



St. Mary's University School of Graduates Studies

Assessment of Accounting Practice in Large and Medium Scale Enterprise in Addis Ababa

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Id No. MBAAF/0215/2006A

June, 2015

Addis Ababa, Ethiopia

*Assessment of Accounting Practice in Large and Medium Scale
Enterprise in Addis Ababa*

**A Thesis Submitted to School of Graduate studies of St. Mary's University in Fulfillment
for the Degree of Masters of Science in Accounting and Finance**

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Signed Declaration

I declare that the thesis for the M.Sc. degree at St. Mary's University, hereby submitted by me, is my original work and has not previously been submitted for a degree at this or any other university, and that all reference materials contained therein have been duly acknowledged.

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Abstract

This study seeks to assess the accounting practice of large and medium scale enterprise in Addis Ababa. The sector is constrained by a number of factors which includes among others minimum accounting practice and difficulty in making the accounting practice useful for users of the information. For the achievement of the objective of the study qualitative and quantitative research approach particularly survey design were used and the data obtained were analyzed using descriptive statistics. The study revealed that the majority of the studied firm has formal accounting practice but, most of the reasons are for cost controlling and meeting external regulatory and legal reporting requirement are the major purpose and the study also revealed that the most important purpose of the record keeping in large and medium scale enterprises is for tax filling. To boost the users of the accounting information the reporting entities must improve the quality of the reports.

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Chapter One

Introduction

1.1 Background

The accounting practice of medium and large scale enterprise category of scale is dependent to the tax category which is category A and category B tax payers. The large scale enterprise that is category A this include any company incorporated under the law of Ethiopia or in a foreign country and any other business having an annual turnover of Birr 500,000 or more and they are required to submit to the Tax Authority at the end of the year a balance sheet and a profit and loss statement and other details. These details include gross profit and the manner in which it is computed, general and administration expense, depreciation expense and provision and reserves by the tax payer. In addition to these taxpayers should register with the Tax Authority the type and the quantity of vouchers they use before having such vouchers printed.

The medium scales category B taxpayers are unless already classified in category A, any business having annual turnover of over birr 100,000 would be classified under category B taxpayers. This category of taxpayers should submit to the Tax Authority profit and loss statement at the end of the year. (Income Tax Proclamation No. 286/2002)

Accounting has manifold advantages for the users of the information if it is practiced in a well defined way the users of this information are the internal users and external users when these users utilize this information the information must be real and any user can count on it. This information is useful for owners, management, creditors, employee investors, government, customers, and research scholars.

The truthfulness of this information is highly dependent on the practitioners. The accounting practice of any business will provide practical information for the users. For the owners, they provide a fund for the organization and they possess interest in knowing whether the business is being conducted on sound lines or not and whether the capital is being employed appropriately or not. Owners always keep an eye on the returns from the investment, by comparing the accounts of various years which will helps them in getting good

piece of information. In general to make the information dependable the accounting practice must be in a proper way.

Managers of a business are greatly interested in knowing the position of the firm and to make a sound decision it is often one of the main functions of management. Decision making involves the selection of the best course of action, in order to decide on the best option; therefore they need some guidance that is usually provided in the form of data and information. For this reason they rely on financial information gathered from management accounting. The accounts are the basis; the management can study the merits and demerits of the business activity. On the other hand the financial accounting is the eyes and ears of management and facilitates in drawing future course of action, like further expansion.

Creditors are the one who supply goods on credit, or bankers or lenders of money. It is usual that these groups are interested to know the financial soundness before granting credit. The progress and prosperity of the firm, for which credits are extended, are largely watched by creditors from the point of view of security and further credit. Profit and Loss Account and Balance Sheet are nerve centers to know the soundness of the firm.

Employment and benefits depends upon the size of profit earned by the firm. The other important point is that the workers expect regular income for the bread. The demand for wage rise, bonus, better working conditions etc. depend upon the profitability of the firm and in turn depends upon financial position. For these reasons, this group is interested in accounting reports.

