



**An Assessment of the Application of Government
Accounting System in A.A City Administration Finance
and Economy Development Bureau**

By

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CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by The St' marry University, a dissertation (An assessment of application of government accounting system In Addis Ababa City Administers Finance and Economy Development Bureau) in partial/fulfillment of the requirements for award of the degree of Master of Accounting and finance in St' Marry University.

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DECLARATION

Tewodros Zergaw , declare that this thesis is my own original work and that it has not been presented and will not be presented to any other university for a similar or any Other degree award.

Signature _____

Date _____

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ACRONYMS

ARB	Accounting Research Bulletin
AACAAG	Addis Ababa City Administration Auditor General
AGOHELMA	Abebech Goben Children's Care and Development Organization
BOFED	Bureau of finance and economy development
COSO	Committee of sponsoring Organization
CSR	Civil Service reform
DSA	Development and Decentralization Support Activity
FASB	Financial accounting standard Board
GAAP	General Accepted accounting principle
GASB	Government Accounting Standard Board
GTP	Growth and transformation plan
IFRS	International financial Reporting Standard
IMF	International Monetary fund
IPSAS	International public Sector Accounting standard
NGO	Non government organization
NPO	Not for profit Organization
MOFED	Ministry of Finance and Development cooperation
PB	Public Body
ROSC	Reports On Observance of standard and codes
SPSS	Social statics package
WTO	World Trade Organization

ABSTRACT

This study examined an assessment of the Application of government accounting system in A.A city administration finance and economy development bureau. The General objective of the study were investigating application of government accounting standard in Addis Ababa city administration finance and economy Development bureau; the study area was Addis Ababa Town, the research was used census method of data collection, the target population compassed of 50 respondents were attained, The data collected were both quantitative and qualitative Analysis were done using Statistical Package for Social Sciences (SPSS), this study adopted a mixed research design, likewise the study was analyzed through descriptive and statistical techniques, the finding of the research found out that, the organization partially implement its financial statement according to Government accounting standard so the accounting recording and processing are not effective. There Is also limitation in, recording of recurrent budget effectively, there is high variation of utilization of planed budget and actual budget, lack of valuation of fixed assets and record of investment, weakness in completeness of financial transaction and reporting, similarly, weakness in, low level of satisfaction in stakeholders' involvement in budget preparation, However, there is clear responsibility and accountable of expenditure in the organization, likewise, the financial system with relate to expenditure of goods and service with other department is satisfactory, the Record of the bureau is reliable, valuable and clear, and also the organization use pre-numbered financial documents and better budget management with relate to Approval of budgets on yearly basis and Adherence to budget estimates, there is also effective time management of budget plan, likewise, with relate to the challenge of government accounting, inconsistency for implement the policies, procedures of government, and lack of adequate competent accountant, little computer skills by employees, the poor operation due to ineffective or poor financial management, finally, The study recommend that using of accrual basis of accounting rather than modified cash basis of accounting to improve efficiency of the system and complete application of Government accounting standard, similarly City councils and regional finance bureau should access, they should improve financial management, and also they should read, and use financial reports on a regular basis, Increase utilization of the system by ensuring all accounting issues are computerized.

Keywords: *Government accounting system, budgetary system, valuation of plant assets, government accounting reporting, government accounting standard*

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Chapter One

Introduction

1.1. Background of The Study

The past few years have shown that the global financial system is in need of a variety of reforms (Ernst & Young, 2011). One of the most important aspects is the tendency of reforms in the financial information systems (Christiaens et al., 2013). The government accounting reform is regarded as part of improving information system in public financial Management based on accruals as a tool to gain a wider accountability in a democratic system and in a free market (Chan, 2006).

The movement to accrual accounting was pioneered by the developed countries as a part of the public sector reform (Hassan, 2013); thus, the annual financial statements play a significant role in the accountability of governments to their citizens and their elected representatives (Huges, 2013); Therefore, the priority of the developing countries was moving from the cash to the accrual basis of accounting (Tudor& Mutiu, 2006); because the cash and cash moderated-based accounting does not allow obtaining the necessary information in order to provide better support for planning and managing resources and more generally for the decision-making processes, allowing greater comparability, even between different entities (Christiaens et al., 2013); Thus, the international public sector accounting standards (IPSAS) have become *de facto* international benchmarks for evaluating government accounting practices worldwide. In addition, the absence of transparency about the result of implementation of budget lead consequently to the absence of the accountability of the government. There is also high weakness of the public services, beside the absence of any evaluation process of performance.

According to (Mona, 2012); accounting is concerned with the processing of financial transactions of an entity. It generates and communicates necessary financial information to its users. It is, therefore, a process of recording, classifying and summarizing the financial transactions and communicating the results of its operations. There are different branches of accounting. One of its branches is government accounting. It is that branch of accounting, which is used in government institutions. The government accounting is different from other branches of accounting such as commercial accounting.

Nelly (2011), the accounting system used in government offices to record and report their financial transactions is known as government accounting. Government accounting is concerned with systematic and scientific recording of government revenues and expenditures. It is the systematic process of collecting, recording, classifying, summarizing and interpreting the financial transactions relating to the revenues and expenditures of government offices. It reveals how public funds have been generated and utilized for the welfare of the general public. It is moreover, concerned with keeping records of government revenues and their expenditure in different development and administrative works. It further reflects the receipt and payment position of the public funds (Maftah, 2010).

Likewise, reporting of financial results is among the most important activities conducted by any public entity. Financial reporting provides a basis on which parties inside and outside a government can judge the effectiveness in conducting its core activities and determine its future financial viability. To maintain the efficiency and the comparability of financial reporting in the public entities, standards for accounting and financial reporting have been created and modified. These standards are typically called Generally Accepted Accounting Principles (GAAP) were created to provide the most effective and accurate methods of communicating the financial results of a public organization. Without such standards, public entities would likely use many different standards, some of which might accurately reflect economic reality and provide comparability across entities, and some of which may not (Nurdin, 2009).

With respect to Ethiopia, the practices of accounting in three distinct periods where the nation has had alternating political orders; from a developing market economy (pre 1974) to a communist economy (1974 through to 1991), and then back to a market oriented economy (1991 onwards). Before 1974, Ethiopia was a developing market economy. In 1974, with the coming into power of a military government, the country shifted to a command economy. This led to nationalization of private companies and establishment of state-owned companies. In 1991, the present government came into power, proclaimed a free market economic system, and privatized a number of state-owned companies. (Fitsum, 2012)

PRE-1974 registered a remarkable economic growth in the past seven years. Real GDP has accelerated from a five years average rate of 6.3 percent before 2004/05 to an average growth of about 10 percent during the period 2005/06 and 2012/13. This growth was largely spearheaded by the service sector which accounted for 55 percent of the overall GDP growth. With relate to this information Accounting for Government has become an interesting and important topic. (Reports on Observance of Standards and Codes (ROSC), 2014)

International Public Sector Accounting Standards (IPSAS) for instance are issued by International Public Sector Accounting Standards Board (IPSASB) established by International Federation of Accountants (IFAC), and based on International Financial Reporting Standards (IFRS) with changes appropriate to public sector issues. IFRS are issued by the International Accounting Standards Board (IASB), based on accrual accounting and used for private sector enterprises.

1.2. Background of the organization

The town of Addis Ababa has three (3) administrative levels: the City Government of Addis Ababa is the first level. The second level of the City includes ten (10) sub-cities. The third level includes kebeles, which are units of sub-cities. There are currently ninety nine (99) Kebeles. Sub-cities and kebeles like the City of Addis Ababa itself have elected councils.

The A.A city administration finance and economy development bureau (BOFED-Bureau of Finance and Economic Development) was established in 1984 E.C after the year that AA city categorized as a region 14. Through the proclamation 41/1985 that Ethiopia transition government amend to discriminate the authority of central and regional executive bodies and there are 10 sub cite offices And 116 woredas offices found within the city (<http://www.aabofed.gov.et/about%20eng.html/>)

similarly, BOFED's Vision is aspire to bring basic economic transformation in the year 2020 through effective and efficient administration of the city administration wealth and assuring sustainable development (<http://www.aabofed.gov.et/about%20eng.html>)

1.3 Problem statement

Public sector Accounting refers to an accounting method applied to non-profit pursuing entities in the public sector including central and local governments and quasi-governmental specially corporations for which the size of profits does not provide an effective measurement for evaluating performance (Lewis & Pendrill, 1999). With relate to this point, Accounting is essential for the best administration of any organization, whether governmental or profit making business organization. Because it is a means through which the activities of the organizations are communicated to users of accounting information. Accounting has, therefore, been called the language of business. Everyone engaged in a business or not activity uses this language directly or indirectly. It can, consequently, be viewed as an information system that provides essential information about the financial activities of an entity to various individuals or groups for their use in making informed judgments and decisions. (Perera, 1989) contends that accounting is a product of its environment, and a particular environment is unique to its time and locality.

Accounting in accordance with Mazuma (2010) is the backbone of any organization-private or public. This is due to the fact that all collections (revenues) and disbursements (expenditures) of such organizations would perfectly end up or accounted through accounting activity. In this connection, accounting practice must follow certain prescribed and agreed procedures, systems and standards, but it is better to identify problems are essential reasons for the need to improve the public financial management and decision-making of the government, when there is a relationship between a country's government accounting development and its political and economic development (Chan, 2006). In this field, the introducing IPSAS, provides more and accurate information about government performance (Pina and Torres, 2003; Christiaens et al., 2013).

The Federal Government of Ethiopia accounting system, reforms the accounting system was jointly developed, designed and implemented by the Accounts Design Team and the DSA Project in GC 2002. The key indicators to measure the success of the new accounting system include reduction in the annual backlog of reporting at federal and regional levels, timeliness, accuracy and comprehensiveness of monthly reporting together

and the capacity of the staff that operate the system (MOFED accounting Manual 3-2014).

In this case, there is modified cash basis accounting in the region which has clarity problem not only to the public but also to his official, whether it is computerized, manual, double entry, single entry or any other reporting practice. There is some study shows in 2007, Reports on Observance of Standards and Codes (ROSC), an initiative of the World Bank and International Monetary Fund (IMF), reviewed the accounting and auditing practices and the institutions supporting the accounting and auditing environment in the corporate sector in Ethiopia. But the study does not show how it's efficiency of the application of government accounting system and its challenge face.

As shown in the above paragraph, currently, the government accounting system use modified cash basis of accounting, but most of the government sector abroad, use accrual basis of accounting, The majority of IPSAS use the full Accrual-based accounting which recognizes fully assets, liabilities, net assets/equity, Revenues and expenses regardless of when the cash or cash equivalents are received or paid. The IPSAS set out requirements of recognition, measurement, presentation and disclosure dealing with transactions and events in general purpose financial statements of all public sector entities (Juvenaly, 2010).

Healthy accounting standard setting process needs representation from the entire spectrum of stakeholders to retain its integrity, similarly; a transparent due process allows outsiders to see the interactions and compromises among the key participants in the development of acceptable accounting rules (Miller, 1995). The accounting information for Government has become an interesting and important topic, because governments allocate budget more than 2 Billion (Mulatu, 2015).

