (33%) industries. The next popular method is FIFO; as shown by the table, there were 4 units representing 10% were following this method. Industry-wise analysis show that 1 unit (17%) in Food and 3 units (15%) in Engineering industries were following this method. It is surprisingly, no single industries were following the LIFO. And it is interesting to see that 14 units representing 35% were not following any of these methods. Industry-wise analysis shows that 6 units (30%) in Engineering, 3 units (75%) in Tile, 2 units (33%) in Cement, 1 unit (50%) in Printing, 1 unit (50%) in Plastic, and 1 unit (33%) in Soap industries were not following any of these methods.

Overhead cost actually incurred is to be collected and allocated to prime cost, to ascertain the cost of production. These overhead cannot be specifically related to cost units and are to be apportioned to various departments. This involves estimating or budgeting overhead costs in advance as accurately as possible and apportioning them to production. The next problem is deciding on a basis for apportioning these overheads to job or products. It is necessary to charge each unit of production with its share of overhead expenses to ascertain the total cost per unit. There are various methods in use for the recovery of overhead by the units. The study shows the various methods of overhead recovery in practice among the P.L.Cs. As it can be seen from Table 1.5., there were 10 units which representing 25% reported that they were recovering overheads on the basis of material cost. Industry-wise analysis shows that 7 units (35%) in Engineering, 1 unit (33%) in Soap and 2 units (33%) in Food industries were basis the recovering overhead based on material cost. Labour costs were taken as basis by 4 units which representing 10% for overhead recovery. Industry-wise analysis shows that 2 units for Engineering (10%) and 1 unit each in Tile (25%) & Food (17%) were basis the recovering of overhead based on the labour costs. As it can be seen from the study, there were 1 unit which representing 3% reported that they were recovering overheads on the basis of machine hour rate. Industry-wise analysis shows that only 1 unit (17%) in Food industries was basis the recovering overhead based on machine hour rate. Rate per unit output were taken as basis by 3 units which representing 8% for overhead recovery. Industry-wise analysis shows that 1 unit each of Plastic (50%), Engineering (5%) and Cement (50%) were basis the recovering of overhead based on the rate per unit output. Labour hours were taken as basis by 6 units which representing 15% for overhead recovery. Industry-wise analysis shows that 2 unit each in Garment (100%), Soap (33%), Cement (50%), & Printing (50%); and 2 units in Engineering (10%) were basis the recovering of overhead based on the labour hour. The remaining 16 units representing 40% were not using this method of allocation of overhead. Industry-wise analysis show that 8 units in Engineering (40%), 2 units in Food (33%), 3 units in Tile (75%), 1 unit each for Plastic (50%), Soap (33%) & Printing (50%) industries were not using any of these methods. From the above analysis it can be inferred that material cost basis is mostly in practice among the P.L.Cs.

Insert Table 1.5.

Method of Costing Adopted									
Item	Plastic	Garment	Engg	Soap	Tile	Food	Cement	Printing	Total
JOC	0	1	4	1	0	2	0	1	9
	0%	100%	20%	33%	0%	33%	0%	50%	23%
PC	1	0	7	1	1	1	1	0	12
	50%	0%	35%	33%	25%	17%	50%	0%	30%
ABC	0	0	3	0	0	1	1	0	5
	0%	0%	15%	0%	0%	17%	50%	0%	13%
Not Used	1	0	6	1	3	2	0	1	14
	50%	0%	30%	33%	75%	33%	0%	50%	35%
Total	2	1	20	3	4	6	2	2	40
	100%	100%	100%	100%	100%	100%	100%	100%	100%

Maintenance of Costing Department									
Item	Plastic	Garment	Engg	Soap	Tile	Food	Cement	Printing	Total
Yes	1	1	8	1	1	2	1	1	16
	50%	100%	40%	33%	25%	33%	50%	50%	40%
No	1	0	12	2	3	4	1	1	24
	50%	0%	60%	67%	75%	67%	50%	50%	60%
Total	2	1	20	3	4	6	2	2	40
	100%	100%	100%	100%	100%	100%	100%	100%	100%