Investors the prospective investors, who want to invest their money in a firm, of course wish to see the progress and prosperity of the firm, before investing their amount, by going through the financial statements of the firm. This is to safeguard the investment. For this, this group is eager to go through the accounting which enables them to know the safety of investment.

Government keeps a close watch on the firms which yield good amount of profits. The state and central Governments are interested in the financial statements to know the earnings for the purpose of taxation. To compile national accounting is essential.

Consumers these groups are interested in getting the goods at reduced price, therefore, they wish to know the establishment of a proper accounting control which in turn will reduce to cost of production, in turn less price to be paid by the consumers.

Researchers are also interested in accounting for interpretation. Research Scholars of accounting information, being a mirror of the financial performance of a business organization, is of immense value to the research scholar who wants to make a study into the financial operations of a particular firm. To make a study into the financial operations of a particular firm, the research scholar needs detailed accounting information relating to purchases, sales, expenses, cost of materials used, current assets, current liabilities, fixed assets, long-term liabilities and shareholders funds which is available in the accounting record maintained by the firm.

The management of a business necessitates the making of plans, the formulation of judgment and the issuing of instructions. To be trustworthy these plans judgments and instructions must be based on accurate and comprehensive information, and this information must be obtained in large part from the accounting and statistical records. Not only must such records be kept, but the information they contain must be analyzed, presented and interpreted, if proper judgment is to be made and proper action to be taken. To this end an organization must be set up and made responsible for its accomplishment.

1.2 Statement of the Problem

The enormous potentials of the large and medium scale enterprises, the accounting practice is limited to some yearly taxation report and some profit and loss statements. In this regard the accounting information have inadequate impact in the decision making process.

Accounting information signals that decisions are needed, and provide information useful to making decisions (Gibson 1963 quoted in Thomas & Evanson 1987; Report of the study group on the objectives of financial statements, American Institute of Certified Public Accountants, 1972 quoted in Lothian 1976). The accounting information is used to assess the profitability of alternative course of action, measures performance and evaluate the position of enterprises in terms of profitability, liquidity, activity and leverage. It can be used to improve the performance of the large and medium scale enterprise performance especially financial decisions. Different capital structures cause different degrees of financial risks. Different alternative of financial

plans affect the enterprises differently all these activities are highly dependent on the accounting practice (Wichmann 1983).

Thus proper accounting practice is a key to the success for every enterprise. The information generated from accounting is inefficiently used by the users which are not giving the intended purpose by looking through the practice of accounting. Because of various reasons the information produced by the accounting practitioners has a quality problem. The quality of the accounting information limits the reliability of financial data by the users (Ubonratchat hanee University 2000).

In general, in Ethiopia we don't have defined accounting standards, this makes the practice to be evaluated and performed in different standards which created confusion to the users of this information. The main factors that contribute to success or failure of business are categorized as internal and external factors. The external factors include financing, economic conditions, competition, government regulation, technology and environmental factors. The internal factors managerial skills, workforce, accounting systems and financial management practices. Large and medium scale enterprises often face a problem with regard to their accounting practice. The problems the enterprise face associated with accounting practice are very difficult to give information on their income and expense (they do not know whether they have lost or profited from their business activity), in presenting their financial position management's decisions will lead to a problem which is their accounting practice is limited to some income and loss statement and some tax reporting on the other hand the quality of the report is also another problem in general the reports are specific user oriented. These problems evidence the need to undertake extensive research on accounting practice of large and medium scale enterprise(<http://addisfortune.net/>)

All the above discussed problems in the accounting practice along with the gap between the theory and the practice literature with respect to large and medium scale enterprise particularly in Addis Ababa call for extensive research.

1.3 Basic research question

By doing this research the problems arise, among this problems some of them are us follow and attempt to answer the following questions.

- Which formal accounting practices are there in large and medium scale enterprise?
- What are the major components of accounting practice in large and medium scale enterprise?
- How large and medium scale enterprises keep the quality of the accounting information?
- To what extent dose the accounting practice is being useful for the users?