Similarly, Government prepares budget in form of public policy to serve as a driving force through which mission could be achieved. As good as our budget is, the performance can be measured in terms of accomplishment is nothing to right about, (Olurankinse, 2012). Budget accomplishment is far from reality and the disparity between budget and accomplishment are so wide and kept on abating as years pass by.

In many cases, the incoming resources have their unique usages, which demand separate accounting records. In addition there is no clear information with related to How theoretical perspective of International Public Sector Accounting Standards (IPSAS) related with the application of government accounting and it is not clearly Identifying what kind of challenge face the system government accounting has.

1.4 Research Questions

Arising from preliminary discussion of the research problem, the study should elicit answers to the following key questions which essentially form the bedrock of the problem statement:

1. How the accounting cycle (process) applied in the bureau?
2. What type of budget preparation process or system adopted by the bureau?
3. How asset valuation and record used in the bureau?
4. How the government financial reporting applied in bureau financial statement?
5. What are the challenges pertaining to Government accounting the bureau face?

1.5 Objectives the Study

1.5.1 General Objective:

The general objective of the study is to investigate application of government accounting system in Addis Ababa city administration finance and economy bureau.

1.5.2 Specific objectives:

1. To find out the application of accounting cycle (process) used by the bureau.
2. To identify the budget preparation process or system adopted by the bureau
3. To assess whether there is a proper asset valuation method and record used in the bureau.
4. To investigate the government accounting financial reporting applied in the bureau financial statement.
5. Investigate the challenges pertaining to Government accounting the bureau face.

1.6 Significance of the study

This thesis is prepared for the purpose of investigating and reviewing the theoretical principles with related to the application of the government accounting system and identifies the challenges face the system within “the Implementation of modified cash basis of accounting.”, (MOFED, 2002). The study also assesses the principles,

standards and overall system, In addition, the study may serve as a reference for those who are interested body for further research work in the area, has a potential to provide important evidences, likewise, by investigating challenge face by the system of accounting, it help to put possible solution by showing research finding to the concerned body and indicating the challenge faced and also the output of the research support the concerned body who have relation with the organization.

Finally the research output shows best practices and makes policy recommendations aimed at improving the quality of financial system and reporting in the bureau as well as the country, The study also contribute to Knowledge by providing policy makers with understanding of some of the accounting and accountability issues facing A.A city administration finance and economy development bureau as a result policy makers will be better informed in designing policies to address some of these issues. Further the results are shared with the management of the case organization and based on the recommendations made, management will be able to understand how they can better implement and manage challenge in the accounting and accountability systems of the organization.

1.7 Scope (Delimitation) of the Study

The study addresses the assessment of Application of government accounting system in Addis Ababa city administration finance and economy development bureau, specifically, the study paper covers on the application of accounting cycle used, asset valuation method and record used in the bureau, budget preparation process or system adopted by the bureau and also application of financial reporting,

The study is confined to the recent fiscal year period of 5 years. The part of this time frame is holding to the fact that Governments increase in budget each year from and increase project activities arising from the government commitment for development when compared to previous years (MOFED, 2016).

Finally it focuses on challenges pertaining to Government accounting the bureau face in addition, The population of this study was on the staff of BOFED in Addis Ababa towns (piazza office) which have direct or indirect relation with the government accounting system such as All top level managers, All accounting staff, and All

internal auditing staff of BOFED but other staff was not included in the study because they are irrelevant to the study.

1.8 Limitation of the Study

Although the research has reached its aims, there were some unavoidable limitations, first because of the time was a big constraint, and the study was carried out for a short period of time because of the requirement to be able to follow the deadline of the University calendar and so more time could not be devoted to individual respondent. The second limitation was, the research was conducted only on small size of population who was working in Addis Ababa city administration finance and economy bureau only, therefore, this make the research limited on accountant, cashier and internal auditing staff in bureau only other staff was not included in this research, the third was, the limitation was the research material available was not sufficient; fourth was attitude of the respondent, which was, bias, hesitation and Uncooperative attitude of respondents affected the analysis of the study in significantly manner. The last was the data collection was limitation on Addis Ababa city administration finance and economy bureau head office only, which limited the data cover age in sector or branch office.

1.9 Ethical Considerations

The respondents were asked by formal letter and before the interview were conducted and before they start to feel the questioners, the researcher explained about the purpose of the research. Furthermore, the researcher explained to the respondents that all their responses and ideas would be kept in secrete.

1.10 Organization of the Paper

The research paper has five chapters. The first chapter consists of background of the study, background of the organization, research problems, research questions, objective, significance, scope and limitation of the study. Chapter two deals with all literature review. The third chapter discusses about research design, source of data and data collection techniques and target population. The fourth chapter presents

methods of data analysis and presentation and the last chapter contains summary of findings, conclusion and recommendation of the study.

Chapter Two

Literature Review

2.1 History of Government Accounting In Ethiopia

Accounting has undergone significant changes in transition economies, and it has evolved from a technical topic to a scientific one, respectively accountants had been perceived as “bean counters”. But later with the development of complex domestic and global markets accounting has become a socially embedded practice that influenced particularly the wealth accumulation (Caruthers, 1995).

Following Ethiopia’s return to a market-oriented economic system in 1991, the country embarked on policy reforms to liberalize its economy along the lines of neo-liberal economic principles to facilitate economic development (Peterson, 2001; Tesema, 2003).

Ethiopia is one of those countries that reconceived foreign aid and loans from international organizations in the effort to reduce poverty (Collier and Dollar, 2002). The country has been undertaking the reforms as a prerequisite for WTO membership (WTO, 2011). IFIS championed the reforms by providing technical and financial assistance (The World Bank, 2007) for a number of projects claimed to foster competition in the private sector and enhance global competitiveness of the country’s economy (The World Bank, 2010).

The reforms resulted in renewed focus on accountancy. Participants commented: WTO accession requires sound accounting infrastructure. The World Bank has put a pressure and significant amount of funding for the same cause in Ethiopia

Government policy has had substantial impact on accounting. The civil service reform has significantly enhanced the need for accounting professionals. While the importation of Western accounting education and professional certification continued, the globalization era produced new dynamics that called for Ethiopia’s adoption of IFRS. In 2005, the Ministry of Trade and Industry commissioned a World Bank funded project to devise strategies for the development of accounting (Miheret, Dessalegn Getie and Bobe, Belete Jember, 2014).

2.2. The Federal Government of Ethiopia accounting system

Ethiopia accounting system used up to GC 2002 was in service for more than half a century. Accordingly, the reforms to the accounting system was jointly developed, Designed and implemented by DSA (Development and the Decentralization Support Activity project in GC 2002). This system has since been operating successfully in MOFED and all public bodies at the Federal level and at the regional and sub regional levels. The key indicators to measure the success of the new accounting system include reduction in the annual backlog of reporting at federal and regional levels, timeliness, accuracy and comprehensiveness of monthly reporting together and the capacity of the staff that operate the system. Over the last four years certain changes to procedures have impacted the accounting system. The Central Accounts Department had to update the accounting manual to factor in these changes in order that the manual continued to serve as a practical and efficient guide to all its Users. The key changes that have impacted the accounting system are described below:

- The disbursement system was modified to introduce the zero balance drawing limit accounts at the National Bank of Ethiopia for Public Bodies located in Addis Ababa. MOFED has instructed the regions to implement the zero balance drawing limit accounts system at the region sector bureau level. However, the single treasury system will continue at zones and woredas.
- The responsibility for processing monthly payroll, salary loans and remitting pension contributions to the pension authority was transferred to public bodies. A revolving fund has been established by MOFED to fund staff loans.
- The jobs responsibilities of the accounts personnel need to be reviewed given that accounts data was initially processed using manual systems and are currently being processed using automated systems at federal public bodies.
- New types of transactions were introduced. Such as accounting for value added tax, withholding tax, letters of credit, staff loans cost sharing, surtax, and other payroll deductions.
- The chart of accounts was revised to accommodate additional account codes

All reforms have been initiated and funded by external bodies like the World Bank. When a particular project is completed, it will be put to file [i.e., recommendations

were not implemented because different donors tended to fund new projects rather than continuing with what was accomplished in prior projects]. Another project at another time by another or same body would be initiated and will have the same fate. Reforms should be institutionalized and owned by the (Accounts Reform Team of MOFED, 2007).

2.3 Government Accounting Basis

Government accounting system is used as a tool to input, process, store and output accounting information of financial reports. It adds all record transactions that regularly deal with financial position and performance of a unit (Meigs & Mary, 1998). Further, government accounting system records financial information on business transactions. The system serves as a tool for organizing, summarizing, analyzing, interpreting and communicating with stakeholders through the use of computer based systems such as accounting packages (Marivic, 2009).

A more recent and comprehensive definition of Government accounting was given by Oshisami and Dean (2004) as: “The process of recording, analyzing, classifying, communicating, and interpreting financial information about government in aggregate and in detail, reflecting all transaction involving the receipt, transfer and disposition of government funds and property. The purposes are to demonstrate the propriety of transaction and their conformity with established rules, to give evidence of accountability for the stewardship of government resources and to provide useful information for the good control and efficient management of government operations.”

Government has to do with a whole Nation. It is represented by organizations that are established to use the resources of a Nation for the upliftment and the welfare of its Citizens. For the skilful administration development of a Nation, there is the need to institute financial and accounting systems in the established organizations which are responsible for finances and human resources. In the same way, such systems are to be introduced and nurtured in those organizations that will be using the finances for such National development. The systems introduced should promote transparency, data storage and retrieval, and accountability. Government organizations are different from private sector establishments. Consequently, they have different features; Public Enterprises Proclamation 25/1992 requires state-owned enterprises to keep books of

accounts following generally accepted accounting principles (GAAP). However, within the Public Enterprises Proclamation, there is no requirement for state-owned enterprises to prepare financial statements in compliance with any defined accounting standards or for their auditors to comply with any defined auditing standards. Without definition, interpretations of GAAP can vary widely.