Method of Allocation of Overheads									
Item	Plastic	Garment	Engg	Soap	Tile	Food	Cement	Printing	Total
Material Cost	0	0	7	1	0	2	0	0	10
	0%	0%	35%	33%	0%	33%	0%	0%	25%
Labor Cost	0	0	2	0	1	1	0	0	4
	0%	0%	10%	0%	25%	17%	0%	0%	10%
Machine HR	0	0	0	0	0	1	0	0	1
	0%	0%	0%	0%	0%	17%	0%	0%	3%
Labor HR	0	1	2	1	0	0	1	1	6
	0%	100%	10%	33%	0%	0%	50%	50%	15%
Rate Per Unit	1	0	1	0	0	0	1	0	3
	50%	0%	5%	0%	0%	0%	50%	0%	8%
Not Used	1	0	8	1	3	2	0	1	16
	50%	0%	40%	33%	75%	33%	0%	50%	40%
Total	2	1	20	3	4	6	2	2	40
	100%	100%	100%	100%	100%	100%	100%	100%	100%

(Source: Own Survey)

The basic aim of cost accounting system is to provide the management with product cost per unit for the purpose of making decision with regard to pricing and profit planning. A cost accounting system may also provide management with cost data for cost control. The trend of product costs is used as a barometer of increased or decrease efficiency. Keeping this in view, an attempt was made to know the product cost determination among P.L.Cs units. It is evident from Table 1.6., that average cost is taken as basis for determining the unit cost by as many as 22 units representing 55%. An average cost is computed by dividing the total costs by the number of units produced. Total cost includes both fixed and variable costs. This type of cost ascertainment which includes fixed costs in the calculation of product cost is also known as total costing or absorption costing or conventional costing. Due to inclusion of fixed cost in the determination of total cost, the cost per a unit would vary from one cost period to another in accordance with the volume of activity in each period, because fixed and variable costs behave differently with changes in the volume of output. As such this type of cost determination per unit is not always suitable for decision-making. It also shows that only 2 unit representing 5% reported that they were following marginal costing method for determination of unit cost. Marginal costing is concerned basically with the determination of product costs which consist of the total cost less the fixed cost. In the application of this technique, profit is measured by the contribution of the margin to recover the fixed costs. It enables the presentation of data in a particular manner useful to various levels of management for the purpose of controlling costs; planning the profit and taking make or buy decisions. An insight into the study reveals that marginal costing technique was found only in Cement (100%) industries. The remaining industries were not using both determination of product cost. Industry-wise shows that 8 units in Engineering (40%); 1 unit each for Plastic (50%), Soap (33%), & Printing (50%), 3 units for Tile (75%), and 2 units for Food (33%) industries were not use these methods. Thus, it is clear from the above analysis that marginal costing technique is not popular among the P.L.Cs for determination of cost per unit; and most of the P.L.Cs were not used either of the average costing method. During the survey, many industries reported that lack of proper segregation and identification of fixed costs, negligence and lack of awareness were main reasons for not applying this technique for the determination of unit cost.

Valuation of inventory refers to the ascertainment of the value of closing balances of raw materials, stores, and partly finished and finished goods for the purpose of carryover from one accounting period to another. The correctness of the profit or loss as reflected in the profit and loss account and of assets exhibited in the Balance Sheet depends largely upon the correct and appropriate valuation of the closing stock. While in the cost records the stock of materials is always valued at cost, the valuation for the purpose of financial accounts and statements is at cost or market price whichever is less. Keeping the above in view, an attempt was made to study the inventory valuation practices adopted among the P.L.Cs units. As is shown from Table 1.6., as many as 14 P.L.Cs representing 35% were valuing the closing inventory at cost. The principal argument for this kind of practice is that because the materials are meant for utilization in future periods, the current profit or loss should not be modified by adopting a value other than actual cost. An insight into the study shows that this type of practice was most popular in Cement & Garment industry (100%) followed by Plastic, Food & Printing industry