1.4 Objective of the study

The general objective of the study is to construct an empirical study of the accounting practice of large and medium scale enterprises in Addis Ababa.

1.5 Specific objectives of the study

Specifically the study has the following aims;

- Assess whether large and medium scale enterprise maintain formal accounting practice.
- Assess the determinants of the accounting practice of large and medium scale enterprise.
- Assess the determinants for the quality of accounting information of the large and medium scale enterprise.
- Determine how far the accounting information is used by large and medium scale enterprise.

1.6 Significance of the study

This study will examine the accounting practice of large and medium scale enterprise, in order to provide meaningful insight and contribute to the efforts aimed to link the theory and practice of the accounting information and practitioners in the large and medium scale enterprise and to exploit the usability of the information generated by the accounting information. Therefore the

study will have the result of linking the theory and the practice of accounting information and for an advanced use of accounting practice.

It directs the organizations the way how theories of accounting are being practiced and show the degree of similarity or correspondence between the theories of accounting and there practical applications by taking some sample. To perceive the drawback resulted from the deviation between the theory and practical application of accounting.

Chapter Two

Literature Review

The prior chapter presents the background of the large and medium scale enterprise and the objective of the paper. The paper is intended to examine the accounting practice of the two sectors and its effect in their performance. This chapter presents the theoretical literature about the accounting practice and definition of terms and also the empirical evidence on accounting practice.

2.1 Definition of Terms

Evidence from literature reveals that there is no universally agreed definition of medium and large scale enterprise across all academic disciplines. This is so because no single definition can capture all the dimensions of a small, medium and large scale entity, nor can be expected to reflect the differences between entities in different industrial sectors or countries at different levels of development.

Most definitions are however based on size and they use fundamental bases such as number of employees, financial position or annual turnover (Beck et al., 2005). However, none of these bases are pegged at the same level across disciplines and national boundaries (Holt, 2008). In virtually every jurisdiction, from the largest economies to the smallest, over 99% of companies have fewer than 50 employees (Pacter, 2009) quoted in South Africa Institute of Chartered Accountants (SAICA), (2010). In Zimbabwe, the Ministry of SMEs (2000) defines a small enterprise as a business that employs not more than 50 people while operating as a registered entity and a medium enterprise as one employing up to 75 and 100 people. The Small Enterprises Development Corporation (SEDCO) (2010) does not differentiate between small and medium entities but defines a small and medium enterprise as a firm that has not more than 100 employees with maximum annual sales of up to US\$830 000. According to the Hong Kong Institute of Certified Public Accountants (2005) an entity is considered to be an SME in Hong Kong if it does not exceed any two of the three criteria pegged as total annual revenue of HK\$50 million, total assets of HK\$50 million, at the reporting date, and 50 employees. The International Accounting Standards Committee Foundation (IASCF) (2007) defines an SME as an entity that does not have public accountability and thus publishes general purpose financial statements for external users.

To see some of definition as an example; to support and develop this business the European Union has introduced a new definition of SME valid from January 1, 2005. SMEs are defined by three main the number of employees, annual turnover in millions of Euros and total value of assets in millions of Euros.

Table 2.1 European Commission Classification of Enterprise

Size	Number of Employees	Turnover in EUR	Balance sum in ERU
Medium Enterprise	50-249	Max. 50.mil	Max 43 mil.
Small Enterprise	10-49	2mil.-10mil	2mil.-10mil.

Source: Enterprise and Industry Publication, European Commission

2.1.1 Definition of Large scale Businesses

Large scale can always be defined as a measurement (Hughes, 2011). Scale means a form of measurement and when it is referred to as large it means that you have a more than average amount on the measurement scale. Thus any industry that is large scale will mean that products are produced at a high volume. This in turn provides a higher capital.