2.3.1 Cash Basis

The cash basis of accounting recognizes transactions and events only when cash is received or paid. FGE (federal government agent) changed its basis of accounting from cash basis to modified cash basis in the fiscal year 1995. (Accounts Reform Team of MOFED, 2007)

2.3.2 Modified Cash Basis

The modified cash basis of accounting recognizes transactions and events which have occurred by the year end and are normally expected to result in cash disbursement within the specific legal grace period stipulated by a country's financial regulations after year end. Payments over this grace period that are related to transactions of the previous fiscal year are reported as expenditures of the previous fiscal year. (Accounts Reform Team of MOFED, 2007)

2.3.3 Modified Accrual Basis

However, the modified accrual basis of accounting recognizes transactions and events when they occur, irrespective of when cash is paid. There is no deferral of costs that will be consumed in future periods. Assets that will provide services in the future are expensed in the period acquired. Therefore, under the modified accrual basis of accounting assets and stocks are considered consumed and expensed off as soon as they are acquired. (Accounts Reform Team of MOFED, 2014)

The difference between the modified cash and modified accrual basis of accounting is whether or not the financial regulations specify a grace period over which cash payments that are related to transactions of the previous fiscal year are reported as expenditures of the previous fiscal year and beyond that grace period cash payments that are related to transactions of the previous fiscal year are to be reported as transactions of the next fiscal year. (Accounts Reform Team of MOFED, 2014)

In Ethiopia, the accounting period includes a legal grace period of 30 days after the close of the fiscal year. Hence, the modified cash basis of accounting is applied in Ethiopia. Similarly, the modified cash basis of accounting recognizes transactions and events which have occurred by the year end and are normally expected to result in cash disbursement within the specific legal grace period of 30 days after year end. Payments over this grace period that are related to transactions of the previous fiscal year are reported as expenditures of the previous fiscal year. (Accounts Reform Team of MOFED, 2014)

2.3.4 Accrual Basis.

The accrual basis of accounting recognizes transactions and events when they occur irrespective of when cash is paid or received. Revenues reflect the amounts that came during the year, whether collected or not. Expenses reflect the amount of goods and services consumed during the year, whether or not they are paid for in that period. The costs of assets are deferred and recognized when the assets are used to provide service. (Accounts Reform Team of MOFED, 2014)

2.4 Nature and objectives of government accounting

The objectives of Government accounting include the following:

- (a) To fulfil legal requirement. The law requires that government accounts are prepared and audited annually.
- (b) To perform the stewardship function. The ruling government is the steward of the resources and finances of the Nation. Government has to give account of how these finances are used.
- (c) To enable Government to plan well the future activities and programmes of the Nation.
- (d) To provide a process of controlling the use of the financial and other resources.
- (e) To provide the means by which actual performance may be compared with the target set.
- (f) To evaluate the economy, efficiency and effectiveness with which governance is carried out (Accounts Reform Team of MOFED ,2014)

2.5 Users of government accounting information

There are two groups of users of Government Accounting information. These are Internal and External users whose peculiarities and areas of interests are briefly discussed, as follows:

A. Internal Users and Interest Areas

This group of users includes:

The Labor Union in the public service which will press for improved conditions of employment and security of tenure for their members who are the executive of government, such as, the president, ministers and governors. Their interest areas are to ensure probity and accountability through record keeping and performance control which are achieved through accounting information. Top Management members they are the conduit of accounting information generation, transmission and serve as liaison officers between Government, employees and the public. (Association of Accountancy Bodies in West Africa, 2009)

B. External Users and Areas of Interest.

External Users include Members of the Legislature at both National, State and Local Government levels. Information in the accounts of Governments is the major media through which politicians render stewardship to their constituencies and apprise them of the endeavors of governance.

The Members of the Public, who demonstrate accountability and Assist the people to appreciate otherwise the efforts of Governments who are Researchers and Financial Journalists,. Researchers are expected to develop new and better ideas of governance. Financial journalists cherish accounting information to advise existing and potential investors.

Financial Institutions, Such As Commercial Banks, World Bank And International Monetary Fund (IMF). Accounting information assists them to evaluate the credit rating of a borrowing Nation. Governments, apart from the Ones, Reporting Governments

collaborate on ideas of investment and research. They require accounting information on the well-being or otherwise of each other. Suppliers and Contractors Suppliers and contractors are eager to ascertain the ability of a Government to pay for goods and services delivered. Only Accounting information can be revealing. (Association of Accountancy Bodies in West Africa, 2009)

2.6 Comparisons Between public and private sectors

The term “Public Sector” refers to all organizations which are created, administered and financed by Government, from the tax payer’s money, on behalf of the members of the public. Such establishments which are referred to as the “three tiers” Government Companies, and other public agencies created by the Nation’s Constitution, Acts of Parliament and Bye-Laws. The organizations produce public goods and services which are available to the citizens free or at very minimum charges. (Association of Accountancy Bodies in West Africa, 2009)

Public sector organizations are managed by appointed members of the citizenry. “Private Sector” is that part of the economy where the factors of production of land, labor, capital and entrepreneurship are supplied by private individuals who are the business owners. They manage the businesses, bear the risks and earn the profits through the sale and production of goods and services as sole traders, business partners or shareholders in limited liability companies. Public Sector organizations are content with pricing products or services at marginal costs, thereby catering for the welfare of the public, privately owned businesses venture to recover not only marginal costs but fixed overheads and even earn profits. (Association of Accountancy Bodies in West Africa, 2009)

Public concerns do not distinguish between capital and revenue expenditure, unlike private companies. The latter write off the values of fixed overheads and even earn profits. Public concerns do not distinguish between capital and revenue expenditure, unlike private companies. The latter write off the values of fixed assets over estimated useful lives through depreciation. Public Sector organizations are accountable to the citizens of the Nation through their elected representatives. Private Sector concerns are answerable to their owners.(Association of Accountancy Bodies in West Africa,2009)

2.6.1 Differences between government accounting and private sector accounting

According to (Association of Accountancy Bodies in West Africa, 2009) Financial statements are structured representations of the financial position and economic performance of an entity. Specifically, the objectives of general purpose financial reporting in the public sector should be to generate information useful for decision-making, and demonstrate the accountability of an entity for the resources entrusted to it, by providing statistics:

- (a) On the sources, allocation and uses of financial resources;
- (b) On how an entity financed its activities;
- (c) For the valuation of the entity's ability to finance its activities and to settle liabilities;
- (d) For the measurement of an entity's performance in respect of the set goals.
- (e) Which will reveal whether or not an entity has acted within the approved budget?

2.7 Statement of financial position

Government accounting and budgeting system aid the use of financial reporting by evaluating the amounts, timing and uncertainties of cash flows. It also help in furnishing Information about the entity's economic resources, claims against those resources, owners equity and changes in the resources and claims (Wood and Sangster,1999).

A statement of financial position must be prepared for the organization as a whole presenting the total amount to assets, liabilities and net assets. Either the statement of financial position or the notes must provide information of liquidity, financial flexibility (i.e. restrictions/and interrelationship of assets and liabilities .Information about liquidity can be provided by listing assets and Liability in order of liquidity, in order of liquidity, classifying assets and liabilities in accordance with ARB (Accounting research Bulletin, 2009)

2.8 Cash flow statements

A Fund flow Statement is that which shows the various sources of income and expenditure in analytical form comprising inflows and outflows, from operating activities, investing activities and financing activities.

These may be further discussed as follows:

- (a) **Operating Activities:-** These comprise the principal revenue generation and disbursement activities through the business of an organization, during production
- (b) **Investing Activities:** - These have to do with the acquisition and disposal of fixed assets, investments and intangible assets such as trademark, goodwill, patent rights.
- (c) **Financing Activities:** - These are activities that bring out structural changes in the composition of equity capital of an enterprise.

2.9 Valuation of fixed assets

Fixed assets should be accounted for at cost or if the cost is not practicable determined, at estimated historical cost. Donated fixed assets should be recorded at their estimated fair market value when received (Peterson, 2002).

Cost-The cost of a fixed asset includes the purchase price or construction cost (including costs of engineering studies) and ancillary charges necessary to acquire the asset or to place it in the intended location and condition for use. Ancillary charges include costs such as transportation charges, site preparation, professional fees, legal claims directly attributed to asset acquisition, and certain interest costs during construction. For equipment the costs of any testing also should be capitalized (Peterson, 2002).

Estimated Historical Cost-Institutions are sometimes required to establish appropriate fixed assets accounting records after many years of operating without such records. In such situations, the original purchase documentation may not be available, or an inordinate expenditure of resources maybe required establishing original costs precisely. Therefore, it may be necessary to estimate the original asset cost on the basis of documentary evidence available, price levels at the time of acquisition, and to

record these estimated costs in the appropriate fixed assets accounts. In some cases, the cost may not be known but information and records may be available showing the year of acquisition. In this instance, a historical appraisal cost can be used (US Department of Housing and Urban Development, 1999).

A historical appraisal cost is defined for this purpose as the current appraised value adjusted to the year of acquisition (Peterson, 2002). If the exact date of acquisition and cost are not known, but the general period of acquisition and cost are known, an average year during the period of acquisition and a reasonable estimated cost might be used (Peterson, 2002). The important concept is to obtain reasonable estimated costs to record these assets on the books and establish accountability. Littrell and Thompson (1998), explained in their article, "Fix Asset reporting: Research note", that using estimated costs does create some margin of error in the fixed assets accounting records as compared to the proper recording at acquisition. However, such errors should diminish over time as assets are retired and replaced, and estimated costs are replaced with actual costs

Valuation Considerations According to Peterson (2002) in his book, Accounting for Fixed Assets, valuation consideration by category of fixed assets includes: Land-If the land is Purchased, the valuation includes such costs as purchase price, legal fees, filling and excavation, and other costs directly related to the acquisition of the land and its preparation for use. If purchased or constructed, the valuation includes such costs as the purchase price, acquisition legal fees, and other professional fees. Equipment-The basis of valuation of purchased equipment includes the net contract price, transportation charges, and the cost of installing special devices or other preparations required to ready the asset for its intended use. In case of a gift, the valuation recorded for these assets should be the appraised value at the time of acquisition. Initial Inventory of Assets to set up a fixed assets system, an initial inventory must be taken. For this Inventory, all fixed and controlled assets should be tracked and accounted for. Once the data has been collected, it is fed into the inventory management system. The initial inventory of fixed assets should begin with the identification of land and rights in land, all buildings, and all improvements, other than buildings should be listed.

All equipment should be tagged, including equipment that is being leased to the business (Brady, 2001). In addition, assets that do not meet the price criteria under the fixed assets category, need to be inventoried as well due to their vulnerability of becoming lost or stolen. Examples could be cameras and photographic projection equipment, record players, and radios. Developing and maintaining complete and accurate fixed assets records should always be emphasized as one of the most important functions of fixed asset management. An accurate fixed assets inventory provides information as to what assets is on-hand, their specific location, and what if any loss, theft or damage assets.

Organizations should maintain a fixed assets system, which includes records for all fixed assets that should be inventoried. Strict control must be maintained during the inventory process to assure that items not yet inventoried are not moved to areas already accounted for, or vice versa. "The physical inventory function is one of the functions in the management of fixed assets and the particular inventory verification procedures that are employed are of critical importance to the success of the fixed assets management program", (Brady, 2001)

Cost is measured by the cash paid in a cash transaction or by the cash equipment price equal to the fair market value of the asset given up or the fair market value of the asset received, whichever is more clearly determinable. Once cost is established, it becomes the basis of accounting for plant asset over its useful life (Weygand, 1999). When it is talk about plant asset valuation, Depreciation method should also be taken in to account, because through depreciation method the cost of a plant asset can be allocated expenses over its useful (service) life in a rational and systematic manner. To do so, there are three depreciation methods

2.9.1 Fixed assets

Companies worldwide have fixed assets to support business operations. These fixed assets are an essential part of every business. Sometimes fixed asset management can be difficult if there are not policies and procedures in place. Fixed assets affect myriad aspects of financial planning, reporting, and control. Many discrete, complicated, and

time-dependent tasks comprise fixed asset management. In addition, the slightest error can have drastic effects.