which is above 50%. The value of the closing balance in the stores ledger, however, depends upon the method of pricing of issues adopted such as average cost, FIFO, LIFO, etc. There were 10 units were following the market price for valuing the closing inventory. The contention for this kind of practice is that the correctness of the profit or loss as reflected in the profit and loss account depends upon the appropriate value of the closing stock at current price. Further, it reveals that this practice was popular in Soap industry (67%), and followed by Engineering, Tile, & Food (17%). As per the GAAP, the closing stock should be valued at cost or market price whichever is less. As shown by the study, there were only 2 industries in Engineering (10%) who reported and followed this principle. Whereas the remaining 14 units were not used this valuation of inventory. Industry-wise analysis shows that, 6 units in Engineering (30%); and 1 unit each for Plastic (50%), Soap (50%), & Printing (50%), 2 units for Food (33%), and 3 units for Tile (75%) were not use this method of valuing inventory. It can be inferred from the above analysis that inventory valuation in P.L.Cs is mainly confined to cost basis and followed by market price.

Insert Table 1.6.

<i>Determination of Product Cost</i>									
<i>Item</i>	<i>Plastic</i>	<i>Garm ent</i>	<i>Engg</i>	<i>Soap</i>	<i>Tile</i>	<i>Food</i>	<i>Ceme nt</i>	<i>Printi ng</i>	<i>Total</i>
<i>Average Cost</i>	1	1	12	2	1	4	0	1	22
	50%	100%	60%	67%	25%	67%	0%	50%	55%
<i>Marginal Cost</i>	0	0	0	0	0	0	2	0	2
	0%	0%	0%	0%	0%	0%	100%	0%	5%
<i>Not Used</i>	1	0	8	1	3	2	0	1	16
	50%	0%	40%	33%	75%	33%	0%	50%	40%
<i>Total</i>	2	1	20	3	4	6	2	2	40
	100%	100%	100%	100%	100%	100%	100%	100%	100%
<i>Materials Issue Pricing</i>									
<i>Item</i>	<i>Plastic</i>	<i>Garm ent</i>	<i>Engg</i>	<i>Soap</i>	<i>Tile</i>	<i>Food</i>	<i>Ceme nt</i>	<i>Printi ng</i>	<i>Total</i>
<i>Market Value</i>	0	0	6	2	1	1	0	0	10
	0%	0%	30%	67%	25%	17%	0%	0%	25%
<i>Cost Value</i>	1	1	6	0	0	3	2	1	14
	50%	100%	30%	0%	0%	50%	100%	50%	35%
<i>Whichever is lower</i>	0	0	2	0	0	0	0	0	2
	0%	0%	10%	0%	0%	0%	0%	0%	5%
<i>Not Used</i>	1	0	6	1	3	2	0	1	14
	50%	0%	30%	33%	75%	33%	0%	50%	35%
<i>Total</i>	2	1	20	3	4	6	2	2	40
	100%	100%	100%	100%	100%	100%	100%	100%	100%

(Source: Own Survey)