Large scale industry requires a huge amount of capital to be invested in the industry first. It will provide many jobs for employees in order to offer a high output. This type of industry is found in places such as the USA, Germany, Japan, Russia, and Australia (ukessays.com).

All of these countries are big money makers and have large operations producing a variety of products. This is different from a small scale industry that does not require as much capital or as many workers. Given these definitions, a large scale industry can be just about anything from construction to the auto trade. Wal-Mart for example is a company in a large scale industry as they offer plenty of jobs and products to the consumers of the world. Size will matter when it comes to industry. Small companies employ about 60% of the work force in the USA due to the 30 million existing companies. Unfortunately, these companies have a lower survival rate meaning that they usually run for five to ten years and then end (ukessays.com).

In Ethiopia the classification of enterprises into small, medium and large scale depends on a number of variables such as level of employment, turnover, capital investment, production

capacity, level of technology and subsector. Accordingly, the following scales are referred to the classification of enterprises in the Ethiopian context.

Table 2.2 Company Size Classification Structure for Ethiopia

Number of Employees			
Small Scale	Medium Scale	Large Scale	Remark
5-9	10-49	Above 50	According to central statistics Agency
2-10	21-50	Above 51	According to federal Medium and small Enterprise development Agency (FeMSEDA)

Source: Ethiopia CSA and FeMSEDA

2.1.2 Differences between a small and medium enterprise and large entities

There are many differences between a small and medium enterprise and large entities, namely: speed of decision-making, attitude towards risk, allocation of resources, understanding of business models and management of business models, and differing definitions of innovation(ukessayes.com).

Decision-Making Process:- Large enterprises, in view of the different bureaucratic levels, will often require longer time to make decisions. This can be very frustrating especially when a decision needs to be made immediately. Delay in decision-making may hinder the progress of the company. In this way, SMEs are better-off as more often than not, decisions can be made at the point of urgency. This helps the SMEs to grow more rapidly compared to a large-scaled enterprise.

Attitude towards Risk:- Large-scale enterprises can afford to take a bigger risk in running the operations of their businesses. This is mainly due to the fact that their capital is larger and there is a buffer to absorb any uncertainties.

Allocation of Resources:- In small businesses, every ringgit counts. Resources can be scarce and are allotted based almost solely on whether they will boost the bottom line. This bottom line

focus may not be so distinct in a larger corporation. With more abundant resources - at least in comparison to smaller companies - people in large enterprises may be relatively free spenders.

Innovation:- Competition in the business environment is getting more "violent" with more and more business entering the market due to a more relax rules and regulations in setting up business entities. In order for a company to remain competitive and relevant in the industry, huge investments need to be made on the product or services. Consumers have the choice of choosing the goods in the market. Large enterprises have the capacity to investment in such innovations compared to SMEs.

In Ethiopia according to ERCA (Ethiopian Revenue and Costumes Authority) taxonomy, large taxpayers companies include all bank and insurance companies, and others firms their annual turnover should be more than Birr 28 million for continues three years to be considered us large tax payer.

Empirical evidence

Researchers have been carried out on the accounting practice of deferent organization. So this part of the paper presents the empirical evidence on the idea of the paper. The empirical evidence below is presented consecutively based on the concept of evidence.

2.2 Accounting practices

The empirical evidence about the accounting practice of large and medium scale enterprise is organized in terms of evidence such as; record keeping, financial accounting, financial management and cost and management accounting.

The literature looks at the importance of accounting systems on the basis of its application in assessing the performance of businesses by all stakeholders. Olson *et al.* (2004) argues that accounting information users in SMEs is on the increase. Another aspect of the studies claim that, in the process of planning for profit, financial information is assembled in a way that can help make informed judgment and take decisions concerning the organisation (Copeland & Dascher, 1978). An accounting system is one of the most effective decision making tools of management. It provides an orderly method of gathering and organising information about the various business transactions so that it may be used as an aid to management in operating the business.