Fixed assets are non-consumable goods, tangible in nature and have a useful life longer than one year. According to (William D. Brady, Jr. (2001) "it can be any item costing over a certain dollar amount, large or small, to an item that has a certain useful life." These fixed assets are classified as land, improvements other than buildings, operating plants, equipment, vehicles, and construction in progress (Peterson, 2002).

Fixed assets can be both movable and immovable. Items of insignificant value, while they meet the above criteria, are normally expensed instead of being considered fixed assets. For profit and non for profit organizations, such as universities, are required under GAAP, General Accepted Accounting Principles, (Delaney, Epstein, Nach and Budack, 2002) to maintain a ledger or group of accounts in which to record the details relating to the general fixed assets of the organization

Establishing and maintaining complete and accurate accounting records for fixed assets is important for several reasons as stated by Brady (2001). First, the value of fixed assets is large in most organizations. Therefore, adequate accounting procedures and records are essential for effective property management (including risk management) and control. Second, the stewardship responsibility involved in safeguarding such a large investment is of the utmost importance for good financial administration. Third, adequate fixed assets records can assist in making management decisions. Proper use of these records may prevent unneeded assets from being purchased. Fixed asset records also could be used to help clarify long-term capital budgeting needs.

Finally, accurate and complete fixed assets records can prevent the possible misstatement of the institutional financial statements for fixed assets. Otherwise, assets such as those acquired under capital leases and joint ventures could be overlooked

Classification of Fixed Assets Fixed assets should always be recorded in the accounting records of an institution. Accounting classifications of fixed assets accounts are as follow (Heintz & Parry, 2002):

1. Property

Land: a fixed assets account that reflects the acquisition value of land and the rights to land owned by the organization. It includes all land held in fee simple and all rights to land that have no termination date

2. Plant

Operating Plants-A fixed assets account that reflects the acquisition value of plants used to provide the services of utilities, including both the building and the equipment

3. Equipment: It is a fixed assets account that reflects the value of tangible property not permanently a fixed to real property, used in carrying out the operations of business. Examples of equipment are machinery, furniture, and vehicles. This project will specifically examine and recommend a new process for the management of equipment

Recording Fixed Assets Business may acquire fixed assets by several methods. Possible acquisition methods include purchase with a Purchase Order or PO, lease-purchase, installment purchase, construction, and gifts. The method of acquisition of fixed assets should be properly recorded on the books of account and in subsidiary records that provide detailed information on each asset

In an article published in *Management Accounting: Magazine for Chartered Management Accountants*, Stephan Moriarty (Moriarty, 1998) says that "a lot of financial managers do not have accurate information about what their companies own", and continues explaining how important it is to record fixed assets in the appropriate books.

There are many rules and regulations on what and how fixed assets should be recorded. To avoid recording many assets with low values that do not, in the aggregate, amount to a material portion of the value of the fixed assets, organizations should set minimum asset values below which an asset is not recorded in the fixed assets records.

There are some guidelines recommended to make decisions on when to record an asset in the fixed assets record staking into consideration its value. Peterson (2002) recommends the following in his *Accounting for Fixed Assets* book: Land-All land

and permanent rights to land should be recorded without regard to any significant value.

The dollar amount used to decide whether an asset is of significant (capitalized or expensed) value should be policy decision of the institution's governing board. When organization decides to increase its threshold for capitalization, all old assets not meeting the new requirement should be removed from the fixed assets records (Peterson, 2002).

Those assets where it is impossible to affix a permanent tag, need to have a number so it can be positively identify as a capitalized asset (Brady, 2001). Identification numbers should be assigned and affixed as soon as the item is acquired.

Disposition of Fixed Assets

An asset maybe disposed of once it has reached the end of its useful life. In this case, these assets are considered, in many occasions, as surplus for the business. Most property or fixed assets even thought they have reached or exceeded their useful life, may still have a value to the business operations. Assets that no longer contribute to the organization's operations need to be disposed and considered surplus. Institutions should have a central warehouse of surplus property, where all surplus assets can be store for further process. Brady (2001) states that the purposes of a disposal program are:

1. Elimination of costs related to the warehousing, insurance and accounting systems necessary to fulfill the business' surplus property responsibility.
2. Maximize the proceeds by disposing of assets as soon as possible after they become excess to an institution's needs.
3. Establishment of priorities in the disposal process that encourages keeping assets in use as Long as possible.
4. Conversion of unneeded assets into available funds on a timely basis for offsetting the cost of new assets.

Depreciation Considerations: Depreciation is an element of expense resulting from the use of long-lived assets or fixed assets. It is conventionally measured by allocating the expected net cost of using the asset (original cost less estimated salvage value) over its estimated useful life in systematic and rational manner. The objective of depreciation is to charge each accounting period for the estimated loss in economic value of the depreciable assets used during the period (Peterson, 2002). This implies ability to:

- (a) Estimate the economic useful life of each asset
- (b) Predict the probable salvage value.
- (c) Estimate the rate at which the economic value of the asset will be consumed during its economic life.

1.9.2 Acquisition cost of property, plant and equipment

The term **expenditure** refers to a payment or an obligation to make future payment for an asset, such as a truck, or a service, such as a repair. Expenditures may be classified as capital expenditures or revenue expenditures according to (fees-warren, 1990):

- . **Capital expenditure** is expenditure for the purchase or expansion of a long-term asset. **Capital expenditures** are recorded in the asset accounts because they benefit several futures accounting periods.
- . **Revenue expenditure** is an expenditure related to the repair, maintenance, and operation of a long-term asset. These expenditures do not extend the asset's original useful life but are necessary to enable the asset to fulfill its original useful life. Revenue expenditures are recorded in the expense accounts because their benefits are realized in the current period.

2.10 Budget system and related Reporting

Government use budgets as a guiding tool for planning and control of its resources, be it financial or otherwise. The use of budget involves knowing how much money you earn and spend over a period, particularly one year. When a budget of an establishment, department or ministry is created, it means creating a plan for spending and saving money (Abdullah, 2012).

The need for utilization of scarce resources surrounding mankind effectively and efficiently, invite economic skills, on which the use of budgeting is inevitable (Armstrong, 2006). That is to say budgeting cuts across all personalities; starting from individuals, partnership, cooperative societies, companies, multinational corporations and nations hence, necessitating emergence of various definitions by different authors. Frederick (2001) defines budget as a plan that is measurable and timely. In addition, Drury (2006) defines budget as a plan expressed in quantitative, usually monetary term covering a specific period of time usually one year in other words a budget is a Systematic plan for utilization of manpower and material resources. In a business organization a budget represents an estimate of future costs and revenues.

As Blucher et al (2002) argue that, budgets help to allocate resources, coordinate operations and provide a means for performance measurement. Furthermore, budgeting involves planning for various cost generating activities and Revenue producing of an organization. The importance of budgeting is emphasized by an old saying, “Failing to plan is like planning to fail”. Thus, budgeting is essentially financial planning or planning for performance.

Thus, from the definitions of budget as stated earlier three major concepts or aspects are highlighted: First; is the planning aspect of a budget: the plan is referred to as statement of objectives or goals of the organization. Second; is the measurability aspect: this enables to measure what is planned, the extent to which the plan can be achieved. Lastly; it is time aspect: it gives the possibility to say if the plan is achieved and covers certain duration.

In summary, a budget is a statement setting out monetary, quantitative aspects of an organization’s plans for the future period monthly, quarterly or yearly. Budgetary control is the analysis of what happened that is when stated plans are compared with actual results.

The primary concern during budget implementation process is to ensure the fulfillment of financial and economic aspects of the budget. The financial tasks include; spending the amounts for the purposes specified, minimizing expenditures during the end of the year. The economic tasks on the other hand are; ensuring that

the physical targets of program and projects are achieved and macro Economic aspects of the budget such as borrowing and deficit levels. In managing budget implementation one of the key areas of focus is the revenue and expenditure flow pattern.

The budget is also a tool for the implementation of social, economic and political priorities which impact on the lives of the population. A successful budget must be a product of a process that is based on sound and quality information, rigorous impact analysis and effective feedback mechanism to internalize lessons of past budgets. It is an integrated output of a dynamic process in which the connections between various sectors are critical for its ultimate impact and should be looked at in a holistic manner (Kwanashie, 2005).

In the mid-1990s, Ethiopia embarked upon a new Civil Service Reform (CSR) initiative. Arising from its various studies, one recommendation was to program budgeting. The first piloting took place with federal ministries from 2006 to 2008 (three years). In 2009, a shadow PB exercise was undertaken, as a prelude to full implementation a year later. While significant progress was made, government decided to develop the technical aspects further, before its new target date, could be achieved. The recommended technical scope of PB captured in this manual.(2010, program budget training manual)

The Four Principles of the Budget Process (1999, the Government Finance Officers Association (GFOA),) are as follows:-

- 1) Establish Broad Goals to Guide Government Decision Making
- 2) Develop Approaches to Achieve Goals A government should have specific policies, plans, programs, and management strategies to define how it will achieve its long-term goals.
- 3) Develop a Budget Consistent with Approaches to Achieve Goals A financial plan and budget that moves toward achievement of goals, within the constraints of available resources, should be prepared and adopted.

4) Evaluate Performance and Make Adjustments Program and financial performance should be continually evaluated, and adjustments made, to encourage progress toward achieving goals. Elements of the Budget Process Each of the principles of the budget process incorporate components or elements that represent achievable results. These elements help translate the guiding principles into action components. Individual budgetary practices are derived from these elements and are a way to accomplish the elements. The elements of each guiding principle are identified on the following page. The principles and elements provide a structure to categorize budgetary practices. A more detailed explanation of the principles and elements is provided in the appendix. The Twelve Elements of the Budget Process Establish Broad Goals to Guide Government Decision Making

The neglect of the budget in the basic financial statements is remedied in three ways:

- (a) Interim and annual reporting of budget execution,
- (b) Making budget-to-actual comparisons according to budget measurement rules, and
- (c) Providing explanation of the effects of different methods used in budgeting and accounting.

Comparing Budget Reporting and Financial Reporting

Table 2.1

Budget Reporting	Financial Reporting
Regulated by budget laws and rules of a Jurisdiction.	Regulated by GAAP accepted nation-wide And with emerging international consensus.
Interim reporting during the fiscal year	Takes place after end of fiscal year
Reviewed and approved by high-level executives and legislature	Often audited by government or private-sector auditors.
Focusing on revenues and expenditures in most countries	Covers all aspects of public finances, including assets and liabilities.
Rarely includes account-based financial Statements	Often includes comparison between the budget and actual results

(Olaoye, Festus Oladipupo, Ogunmakin, Adeduro Adesola, 2014)

2.11. Financial Reporting

The annual financial report should be composed of and organized in to three major chronological sections: (1) introductory section; (2) financial section and (3) statistical section. The first of these, the introductory section, does not need to be labeled as such in the report because of the self evident nature of the few introductory materials which it contains. The second and third sections, by contrast, must be segregated by separator sheets titled, respectively, “Financial Section” and “statistical section.” (Larson, 1982).

Financial reporting should assist users in evaluating the operating results of the governmental entity for the year.