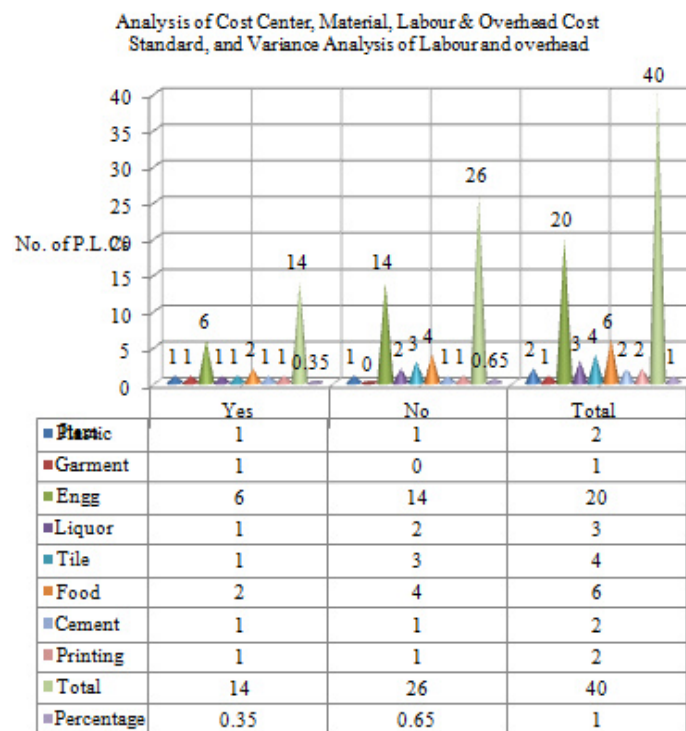
Cost control is defined as the regulation by executive action of the costs of operating an undertaking, particularly where such action is guided by cost accounting (Prasa, 2010, P.567). Cost control involves certain steps: i) the first step is to establish cost plan through cost standards or budgets ii) ascertaining the actual cost incurred through reports iii) comparing the actual performance with predetermined cost plans iv) and variance are found, reviewed and reported. Corrective actions or remedial measures as required are taken. Cost control is exercised through numerous techniques such as standard costing, budgetary control, performance evaluation and variance reporting. Standard cost is a predetermined cost that is calculated from the management's standards of efficient operation and the relevant necessary expenditure (Prasa, 2010, P.343). Standard costing involves the preparation of standard costs, their comparison with actual cost and the measurement and analysis of variance to their causes and points of incidence. The first step in the development of standard costing is to set standards in respect of each element – Material, Labour and Overheads. Material cost standard involves two basic processes – standard material quantity and expressing it in monetary terms with reference to their price of the materials. Standard costs for direct labour consists of two phases – fixation of labour time and setting of the labour rate. The technique of work study is helpful in this respect. The number of direct labour hours required to produce a product is obtained from time cards. For the fixation of labour rate standards, the rates of pay expected to be paid to the labour should be taken into consideration. Thus, an average hourly rate of pay fixed for each grade workers with reference to the standard labour rate. Setting up of standard overhead rate involves determination of standard overhead costs, estimation of production & determination of standard overhead rate. The formula for overhead rate is standard overhead for budget period divided by standard base for the budget period. Accurate assignment of overhead cost requires homogeneous cost centers

Keeping this in view, an attempt was made to know the practice of setting standards in respect of cost elements by P.L.Cs. The Figure 1.1., shows that as many as 26 units, representing 65% were not having more than one cost center and were not setting standards for material cost, labour cost and overhead cost. Whereas the

remaining 14 units, representing 35% were having more than one cost center and setting standards for material cost, labour cost & overhead cost. Most of the P.L.Cs units, establishment of cost centers were not maintained because of the expense of the establishing a multiple cost center system. The awareness and knowledge of established the standards cost for material is poor in many of the P.L.Cs units. The fixation of labour cost standards in P.L.Cs industry was not widely followed. The reason for this kind of trend is that most of the wages are paid by time, wage rates were stabilized by contract or acts. Most of the P.L.Cs units establishment of cost centers is weak and it is complicate to prepare the standard overhead rates. Apart from this it is observed that many P.L.Cs units were not able to set the material cost, labour cost and overhead cost standards due to lack of proper awareness and knowledge.

Once the cost standards are prepared, the next step in cost controls system is to ascertain the actual costs and compare them with the predetermined cost standards. The difference between the standard cost and actual cost during a period is termed as cost variance. When the actual cost is less than the standard cost, this indicates efficiency and difference is known as favorable variance and on the other hand, if the actual cost is higher than the standard cost, it would be termed as unfavorable which is a sign of inefficiency. These variances are analyzed to find out the causes leading to it son that management can exercise proper control. But, this kind of exercise is not popular in P.L.Cs due to many reasons. The fact on this point is presented in the study. As is evident from Figure 1.1., that as many as 26 units of industries representing 65% reported that, they were not analyzing the variance for material, labour, and overhead cost. Whereas 14 units (35%) revealed that they were finding the variances for material, labour, and overhead costs. Industry-wise analysis shows that maximum number of units (1) in Plastic (50%), Garment (100%), Soap (33%), Tile (25%), Cement (50%), & Printing (50%); 6 units in Engineering (30%) & 2 units in Food (33%) industries were analyzing the material, labour, and overhead variances.

Figure 1.1.