An emphasis is laid on the significance of keeping proper books of accounts by Biryabarema (1998) because it enables small businesses to have accurate information on which to base decisions. SMEs project purchase and sales, determine break-even point, and make a wide range of other financial analyses based on accounting information. The study contends that, lack of proper accounting records has seen the closure of some businesses, and thus makes it a significant issue for business success.

Other studies assert that the high incidence of failure among SMEs could be attributed to the poor accounting systems used by these enterprises (Ofonagoro, 1983). Those studies recount that since accounting systems play a key role in determining business growth and profitability, there is a need to evaluate the accounting systems used by SMEs. This is important because for optimum business growth, SMEs must make use of a system of accounting which will enable them determine the volume of sales, profits (or loss), assets and liabilities at any given time. According to Lybaert (1998), the quality of accounting information utilized within the SME has a positive relationship with an entity's performance and survival. Similarly, it has been emphasized that there is the need for financial information for small and micro business units due to the volatility normally associated with their situation such as unstable cash and profit positions, and reliance on short-term borrowing (McMahon & Holmes, 1991; Dodge, Fullerton & Robbins, 1994).

Kinney (2001) posits that accounting is one of the important types of information for decision making both within and outside the organization. He further states that the quality of this information gauged by its relevance and its reliability for a particular decision is equally important. In the words of Osuala (1993), many enterprises record their transactions randomly without adherence to any established systems of accounting; hence making it difficult in keeping track of the cash flows in the enterprises.

Mitchel et al. (2000) argued that accounting information could help SMEs manage short-term problems in such areas as costing, expenditure and cash flow by providing information to support monitoring and control.

Knowledge of cash-flows according to Pandy (1991) is very important because cash-flows are inseparable parts of the business operations of firms. Peren and Grant (2000) noted that decision making processes in small scale enterprises are more sophisticated than anticipated but they lacked effective accounting information and control system to support their decisions.

Furthermore, there is some evidence to suggest that small firms are aware of the importance of accounting information (International Federation of Accountants, 2006). In spite of this awareness, most owners of small entities in Ghana are not too keen to use standard accounting systems to run the day-to-day activities of their enterprises. The high rate of failure of small scale enterprises in developing countries like Ghana, has generally been traced to poor management and accounting systems employed by these enterprises (Ofonagoro, 1983).

There seems to be some consensus on the significance of financial accounting systems to business success. Some researchers assert that the quality of financial accounting information employed within the SMEs sector has a positive relationship with the performance of the entity (see, Lybaert, 1998; Nayak & Greenfield, 1994; Holmes & Nicholls, 1989; Raymond & Magnenat-Thalman, 1982).

Poor record keeping is also cited as a cause for start-up business failure. In most cases, this is not only due to the low priority attached to it, but also a lack of the basic business management and skills. Most business operators, therefore, end up losing track of their daily transactions and find it difficult to account for their expenses and their profits at the end of operations. According to Wichman (1983), accounting is a major challenge to management of SMEs. The study recommends that SME managers and/or owners need to learn about proper accounting or engage the services of accounting experts for accounting reporting purposes.

Some authors believe that accounting reports play a significant role in SMEs. However, they argue that such accounting reports must be customised to suit the needs of SMEs. There have been proposals that the use of the cash basis must be preferred the accruals basis of accounting. A study by McMahon (1999) finds that financial reporting practices in SMEs appear to fall short of the standards recommended by various external financial information users imperatives that exist for them, and further claim that SME managers/owners appear mostly reluctant to produce financial reports which might become accessible to outside parties either through the regulatory authorities or directly.

2.3 Record keeping

A study involving more than 1,000 SMEs in Australia, found that majority of the respondents (85.7%) has a computer-based in-house general ledger accounting system (McMahon 1998). Larger enterprises tend to statistically use more of computer-based general ledger accounting

system compared to smaller enterprises. Study examined private limited companies in the UK found that 57 per cent of the respondents had a computerized accounting system and 25 per cent had a partly computerized system suggesting moderate level of sophistication of accounting system (Collis and Jarvis 2002). Similarly other study found that SMEs that are concerned with procedural controls activities and use financial plan as part of their preparation for startup are more likely to employ computerized accounting system (Gorton 1999). In addition to their internal accounting staff, SMEs often employ outside professionals to provide accounting advice. It has been found that the most frequently form of outsourced accounting services are for taxation purposes and preparation of accounting reports (Collis and Jarvis 2002, McMahon 1998).