According to (GASB, 1984), the following are basic financial reporting component.
(GASB, 1984)

- Defining the financial reporting entity
- Comprehensive Annual Financial Report
- Additional financial reporting considerations
- Notes to financial statements
- Budgetary reporting
- Cash flows statements
- Segment information
- Reporting entity and component unit presentation and disclosures
- Supplemental and special purpose reporting
- Statistical Section
- Interim financial reporting

One of important concept in accounting system is generally accepted accounting principle (GAAP). GAAP is a set of standards and rules that are recognized as a general guide for financial reporting purposes. This recognized set of standards is used to guide accounting profession. To be in line with GAAP, the following operating guide line has to be followed. These are :-

(1) Assumption (2) Principles & (3) Constraints Western democracies share the following basic principles:

- 1) **Credibility.** Government financial reports should be trustworthy by presenting objective and reliable information in accordance to standards set by a body with a high degree of independence.
- 2) **Fair Presentation.** Even though total disclosure is impossible and unnecessary, governments should accurately and adequately disclose their financial conditions and performance.
- 3) **Value Added.** Government financial reports should add value relative to the governments already disclosed budgets and other fiscal information. Constrained by their historical orientation and unavoidable time lag, the special value of year-end financial reports lies in providing a long-term and overall perspective.
- 4) **Consistency and Uniformity.** The same measurement rules should be used over time unless circumstances change, and the same reporting formats should be used whenever possible, so as to increase the understandability and comparability of financial reports. Furthermore, financial, budgetary and statistical reporting rules should be harmonized when possible, aligned when necessary, or otherwise reconciled.
- 5) **Financial Statements.** At year-end governments should issue three basic financial statements based on its accounts: a statement of financial position in terms of assets, liabilities, net assets; a statement of financial performance in terms of revenues and expenses, and gains and losses; and a statement of cash flows classified in terms of operating, investing and financing activities. These general purpose financial statements (GPFS) provide common knowledge to all the stakeholders of the government.
- 6) **Financial Disclosures.** Due to the limitations imposed by accounting recognition criteria and measurement techniques (discussed in previous chapter), general purpose financial statements should be complemented by additional financial data to achieve the goals of accountability and transparency.

- 7) **Reporting Entity.** General purpose financial statements should cover the government as a whole, including the primary government (controlling entity) and the other controlled entities for which the primary government is financially accountable. The fiscal relationships among these entities should be clarified, especially when the inter-relationships are not visible on the face of aggregative financial statements. Additional reports should be prepared and made available for the components of a government, such as departments and funds, to facilitate management and oversight.
- 8) **Full Reporting Capacity.** A government's financial information system should be capable of generating data for assessing budget execution, interim and year-end financial reports, as well as statistical reports and others required by laws and regulations.
- 9) **Budgetary Reporting.** For any fiscal year, a government should report, at the appropriate time and level of aggregation: initial and revised budgets and other financial plans; results of budget execution, including revenue collection and spending; and explaining financial results measured with different methods.
- 10) **Statistical reporting.** Government financial data and reports should serve as the foundation of government finance statistics compiled by national and international statistical offices, in order to facilitate international comparable evaluations of economic impacts and fiscal soundness of governments. Objectives of Government Financial Reporting per the American GASB Financial reporting should assist in fulfilling government's duty to be publicly accountable and should enable users assess that accountability. The GASB is responsible for financial reporting standards for state and local governments, but not for federal agencies. The GASB has sought to "describe the unique nature of governmental entities and the distinguishing characteristics of the environment they operate in" (Attmore, 2009).

2.11.1 The Impact of Government Accounting System on Financial Reporting

Financial reporting is the process of presenting financial information or data about a company's financial position, operating performance and its flow of funds for an

accounting period (Van, 2005). Government accounting and budgeting systems is also credited for their quick processing speed and large storage capacity. For example, effective use of government accounting and budgeting systems promote and ensure up to date account balance that aid management in their decision making (Lancouch, 2003). The system also saves time on transaction hence, leading to accurate and quality of financial reporting and reliability of information (Lewis & Pendrill, 1999). Thus the influence of accounting systems depends on the end user' s satisfaction. This position was supported by Mihir (2002) when he highlighted that higher end user' s satisfaction leads to positive attitude that in turn increases the voluntary usage of the system. Therefore, the quality of accounting information and performance of the accounting systems is a great concern to management (Nash & Healy, 2003).

The GASB's Concepts Statement No. 1 (1984) identifies objectives of external financial reporting:

- Demonstrate public officials' accountability to citizens for raising public monies and determining how they are spent.
- Compare actual financial results with the legally adopted budget.
- Assess financial condition and results of operations.
- Assist taxpayers in determining compliance with finance-related laws, rules, and regulations, including the budget.
- Assist taxpayers in evaluating efficiency and effectiveness

Also, government accounting and budgeting system aid the use of financial reporting by evaluating the amounts, timing and uncertainties of cash flows. It also help in furnishing information about the entity' s economic resources, claims against those resources, owners' equity and changes in the resources and claims (Wood and Sangster,1999). Indira (2008) emphasized that Government accounting and budget system provide information about financial performance and promote effective management. The system also helped managers and directors themselves in making good decisions on behalf of the owners (Indira, 2008). This further shows that

accounting information is a necessary tool for various parties to make accurate and rational decision in an organization (Indira, 2008).

2.12. Challenge of government accounting

The government accounting and budgeting system is associated with several limitations. These limitations include costs and human need (Nash & Healy, 2003) to update a traditional organization, government increase government expenditure and costs. Also, reorganization of personnel and buying of accounting software requires organization spending, such as investment in new computers, regular software updates, and training and a new recruitment policy and employment of qualified professionals who are familiar with the operation of the system. Besides, as Accounting Information systems is automated; there is a need for accountants to acquire necessary skills to effectively utilize the system (Dalci & Tanis, 2013). Further, Tarmitti, Rashid, Deris and Roni (2013) argued that untrained personnel are likely to make error when entering information in the system, thus leading to disaster.

In addition, government accounting and budgeting system requires human beings to attain effectiveness and despite its advancing complexity, the system cannot fully replace human resources (Nash & Healy, 2003).

One of the challenges is how to meet the projected needs of the stakeholders. According to Batt (2014) budgets are created based on requests from competing stakeholders, each justifying their projected expenditures based on their departmental needs rather than the overall goals of the organization. Despite the advent of powerful computer networks and multi-layered models, budgeting remains prolonged and expensive as government and private organizations budgeting approach consistently show higher rates of inaccurate assumptions, a massive time commitment and tedious manual input (McRae, 1998). However, if this is not properly managed, it can affect the organizational achievement and goals. Batt (2014) expressed that budgeting system does not adequately link financial investments to results or outcomes. This limits the ability for in-depth analysis and understanding of the real Return on Investment (ROI) for any given line of business or initiative

Another problem associated with the use of government accounting system is network problems (Wahab, 2003). Review of literature showed that some of the countries using government accounting and budgeting system have long been experiencing network problems. This means that the network provided is not up to the mark (MFDP Report, 2007). A network is essentially a collection of information processing and communication resources that connect different information system assets, enabling them to share, access, and transmit information and data. It is important to control access of information system by both internal and external users to avoid compromising network security. Connections which are not secure can seriously compromise the information systems of the organization as a whole. Connections should be protected to avoid compromising the information system of the entire organization. Network and network services usage should not be left entirely for operational discretion; rather, a policy should be used to govern it (Hingarh & Mahmed, 2013).

2.13 Empirical Review

accrual accounting benefits for Romania as an emerging economy and in terms of all independent variables used in the study, fixed assets, liabilities, revenues and costs. It also shows the gradual evolution of finding the advantages of the Romanian accounting system's transition from a cash basis to an accrual basis in the two analyzed stages, the transition and post-reform periods. It proves thus the correlation between the pace of regulatory changes and their application in practice, indirectly confirming the orientation of the Romanian standard-setters towards IPSAS (International Public Sector) Accounting Standards and accrual accounting. Moreover, this research is an argument for the importance of accounting and of the economic analysis which the study can support through proper financial reporting. We tried to demonstrate the usefulness of accrual accounting through a quantitative approach and to add arguments for the trend which has been noted today, the increasing implication of accounting in the public sector management and guidance to governments who generally give more attention to the efficiency and effectiveness of public sector management. (Deacon, 2011)

Moreover, various scholars carried out empirical studies on measurement of efficiency in government accounting. Study by Ammons and Rivenbark (2008) in Russia revealed that there are complexities in measuring efficiency in government accounting as about

23 local governments resorted into reporting differently from what was actual in books of accounts. Likewise, efficiency was revealed to be further outcomes governments produce. Outcomes are the social life improvement, the cleanliness of streets, and the economic vitality of the community.

A survey conducted by (Ambetsa, 2004) of budgeting control practices by commercial airlines operating at Wilson Airport, Nairobi indicated that the challenges faced were budget evaluation deficiencies, lack of full participation of all individuals in the preparation of the budget and lack of top management support. He further concludes that airlines operate and use budgets to plan implement and evaluate their business performance. All enterprises make plans using budgets some in a systematic and formal way, while others in an informal manner but still have some Form of budgetary control and budgetary control practices. Therefore the issue is not whether to prepare a budget but rather how to do it effectively

The objectives of government accounting are to safeguard the public treasury and property to accurately measure and communicate the government's financial condition so as to demonstrate financial accountability, and to facilitate decision-making. a government should prepare and publish its budgets, maintain complete financial records, provide full financial disclosure, and subject itself to independent audits., the form and content of financial reports Should be guided by the rights and need to know of intended users., The accounting system should measure the cash and other financial consequences of past transactions and events, including, but not limited to budget execution. The accounting system should be capable of keeping track of the levels and changes in assets, liabilities, revenues and expenditures or expenses, relative to budgeted (Chan, 2003)

The researcher conducted by admasu had tried to study and explained the accounting and reporting practice of Abebecheg Goben Children's Care and Development AGOHELMA, so in order to generalize of the study AGOHELD employees or members have a clear understanding accounting practice and financial reports covering all funds and financial transactions. AGOHELMA has a better record keeping systems. Thus recording, summarizing and evaluating process are accurate and relied with generally

accepted accounting practice Financial statements are prepared to meet financial users and financial reports are prepared periodically because to control financial operations and to satisfy the end users of like donors, governments. AGOHELMA's major source of fund is donations or contributions (Admasu, 2012)

Chapter Three

Research Design and Methods

This chapter focuses on the activities and processes followed in undertaking the study. It is structured to describe and discuss the research design adopted; the necessary sources of data, methods used in generating and collection of data, the population of the study, and data analysis techniques including their justifications

It presents the data collection and processed into a research document. The methodology for a research must therefore be scientific. That is, the process must be systematic, rigorous and unbiased. In order to guard against potential statistical errors, relevant and appropriate data collection instruments and census method of data collection was applied to arrive at accurate results. This mainly involves the research design, population under the study, types of data and method of data analysis.