**Budget Accounting Practice of those manufacturing firm which organized as P.L.Cs:**

Budgetary control is a process that involves the preparation of an initial plan consistent with the goals of a business (Gupta, 2009). Budgeting has a number of roles to play for P.L.Cs. Not only is it a tool for planning ahead and coordinating these plans, but also provides a framework for controlling the business and allowing the owner to delegate authority and responsibility (Brand, 1965, P.235). Once plans are made, budgets prepared, actual are compared with the predetermined budgets to secure control over performance. The process is called budgetary control. When this process is done, not only will the spheres of respective responsibilities be clearly understood by each individual and a spirit of co-operation and team work will grow up leading to a high degree of efficiency. Keeping this in view, an attempt was made in the study to know the budgeting practice and types of budgets prepared by P.L.Cs. As can be seen from Table 1.7., as many as 70% of the industries was use budgeting for planning and controlling their business. Industry-wise analysis show that 14 units (70%) in

Engineering, 5 units (83%) in Food, 1 unit in Plastic (50%), Garment (100%), Printing (50%), and 2 units each in Soap (67%), Tile (50%), and Cement (100%) use budgeting. Whereas 6 units in Engineering (30%), 1 unit in Soap (33%), Food (17%), Plastic (50%), & Printing (100%), and 2 units in Tile (50%) industries were not use budgeting.

Budget committee is in charge of budget preparation in any organization. Generally, it is headed by a top executive who is known as budget officer or budget controller. It is evident from Table 1.7., as many as 12 industries representing 30% reported that they were not preparing budgets for their business. The study shows that, 16 units (40%) of industries revealed that the responsibility of preparing budgets was assigned to accounting department in their organizations. Industry-wise analysis show that 1 unit for Garment (100%), Soap (33%), Tile (25%), Cement (50%), & Printing (50%), 3 units in Food (50%), and 8 units (40%) in Engineering industries were assigned to responsible accounting department for preparing of budget whereas the remaining 11 units representing 28% were taking the help from other during the preparation of budget for their businesses. Industry-wise analysis shows that 1 unit for Plastic (50%), Soap (33%), Tile (25%), Food (33%), & Cement (50%) and 6 units in Engineering (30%) industries were taking the help from the other. But, surprisingly one industry which is Food (17%) industries was taking the help from their auditors in preparing the budgets for their business.

Budget manual lays down the details of organizational set up, the routine procedure and program to be followed for developing budgets for various items. It is the primary duty of the budget controller to maintain the budget manual. Table 1.7., shows that the position of budget manual in P.L.Cs. As can be seen from Table 1.7., half of the sample units were having budget manual of their own whereas the half units were not having the budget manual. Industry-wise analysis shows that 1 unit each for Plastic (50%), Garment (100%), Soap (33%) & Printing (50%), 2 units each for Tile (50%), Food (33%) & Cement (100%), and 10 units in Engineering (50%) industries were having budget manual.

A budget period is the length of time for which the budget is prepared and remains operative. This would vary from industry to industry and within the same industry from unit to unit. The budget period depends upon many factors such as the type of budget, general economic situation, production cycle and nature of demand for products. Keeping this view, an attempt was made to study the budget period in the P.L.Cs. Table 1.7., shows that, as many as 24 units representing 60% reported that their budget period was short term period whereas only 4 units representing 10% reported that their budget period was long term budget in conjunction with the short-term budgets. But the remaining 12 units representing 30% were not use budget period. A deep insight into the table reveals that, short term budgets were mostly found in Plastic (50%), Garment (100%), Tile (50%), Cement (50%), & Printing (50%), Soap (67%) & Food (67%); and Engineering (60%) industries whereas long-term budgets were in practice 1 unit each in Food (17%) & Cement (50%); and 2 units in Engineering (10%) industries. On enquiry, most of industries opined that short-term budgets were much more convenient for synchronizing with the financial year. For a better budgetary control, long term budgets are also important needed for P.L.Cs.