3.1 Research Design

This study adopted a mixed research design which describe the characteristics of certain groups, estimate the proportion of people who have certain characteristics and make predictions. The study sought to collect data from the BOFED staff at one point in time and determine application and challenge of accounting system. Mixed Research design was the framework or blueprint for conducting a meaningful research. It set the outline for collection, measurement and analysis of data. Mixed Research design provides the glue that holds the research project together. which was used to structure the research to show how all of the major parts of the research project -the groups, measures, treatments or programs, and methods of assignment work together to try to address the central research questions. In an attempt to complement and validate one research method with the other in order to compare results in different contexts, the research triangulated via using primary data sources specifically, questionnaires and interviews. Thus, interviews response was used to complement and to check the validity of data gained from questionnaires.

3.2 Study Area

The researcher takes into account the cost and the representation matter, and focuses on BOFED in Addis Ababa Town. As a matter of fact, there are zonal branches in Addis

Ababa Finance and Economy Bureau and the researcher did not collect data from these zones because all the respondents in the bureau are adequate for data analysis because the research was used census.

3.3 Target Population

According to (Abdulmalik, 2006), population in this context has been defined as all conceivable elements, objects or observations relating to a particular phenomenon of interest to research, i.e. it is the totality of items, object, persons, issue or observation who share at least a common attribute or characteristic on which the research is centered. This could be people, objects, cities, countries etc

To give exact and accurate results the research was used census method of data collection because the official and the number of staff which are finance, budget and internal auditing business process working in the bureau are very small and manageable for analysis purpose, and also they are related with their experience and professions the other staff out of these are insignificant to the research.

Going by the above definition, there are two types of population which is of interest to in this study. The first is the population of the government areas officials (BOFED) management, while the second is the population of the respondents – finance, budget, and auditor teams. Since it is practically almost possible to include entire populations in the study, the researcher collected data not more than 50 which include 4 department heads and 6 team leaders.

3.4 Method of data collection

Primary data: According to Ebvorakhai (2003) Primary data represents the raw materials (data) needed for processing in order to arrive at some findings relevant to the research problem. It is generally agreed that primary data, which is essentially data collected by the researcher himself to address a particular research end, is the best and most reliable source of data since the data is collected and analyzed by the researcher.

For the present study, the primary data consist mainly of cashiers, budget experts, accountants, Auditor and managements from BOFED. Primary data was collected by means of distributing self administered questionnaires to the selected employees of the

organization and by face to face interviewing with the management of the office. Interview responses (data) was coded and arranged according to their similarities.

Secondary data: A secondary source of data is related data that was collected by other researcher or compiled by government and non-governmental agencies. Secondary data is usually in documentation. For this study a wide range of data were collected from secondary sources. Which were collected from different organizations' library, from BOFED archives and other sources, such date was collected from these sources were books, articles, previous studies, websites, and BOFED raw data collected by experts. These includes, government procedures, financial report, Main lager accounts Balances, financial report, financial administration proclamation.

3.5 Reliability and Validity of the Instrument

Reliability of the Instrument: Reliability is literally the extent to which we can rely on the source of the data and, therefore, the data itself. Reliable data is dependable, trustworthy, unfailing, sure, authentic, genuine, reputable. Consistency is the main measure of reliability. In this regard, data were collected from reliable sources, thus, those at management levels who are informed with general operations of the Government accounting in the BOFED, such as, decision makers, director, team leader and finance expert. The reliability of the study was (also established by cross checking the responses of the officials; the data collected from secondary sources and the responses were given by Expert.

In order to say the research has the reliability, the instrument should show above 0.7 Cronbach's Alpha results. However the higher Cranach's alpha result does not reflect reliability, unless the test is shortened (Mohsen Tavakol, 2011). Cronbach's alpha is a model of internal consistency reliability based on the average inter item correlation of an instrument" (Rovai, Baker, and Ponton, 2014) Hence, the research instrument was checked by Cronbach's alpha and its result was **.801**

Validity of the Instrument: The validity of the instrument was tasted through discussion with the research adviser, and with knowledgeable individuals. The quality of these instruments is very critical because "the conclusions researchers draw are

based on the information they obtain using these instruments” (Fraenkel & Wallen, 2003,). Thus, it is imperative that the data the research and the instruments to be validated. On the whole, the following miscellaneous procedures can be used to validate the instruments and the data of the research such as.

A. Content Validity Content: validity is related to a type of validity in which different elements, skills and behaviors are adequately and effectively measured. To this end, the research instruments and the data might be reviewed by the experts in the field of research. Based on the reviewer’s comments the unclear and obscure questions can be revised and the complex items reworded. Also, the ineffective and non functioning questions can be discarded altogether. In addition, the questions could be face validated by these persons. Based on this point the validity of the research was investigated using skills and behaviors of the respondent and the expert was given they valuable comment and was included the comment. Finally ineffective and non functioning questions were discarded as shown in the analysis and appendix of the questioner.

B. Internal Validity: Mainly, internal validity is concerned with the congruence of the research findings with the reality. Also, it deals with the degree to which the researcher observes and measures what is supposed to be measured. On the whole, to boost the internal validity of the research data and instruments, the researcher might apply the following six methods recommended by (Merriam, 1998), triangulation, member checks, short term observation at research site, participatory or collaborative modes of research. In order to strengthen the validity of evaluation data and findings, the researcher should try to collect data through several sources: questionnaires, interviews and. Gathering data through one technique can be questionable, biased and weak. However, collecting information from a variety of sources and with a variety of techniques can confirm findings. Therefore, if we obtain the same results, we can become sure that the data are valid. Certainly, through triangulation we can gain qualitative and quantitative data in order to corroborate our findings. There for the research triangulate the qualitative and quantitative date and had got similar result.

3.6 Data Presentation and Analysis Techniques

According to Osuala (2001), data analysis involves the ordering and breaking down of data into constituent parts. Akogun (2000), also opinion that the aim of statistical analysis is to test hypothesis, draw a general conclusion and make a prediction. Hence, the analysis of the data is the means by which the research problems are answered. However, this study has adopted descriptive and statistical techniques.

3.6.1 Descriptive Analysis Techniques

This involves the use of numerical values to describe some features of a distribution, (Gupter, 1996). These numerical values can also be used to describe qualitative features. Also, descriptive techniques bring data into order, which according to (Asika, 2000) involves data preparation, tabulation and summarization Therefore, the descriptive tool used in data presentation and analysis of this study includes tables and simple percentages and mean. The SPSS 21 was used to prepare the data for descriptive. This is due to its simplicity and explicit approach in research work

3.6.2 Qualitative Data Analysis Techniques

3.6.2.1 Interview

The face to face interview was conducted to Heads of Departments for the units identified. This was applied given the fact that these kinds of people do not have enough time to concentrate on questionnaire and fill in; therefore, interview is thought an ideal technique for this government official. Information obtained was recorded and analyzed. Interview technique created and promoted understanding between the interviewer and interviewees. It involved presentation of oral-verbal stimulus and reply in oral verbal responses. This technique leads to smooth flow of data from respondents to the interviewer. However, the major advantage of this method is that interviewees are comfortable more free to give out own views and opinions pertaining to the study.

3.6.2.2 Document Analysis

Documentary analysis is a suitable method for collecting data from secondary sources that consist of statistical statements and reports, whose data may be used by researchers for their studies; for example, articles, books, journals, manual, annual reports, policies and other useful published reports. The secondary source consists of not only published

records but also unpublished records such as Journals, books, and internet. The purpose of documentary analysis is relating the research's investigation with literature and empirical reviews relevant to the research topic.

Chapter Four

Data Presentation, Analysis and Interpretation

This chapter contains an analysis of the information obtained from the respondents. Due to Analysis of the results provides answers to the questions posed in chapter one concerning the application of government accounting system in BOFED the implications of the findings was presented throughout the chapter. The information used in this section was obtained through from the organizations which was used census method, questionnaires filled by the employees of the selected organizations. The questionnaires used were planned in such a way that it can reveal information on the accounting system. For easy understanding and use, the findings were clustered in to central areas related to the research questions. These were Accounting cycle activities, plant asset and management, budget system and reporting of BOFED and also it show the challenge face the system in general.

4.1 Demographics Characteristics of Respondents

According to UN (2009) a thorough and professional research must encompass some variables of world cross cutting issues. Therefore, in this study demographic characteristic of respondents is composed of gender and age of respondents, working experience and level of education of the respective respondents. However, such demographic characteristic of respondents create inference on data validity and reliability given the fact that significant information for the study would have high degree of reliance. If at all given by matured respondents, a sound exposure on Government accounting as well as level of education

4.1.1 Gender and Age

Table 4.1: Gender and Age

Gender	Respondent	Percentage	Age range	Respondent	Percentage
Male	25	63	20-30	-	-
			31-40	4	10
			41-50	19	48
			>50	2	5
Female	15	37	20-30	4	10

			31-40	4	10
			41-50	5	12
			>50	2	5
Total	40			40	100

Questioner result of SPSS, 2017

Table 4.1 showed that 25 percent of the respondents were male while females comprise of 15 percent. Their age range varied considerably. There were 10 percent males at the age group of 31-40 while females were 4. There were also 10 percent tend at the group of 18-27, there were 19 percent male at same age compose of 5 percent, likewise, the age group > 50 years old, there were 2 percent males while females were 2 percent. Gender as a cross cutting issue was taken in to consideration in order to ascertain gender balance in the study, hence reduce research biasness on gender. In this connection, more respondent in the study were males than females.

4.1.2 Experiences with Government Accounting

Analysis was made on experience in operation for government accounting as shown on table 4.2 and the following were results obtained. Out of 40 respondents in the study 10 percent had 1-3 years experience in operating with government accounting while 5 % percent had such experience between 3.6 and 10 percent had such experience between 7-9 years experience and 75 percent had the experience of more than 9 years. Therefore this demography evidence that the study got adequate information from reliable source and well informed respondent as 90 percent of the respondent where found to possess a sound experience in operating with government accounting for more than 3 years

Table 4.2 Experience in Government Accounting

Number of years	Respondent	Percentage
1-3	4	10
3-6	2	5
7-9	4	10
>9	30	75
total	40	100

Questioner result of SPSS, 2017

4.1.3 Level of Education

Table 4.3 show respondent's level of education as 15 percent had collage diploma level of education while 77 percent was found to possess degrees as well as 8 percent were found to possess post graduate level of education. Therefore, the study had more than 80 percent of respondent with recommendation level of education, thus information reliability from the same would be guaranteed.

Table 4.3: Level of Education

Educational level	Respondent	Percentage
Diploma	6	15
Degree	31	77
Master	3	8
Total	40	100

4.2 Application of government accounting

The responses were placed on a five Likert scale ranging from 1 (not at all) to 5 (most satisfactory). A mean of above mean average is regarded to measure satisfaction on the test variables. Standard deviation was used to indicate the variation or "dispersion" from the "average" (mean). A low standard deviation indicates that the data points tend to be very close to the mean, whereas high standard deviation indicates that the data is spread out over a large range of values. The results are shown in the Table below

Descriptive statics 4.4

	N	Minimum	Maximum	Mean	Std. Deviation
The bureau of each recorded transaction is reliable, valuable and clear	40	2	5	4.20	.687
the organization use pre-numbered documents for accounting purpose	40	3	5	3.83	.781
your organization prepare its financial statement according to Government accounting standard statements	40	1	5	2.58	1.299
How do you see the accounting cycle with relate to economic data of the bureau	40	1	5	2.93	.971
There is recording of Payment of salaries and wages	40	1	5	2.43	.984
The relation of finance department with Ordering, receiving and issuing materials from store	40	1	5	3.73	1.320
The bureau's accounting system is computerized?	40	1	5	2.40	1.033
The bureau record all account in ledger as general and subsidiary ledger accounts	40	2	5	3.63	1.005
The bureau reconcile and update its record timely	40	3	5	3.95	.677
The accounting data are Simple to Search and to correct errors	40	1	4	2.38	.868
Valid N (listwise)	40				

Questioner result of SPSS, 2017

As shown in the Table 4.4 From the total of the respondents (40), were asked organization prepare its financial statement according to Government accounting standard which have given the lowest mean (2.58), this show that the Government accounting standard is not fully applicable in the bureau, therefore it is big problem of application of government

standard statement, likewise, the accounting cycle with relate to economic data of the bureau, which have given the lowest mean (2.93), this show that resource of the bureau is not given expected attention, therefore there is a problem of recording resource of the organization based on evidence in the account is weak,

Similarly, the respondent where asked from the equation, with relate to recording of Payment of salaries and wages, found out that (2.43) which is below average mean, Thus, this parameter indicate that, It does not fulfill the interest of the average respondents. Therefore, we can say that there is a weakness in recording recurrent budget effectively, in addition, The bureau's accounting system was not computerized the result indicate 2.4 which is below average mean (i.e,3), Finally with relate to the accounting data either Simple to Search or to correct errors shows below average mean which is 2.38 value, this show that the accounting data are not Simple to Search and to correct errors, therefore, this gap create negative impact on effectiveness of the transactions, so we can say that the account recording is not effective.

However, with relate to the level of satisfaction in how transaction are reliable, valuable and clear, found out that the mean of 4.2, this show that record of the transaction is above average mean (i.e. 3), therefore, the bureau record of each transactions are reliable, valuable and clear. Whereas with relate to the equation of how the organization use pre-numbered documents for accounting purpose was found that 3.83 which have been rated "above the expected average", these clearly indicate that bureau use pre number document for accounting purpose and show confidentiality of accounting document likewise, the rating of respondent with relate to finance department with Ordering, receiving and issuing materials from store found out that the mean of 3.73 this is above average mean, therefore, the respondent agree about it, this indicate that in the system there is clear responsibility and accountable of expenditure of goods and service in the bureau.

similarly, The bureau record all account in ledger as general and subsidiary ledger accounts (4.23), is above average mean, this show that there are ledger balances and subsidiary ledger balances for each record account, there are also chart of account and the accounting process of recording of journal to ledger. Finally The bureau reconcile

and update its record timely indicated a mean value of 3.95 which is above average mean (i.e. 3.00) there are proving and checking of account balance, and transfer of balance of each account from time to time and from period to period.

4.3 Budget system

Descriptive Statistics 4.5

	N	Minimum	Maximum	Mean	Std. Deviation
Involvement of stakeholders in budget preparation.	40	1	4	2.55	1.037
Level of Variations exit between budgeted and actual amount	40	2	5	3.75	.742
Usage of budgets for a given period of time effectively	40	1	5	3.63	.807
Approval of budgets on yearly basis and Adherence to budget estimates	40	2	5	3.85	.622
Valid N (listwise)	40				

Questioner result of SPSS, 2017

As shown in the Table 4.5 shows a summary of responses in regard to the level of satisfaction in respect to stakeholders' involvement in budget preparation as indicated their satisfaction (2.55) which are below the expected average mean (i.e. 3.00). Therefore, these indicate that BOFED should improve Stakeholder participation in budget preparation and approval. Contrary to this, there is high satisfaction in the Level of Variations exit between budgeted and actual amount have shown a mean value of 3.75. This indicates that the respondent believes that there is high variation of utilization of

planned budget and actual budget. Therefore, this shows that there is no proper effective implementation of budget in the system. it should be improved, Likewise, Usage of budgets for a given period of time effectively shows a mean Value of 3.63, this value indicate that there is effective usage of budget for the given time table period, However, there is a weakness of using all allocated amount of budget for each planned activities which needs attention of the management, likewise, there is high satisfaction in Approval of budgets on yearly basis and Adherence to budget estimates have been rated as a mean value of 3.85, this indicate that the bureau approve budget based on the budget calendar of MOFED.

4.4 Plant Asset Record and Management.

Descriptive Statistics Table 4.6

	N	Mini	Max	Mean	Std. Deviation
Plant assets recorded in accordance with the cost principles of asset valuation	40	1	5	2.43	1.279
The relation of Revenue expenditure to the repair, maintenance, and operation of a long-term asset	40	1	5	2.15	1.167
Use capital expenditure for the purchase or expansion of a long-term asset.	40	0	5	2.48	1.432
All equipment was tagged	40	1	5	2.68	1.474
Safeguarding of fixed assets	40	1	5	2.55	1.413
The level of valuation methods	40	1	5	2.08	1.347
Valid N (listwise)	40				

Questioner result of SPSS, 2017

As shown in the table 4.6 From the total of the respondents 40, were asked how the level of satisfaction in the relation of Plant assets recorded in accordance with the cost principles of asset valuation found out that the mean value of 2.43, this show that

below average mean (3), therefore Most of the respondent do not agree about it, It can be found out that Plant assets is not record in accordance with the cost principles of asset valuation which was unsatisfactory responded, therefore, there is a limitation of record of Plant assets, asset valuation and report of fixed asset and estimation of current market. And also the level of valuation methods has a mean of 2.08, from this value; we can found out that there is no application of valuation in the book of account, due to the level of valuation methods was found to be less satisfactory. In this case the revaluation decision is very important to the bureau, likewise, The relation of Revenue expenditure to the repair, maintenance, and operation of a long-term asset which have given the lowest mean (2.4), this show that there is no relation of Revenue expenditure to the repair, maintenance, and also the bureau do not consider and record the level of operation of a long-term asset, likewise, They asked how the bureau Use capital expenditure for the purchase or expansion of a long-term asset, which have given the lowest mean (2.48), this point show that capital expenditure is not consider as investment, therefore, the bureau does not record investment in the book of account. Likewise,, the respondent are not satisfied with the equation of all equipment control by using tagged, it's mean of 2.68, this show that equipment of the bureau had not serial number, therefore, and there is no record of equipment with in and out of the accounting system.

Generally from the above finding Show that Overall Plant Asset record and management is less satisfactory In the Organization, therefore, the Plant asset record and management generally highly weak in the organization.

4.5 Reporting financial statement

Descriptive Statistics 4.7

	N	Minimum	Maximum	Mean	Std. Deviation
the system produce and report financial statement timely	40	2	5	3.90	.672
The financial statement is reliable and relevant	40	2	5	3.35	1.167
standard format for reporting financial segment	40	2	5	3.88	.723
Clarity understanding about the reporting practice of your organization	40	2	5	3.63	.807
Financial Reports of the Bureau is Accurate and Timely prepared	40	1	4	2.40	.900
The financial report cover all event and financial transactions	40	1	4	2.33	1.023
Valid N (listwise)	40				

Questioner result of SPSS, 2017

Table 4.7 Summarizes responses in regard to the system produce and report financial statement timely found out a mean of 3.9, this show that the organization system produce and report Financial statement timely, therefore, the bureau financial reporting fulfill Time lines of reporting Standard. Likewise, the respondent were satisfied in relate to reliable and relevant of the financial statement found out that the 3.35 which is above average mean , therefore, the bureau financial statement is reliable and relevant likewise, the respondents were asked to their satisfaction level in the equation (is there Standard format for reporting financial segment), the value of the mean (3.88), which is above average mean, this show that the organization highly used standard format for reporting financial segment, Similarly, Clarity and understanding about the reporting practice of the own organization show the mean of 3.63, which is above average mean (3), therefore the financial statement are clear and reliable to all

staff of finance expert, contrary to this analysis, the respondents are not satisfied with relate to Financial Reports of the bureau Accuracy and Timely preparation, which have a mean value of 2.40, this is below average mean (i.e. 3), therefore, the organization report is not Accurate and Timely prepared, likewise, with relate to the equation, The financial report to cover all event and financial transactions, show below average mean (i.e. 2.33), this indicate that financial Report do not cover all event. Therefore, we can say that the bureau financial report has a limitation on completeness of financial transaction and reporting.

4.6 Qualitative Data Analysis and Discussion

Based on the research questions shows that face to face interview was conducted to Heads of Departments for the units identified summarized as follow:

A kind of accounting method they used to record and analyze financial data was modified based of accounting which Records short-term item when cash levels change and, longer-term balance sheet items with accruals (the accrual basis).

Process accounting start after the budget was approved by using program budget and the bureau use budget ledger card to control the budget, Maintains the adjusted budget by line item, type of budget, by sub agency/project and source of finance, Records commitments , Shows unutilized budget (remaining budget not committed) , Expenditure is incurred only if there is an available budget., Actual expenditure does not exceed the adjusted budget and also different format, source document such as receipt voucher, Journal voucher, Cash payment voucher, Suspense payment vouchers, purchase order, minutes, memo etc were used to record transaction in to transaction register and post to the general ledger and report the balance after closing based on the code of assets, liabilities and net assets, in addition any transactions were recorded using ibex-disbursement system similarly payment was used by e-payment system,

With relate to the Strength of the accounting system they say that, It has effective accounting cycle so as to view simplified report, usage of IBEX (integrated budget expenditure management), Existence of budget manual and different other policy and procedure for accounting purpose

However, the weakness of the accounting system was lack of Stakeholder participation in budget preparation and approval, there also weak in proper effective implementation of budget , fixed assets were not recorded and also the system did not had accurate, fast and updated information about these Fixed Assets. Therefore, it does not show complete financial position of the business, likewise, Financial Reports of the bureau Accuracy and timely prepared similarly, inconsistency for implement the policies, procedures, and internal controls needed.

With relate to challenges facing Government accounting discovered the following point; lack of government official the ability to read and analyze financial statements so that data-driven decision making was not becomes the norm reading and little computer skills by employees, Greater integration of IT systems is a key Priority and a major challenge for the bureau, in addition, lack of competent personnel, low legal enforcement and frequent updates in standards.

In addition, the study also identified many various challenges but due to data coding the main five challenges were enunciated. Despite of the aforesaid five major challenges, effectiveness of the accounting system also face other challenges such as usage of outdated computers, government officers may not frequently refer to their formulated budgets when carrying out their various tasks leading to the poor operation due to ineffective or poor financial management

Chapter Five

Summary of Major Findings, Conclusion and Recommendation

This chapter presents summary of major findings, conclusions and recommendations based on the analysis and interpretation of the data that were collected through questionnaires on An Assessment of the application of government accounting system and its challenge of the system in Addis Ababa city administers finance and economy development bureau. On the general characteristics, the study indicated that majority was males and most of them had worked in their respectful Organization more than 9 years. The findings also indicated that Most of the respondents are BA Degree in Accounting. The study was set out to assess issues in the application of Government accounting system and its challenge. And also Help to suggest possible solutions by investigating organizations system and depict the potential finance expert and top management in the organization. The study also sought to answer the following basic questions to attain the desired specific objectives of the study: How the accounting cycle (process) applied in the bureau? How asset valuation and record used in the bureau? What type of budget preparation process or system adopted by the bureau? How the government financial reporting applied in bureau financial statement? What are the challenges pertaining to Government accounting the bureau face?