The Master budget for the P.L.Cs is composed of the sub budgets as well as other cost data needed, and it is very important in order to understand the detail analysis of the business. In general, the Master budget should represent the expected income statement and balance sheet for the next year. For this purpose, the individual budgets for each item should be coordinated and inter-related. The overall purpose of master budget is to keep track on each and every sub-budget for proper planning and control. Maintenance of master budget needs a thorough study of each and every component of the organization. Keeping this in view, an attempt was made in this study to know whether P.L.Cs units are able to prepare master budget or not. The result in Table 1.7., shows that the P.L.Cs was not much aware of the preparation of master budget. There were 12 units of industries which representing 30% reported that they were able to prepare the master budget whereas the remaining 28 units (70%) were not doing master budget. Industry-wise analysis shows that 1 unit each for Plastic (50%), Soap (33%), Tile (25%), Food (17%), Cement (50%) & Printing (50%), and 6 units each for Engineering (30%) industries were prepare master budget. The main reason for not preparing master budget is lack of proper understanding and expertise for preparation.

Table 1.7.

Do You Have Budget Analysis									
Item	Plastic	Garm ent	Engg	Soap	Tile	Food	Ceme nt	Printi ng	Total
	1	1	14	2	2	5	2	1	28
Yes	50%	100%	70%	67%	50%	83%	100%	50%	70%
	1	0	6	1	2	1	0	1	12
No	50%	0%	30%	33%	50%	17%	0%	50%	30%
	2	1	20	3	4	6	2	2	40
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%
Source of Budget In charge									
Item	Plastic	Garm ent	Engg	Soap	Tile	Food	Ceme nt	Printi ng	Total
Accounti ng Dept	0	1	8	1	1	3	1	1	16
	0%	100%	40%	33%	25%	50%	50%	50%	40%
Private Auditor	0	0	0	0	0	1	0	0	1
	0%	0%	0%	0%	0%	17%	0%	0%	3%
Other	1	0	6	1	1	1	1	0	11
	50%	0%	30%	33%	25%	17%	50%	0%	28%
Not Used	1	0	6	1	2	1	0	1	12
	50%	0%	30%	33%	50%	17%	0%	50%	30%
Total	2	1	20	3	4	6	2	2	40
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%
(Source: Own Survey)									

Budget Manual									
Item	Plastic	Garm ent	Engg	Soap	Tile	Food	Ceme nt	Printi ng	Total
	1	1	10	1	2	2	2	1	20
Yes	50%	100%	50%	33%	50%	33%	100%	50%	50%
	1	0	10	2	2	4	0	1	20
No	50%	0%	50%	67%	50%	67%	0%	50%	50%
	2	1	20	3	4	6	2	2	40
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%
Budget Period									
Item	Plastic	Garm ent	Engg	Soap	Tile	Food	Ceme nt	Printi ng	Total
Short Term	1	1	12	2	2	4	1	1	24
	50%	100%	60%	67%	50%	67%	50%	50%	60%
Long Term	0	0	2	0	0	1	1	0	4
	0%	0%	10%	0%	0%	17%	50%	0%	10%
Not Used	1	0	6	1	2	1	0	1	12
	50%	0%	30%	33%	50%	17%	0%	50%	30%
Total	2	1	20	3	4	6	2	2	40
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%
Preparation of Master Budgets									
Item	Plastic	Garm ent	Engg	Soap	Tile	Food	Ceme nt	Printi ng	Total
	1	0	6	1	1	1	1	1	12
Yes	50%	0%	30%	33%	25%	17%	50%	50%	30%
	1	1	14	2	3	5	1	1	28
No	50%	100%	70%	67%	75%	83%	50%	50%	70%
	2	1	20	3	4	6	2	2	40
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

## 6. Conclusions and Recommendations

Financial statements provide a wealth of information that is used by managers, lenders, customers and regulatory bodies. An analysis of its statements and practices can highlight a company's strengths and short-comings; and this information can be used by management to improve productivity and growth; and by others to evaluate operating and financial performance results. The study explored the extent of manufacturing firm organized on P.L.C in Tigray Region, Ethiopia reported to the regulatory requirement and best-accounting practices for external reporting. Furthermore, the study also examined the current accounting policies; report & record system of asset, liabilities, & capital reserved; the method & technique of determining cost; and system of internal control & budgeting of manufacturing firm organized on P.L.C in Tigray Region, Ethiopia.

The study concluded about Financial Accounting practice of those manufacturing firm organized on P.L.Cs in Tigray region is that accounting function has significant role to play but it is not treated as a separate functional area in many P.L.Cs and thus it has become one of the routine functions of owners. Therefore, the accounting functions must be treated as separate functional areas for proper record of assets, liabilities & capital reserves. It should not be routine functions of owners & they need to hire the skilled accountants to minimize the routine work. Many P.L.Cs prepare the business record by owner himself/herself and they feel it convenient and time saving in preparing one journal recording keeping system because of their size and their scale of business operation. Therefore, it recommended that the most familiar & required by law form of preparation of journal record keeping system, based on the modern accounting standard and Commercial Code of Ethiopia, is two journal record keeping system, which is general journal & special journal, and the two journal record keeping system must be followed by P.L.Cs. Though many P.L.Cs prepare general ledger & subsidiary ledger in order to maintain the account payable & account receivable, but there is a difficulties journal record keeping system for maintaining account payable & account receivable and also that the preparation of bank reconciliation is not popular and it leads to difference the cash book and pass book. Therefore, it is recommended that, they need to record more than one journal record keeping system and in order to reconcile the cash book and pass book, the preparation of bank reconciliation is very important and it must be prepare the bank reconciliation before preparing the final trial balance.

The awareness of the depreciation provision in many P.L.Cs is not able to compute the deprecation of their assets. The reason behind this kind of situation is due to lack of proper awareness in many cases & negligence in some cases. Many P.L.Cs are more bothered about short-term objective such as tax benefit rather than long-term objectives of replacing the old asset, and it leads to the problems of replacing the old machine by the time it become scrap and as a result they are not able to replace their assets through internal financing. The financial reporting practices in P.L.Cs are mostly restricted to traditional way of presentation; the modern concepts are not found place in their accounts. During the study, most of industries felt that modern trend of presentation of financial information were not suitable to them because it required skill accountants; more time consuming;



more costly. Above all most financial report of this P.L.Cs was prepared by private consultant and they prepared for tax purpose only. Therefore, the depreciation should not analysis for short term objective which is tax purpose. The P.L.Cs must analysis depreciation for long term objective which is replacing of old assets. The financial report practices should not be restricted to traditional way of presentation and they should follow modern practice which is very important for strategic planning and controlling system of the companies. The study also concluded about the cost and budgetary accounting practice is that, the planning & controlling of costs is assess & ascertain cost pertaining to a unit or center department through a separate cost department headed by a qualified cost accountant. But, in many P.L.Cs undertaking do not have a separate cost accounting department and the cost system & cost ascertainment system is poor in many industries. Many P.L.Cs reported that lack of proper segregation & identification of fixed costs, negligence & lack of awareness were the main reasons for not applying this technique for the determination of unit cost. Many P.L.Cs analyses the inventory valuation on cost basis not on the lower cost or market. It is observed that many P.L.Cs were not able to set the material cost, labour cost, & overhead cost standards due to lack of proper awareness and knowledge. Variance analysis is very important for management to exercise proper control, but this kind of exercise is not popular in many P.L.Cs. The budgets and budgetary control system of many P.L.Cs were very poor since the use of budgeting is very important for planning and controlling their business. Therefore, it is recommended that, Cost accounting functions must be treated as separate functional area for proper record system of cost, determination of unit cost, standard cost and variance analysis. The P.L.Cs must use budgets and budgetary controls because it is very important for planning and controlling the business activities of any companies.

#### **Concluding comments:**

In this study the researcher has argued that there are bad, inconsistent or incomplete financial, cost and budgetary accounting practices by the majority of those manufacturing firm organized on P.L.Cs Tigray region that demand compliance to the Commercial Code of Ethiopia regarding the maintenance of Book of Accounts; and as well that needs adherence to the modern Financial Accounting Practices. These study findings is an indication that significant gap between the amount of tax collectable from these firms' and that which is actually collected - *as some studies concluded* - might be mainly because of either lack of maintenance of book of accounts or holding only incomplete accounts. Hence, the study strongly recommends that there is an urgent need of intervention by the regulatory bodies; particularly the Ethiopian Revenues & Customs Authority authorized to levy and collect business income tax; and the Federal Audit General of Ethiopia authorized for the proper collection of the state revenue, inspected and controlled to curb the malpractices.

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