5.1. Summary of major finding

Based on the analysis and interpretation made in the previous chapter the major findings of the research were as follow:

A. The government accounting cycle

The study found out that The bureau accounting process Highly satisfied for the following questions, each recorded transaction is reliable, valuable and clear, the organization use pre-numbered documents for accounting purpose, the financial system with relate to expenditure of goods and service with other department, and also its record of each account and confidentiality of accounting document are satisfactory for the respondent, the bureau also record all account in ledger as general and subsidiary ledger and finally, The bureau reconcile and update its record timely.

contrary to the above, The finding revealed that quiet a number of respondents responded BOFED prepare its financial statement according to Government accounting standard Is weak, Theory and principles are not fully applied , because most of the respondent indicated their dissatisfaction, therefore the standard statement are not fully implemented In the Organization. In addition the accounting data are not simple to Search and to correct errors, therefore it indicate that there is negative impact on effectiveness of the transactions, so the accounting recording and processing are not effective.

B. Budget system

Most participants strongly agreed that indeed Approval of budgets on yearly basis, and Adherence to budget estimates and using program budget, budget ledger card to control the budget and also budget is used in decision making, and it is a management tool , there is effective time management of budget at the bureau. Contrary to this point, with relating to the effectiveness of budgets planning and management, Involvement of stakeholders in budget preparation were also observed that less satisfactory. There is high satisfaction in the Level of Variations exit between budgeted and actual. This indicates that the respondent believes that there is high variation of utilization of planed budget and actual budget. Likewise, in the bureau, there is no proper and effective system in the implementation and evaluation of budget. The researcher further determined on extent of using budget in decision making by asking the participants, if budgeting affects the financial plan found out that highly affect their plan. Generally, in the bureau's budget system, there is no proper budget application of system in the organization.

A. Plant asset record and management.

The finding revealed that quiet a number of respondents were Un satisfied in The relation of Revenue expenditure to the repair, maintenance, and also operation of a long-term asset, in addition there is no valuation Method used by BOFED. Similarly, capital expenditure is not considered as investment; therefore, the bureau does not record investment in the book of account. These Investigation show that fixed assets record and management are General highly weak.

D. Reporting

Most of the respondents highly satisfactory in system produce and report financial statement timely, therefore, the bureau financial reporting fulfill Time lines of reporting Standard. Likewise, the respondent were satisfied in relate to reliable and relevant of the financial statement, and also the organization highly used standard format for reporting financial segment, Similarly, there is Clarity and understanding about the reporting practice of the own organization, to all staff of finance expert, However,, the respondent are not satisfied with relate to Financial Reports of the bureau Accuracy and Timely preparation, therefore, the organization report is not Accurate and Timely prepared, likewise, financial Report do not cover all event. Therefore we can say that the bureau financial report has a limitation on completeness of financial transaction and reporting.

E. Challenge of Government accounting system

The research Investigate Data gather tool through qualitative data found out that, weak in implementation of budget, Lack of adequate competent official and accountant, turnover of employees, little computer skills by employees, ICT integration, low legal enforcement and frequent updates in standards, The Bureau Also Lack of a reliable management process for its fixed and controlled assets becoming challenge for the government accounting system.

5.2. Conclusion

A. The Government Accounting Application

The results of the analysis revealed that adequate books of account were often maintained in BOFED, with relate to the first objective of the study (To find out the application of accounting cycle (process) used by the bureau.) indicate that Government accounting standard is not fully applicable in the bureau, therefore it is big problem of application of Government standard, likewise, the resource of the bureau is not given expected attention , therefore there is a problem of recording resource of the organization based on evidence in the account is weak, Similarly, with relate to recording of Payment of salaries and wages, there is a weakness in recording recurrent budget effectively, in addition, The bureau's accounting system was not computerized and Integrated to process accounting data, the accounting data are not Simple to Search and to correct errors, this gap create negative impact on effectiveness of the transactions process..

However, the bureau record is reliable, valuable and clear whereas the bureau use pre number document for accounting purpose and shows confidentiality of accounting document. In addition finance department is working with other department to Order, to receive and to issue materials from store, therefore, the system designed clear responsibility and accountability of expenditure of goods and service in the bureau.

B. Budget system

Similarly, to achieve the second objective of the research (identify the budget preparation process or system adopted by the bureau.) identified that better budget management in Approval of budgets on yearly basis and Adherence to budget estimates, there is also effective time management of budget plan and there is also high variation of utilization of planed budget and actual budget, however, there is no proper and effective system in the implementation and evaluation of budget likewise, budgeting affects the financial plan. Generally, in the bureau's budget system, there is no proper implementation and utilization of budget; likewise, there is big gap in stakeholders' involvement in budget preparation.

C. Plant asset record and management

In the Third research objective (How asset valuation and record used in the bureau) there is no asset valuation used by the government, capital expenditure is not recorded as investment in the book of account and also fixed assets management and record is General highly weak.

D. Reporting

the fourth objective of the research, To investigate the government accounting financial reporting applied in the bureau financial statement identified that the organization system produce and report Financial statement timely, therefore, the bureau financial reporting fulfill Time lines of reporting Standard, there is also clarity of each report of the organization, reliable and relevant of the financial statement, and also the organization highly used standard format for reporting financial segment, , however, the organization report is not Accurate and Timely prepared and also financial Report do not cover all event. Therefore we can say that the bureau financial report has a limitation on completeness of financial transaction .

E. Challenge of government accounting

In the last research objective (Investigate the challenges pertaining to Government accounting the bureau face) based on the analysis concluded that lack of government official the ability to read and analyze financial statements so that data-driven decision making is not becomes the norm reading, inconsistency for implement the policies, procedures, and internal controls need of the organization, Lack of a reliable management process for its fixed and controlled assets becoming challenge for the government accounting system.

Finally, more identified challenges facing Government accounting discovered was little computer skills by employees, ICT integration, lack of competent personnel, Turn over, low legal enforcement and finally ineffectiveness of the accounting system also faces other Challenge.

5.3 Recommendation

Based on the findings and conclusion of the study, the following are some recommendations which if considered, can assist in improving application of government accounting System.

5.3.1 BOFED/Management

- The bureau accounting will be improved with gradually applying accrual based standards. it providing financial position and performance, assuring a better financial integrity, improving accountability and transparency for resources, being a benchmark for evaluating and improving government accounting, enhancing international comparability of financial information of the government with other governments,
- facilitating the Consolidation of financial statements better than the present accounting system
- Complete application of government accounting standard
- Increase utilization of the system by ensuring all accounting issues are computerized and integrated if possible
- The management should expose all departmental heads to the budgetary process. This will enable them to understand the importance of adhering to budget in order to implement the management decision which will aid the actualization of set goals.
- Budget training should thus be conducted yearly by the financial controller or an independent accounting/management consultancy firm.
- Improving budget planning and management by Participation of stakeholder in budget preparation and record of recurrent budget effectively should be improved.
- City councils and regional finance bureau should improve the knowledge and skill of financial management.
- Improving quality of report based on the standard,
- Recording and measurement of fixed assets and effective administration of fixed assets, To assure value for many of government, record of fixed assets, record of

capital expenditures and other government expenditures should be based on the principle government accounting standard and cost principle.

5.3.2. Employees

- The study found further that employees are lacking competence and technical skills in areas of their work. The study is here by recommending that apart from efforts made by the Government to improve training and development, it's a responsibility of each employee to update and upgrade him or herself in accounting standards, computerized accounting, general accounting knowledge and application of rule, policy and procedure of government system of accounting.

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7. For how long have you been working in your current position?

1-<3

6-<6

6<9

9 and above

8. Years of working experience in the accounting profession

1-<3

6-<9

3-<6

9 and above

Part two: Questions related to the study

Put thick (✓) mark based on the rating (5) most satisfactory,(4) satisfactory (3) moderately satisfactory (2) less satisfactory (1) not at all

No	Questioner	Not at all (1)	Less Satisfactory (2)	Moderately Satisfactory (3)	Satisfactory (4)	Most Satisfactory (5)
1.	Accounting cycle					
Q1.1	The bureau of each recorded transaction is reliable, valuable and clear					
Q1.2	the organization use pre-numbered documents for accounting purpose					
Q1.3	your organization prepare its financial statement according to Government accounting standard statements					
Q1.4	How do you see the accounting cycle with relate to economic data of the bureau					
Q1.5	There is recording of Payment of salaries and wages					
Q1.6	The relation of finance department with Ordering, receiving and issuing materials from store					
Q1.7	The bureau's accounting system is computerized?					
Q1.8	The bureau record all account in ledger as general and subsidiary ledger accounts					
Q1.9	The bureau reconcile and update its record timely					
Q1.10	The accounting data are Simple to Search and to correct errors					

No	Questioner	Not at all (1)	Less Satisfactory (2)	Moderately Satisfactory (3)	Satisfactory (4)	Most Satisfactory (5)
2.	Plant asset record and management					
Q2.1	Plant assets recorded in accordance with the cost principles of asset valuation.					
Q2.2	The relation of Revenue expenditure to the repair, maintenance, and operation of a long-term asset					
Q2.3	Use capital expenditure for the purchase or expansion of a long-term asset.					
Q2.4	All equipment were tagged					
Q2.5	Safeguarding of fixed assets					
Q2.6	The level of valuation methods (FIFO, LIFO OR AVERAGE METHOD)					
3.	Budget system					
Q3.1	Involvement of stakeholders in budget preparation.					
Q3.2	Level of Variations exit between budgeted and actual amount					
Q3.3	Usage of budgets for a given period of time effectively					
Q3.4	Approval of budgets on yearly basis and Adherence to budget estimates					
4	REPORTING					
Q4.1	the system produce and report financial statement timely					
Q4.2	The financial statement is reliable and relevant					
Q4.3	standard format for reporting financial segment					
Q4.4	Clarity understanding about the reporting practice of your organization					

No	Questioner	Not at all (1)	Less Satisfactory (2)	Moderately Satisfactory (3)	Satisfactory (4)	Most Satisfactory (5)
Q4.5	Financial Reports of the Bureau is Accurate and Timely prepared					
Q4.6	The financial report cover all event and financial transactions					

Part II. Interview Questions related to the study

1. What kinds of accounting method you use to record and analyze financial data?

2. How do you record (measure) contributed, fixed assets or donated assts?

At cost at current fair value at market

Cash basis Modified cash basis accrual basis

3. Describe fixed assets of the bureau and how to record and value

4. How do you express the relevancy and reliability of the financial statements? Please specify? Would you please mention those controlling mechanism?

5. Strength of the Accounting system

6. Weakness of the Accounting system

7. What are the challenges faces the system of government accounting practice?

8. any other comment -----

Thank a lot