Studies conducted in Nigeria and UK with a sample size of forty-five (45) questionnaires each between the UK and Nigeria and conducted two (2) Semi-structured interviews each between the UK and Nigeria. Out of the forty-five (45) questionnaires administered each in the UK and Nigeria, thirty five (35) was returned in the UK and thirty (30) returned from Nigeria. The study conducted by having the variable that was measured with the question: “Do you agree that Poor Accounting and Book Keeping practices lead to SMEs failure in your country?” and the results showed that 68 percent and 57 percent of the respondents in the UK and Nigeria respectively agreed that it influenced SMEs failure.

This reflects that in both countries, the respondents quite agree that poor accounting and book-keeping practices influenced SMEs failure, Kamla-Raj (2009).

2.3.1 Reasons for Keeping Financial Records

Some aspects of the existing research delve into the relationship between record keeping and performance of firms. Tanwongsva and Pinvanichkul (2008) comment on the reasons why SMEs prepare financial statements, and argue that on the list, SMEs rank assessing profitability second to the purpose of tax returns. According to Cooley and Edwards (1983), owners of SMEs consider profit maximization as the most important financial objective. This has led to the argument that SME owners pay attention to profitability and measurement of net profit when are evaluate their firms performance (see, Page, 1984). Holmes and Nicholls (1998) concludes that the extent of accounting practices in SMEs depend on a number of factors such as age of business, size of the business, and the nature of the industry. They further point out that most

SME owners and managers engage public accountants to prepare required information. According to Ismail and King (2007), the development of a sound accounting system in SMEs hinge on owners level of accounting knowledge and skills. Some authors have argued that small businesses use professional accounting firms for preparation of annual reports and for other accounting needs (see, Keasy & Short, 1990; Bohman & Boter, 1984). Lalin and Sabir (2010), reports that the main drivers why SMEs prepare financial statements is pressure from regulatory authorities.

Hussein (1983) notes that, a good accounting system is not only judged by how well records are kept but by how well it is able to meet the information needs of both internal and external decision-makers. Clute and Gitman (1980) uphold that it is common for qualified accountants to do a good job of keeping records up to date but they fail to provide information needed by decision-makers. Interestingly, however, others argue that the high cost of contracting professional accountants has left SME owners with no better option but to relegate management of accounting information (see, for example, Evaraert et al., 2006; Jayabalan & Dorasamy, 2009). Zhou (2010) has proposed the use of accounting software to improve accounting practices, albeit he laments the unavailability of medium-sized software for SMEs. A study conducted in Zimbabwe on 100 SMEs by Maseko and Manyani (2011) brings out that SMEs do not keep complete records of accounts due to lack of knowledge in accounting and the cost of engaging professional accountants. Consequently, the use of accounting information to support measurement of financial performance by SMEs is ineffective. The study proposes that regulatory bodies must develop specific guidelines for SME accounting and organise accounting training programmes for entrepreneurs in small businesses. They also recommend the application of mandatory record keeping to improve accounting practices of SMEs in Zimbabwe.

Mbroh and Attom (2011) studies 217 out of 250 SMEs in Ghana and reports that 59% do not practice formal accounting at all. The reasons they gave to this include low levels of education and inadequate knowledge in accounting which makes it difficult for them to appreciate the need to practice accounting in their business. In a study of 148 respondents in Nigeria (Enugu), Okoli (2011) links proper record keeping and profitability of small scale enterprises and assert that due to inadequate record keeping, the small scale operators could not assess their performances effectively. He argues that in order to enhance the profitability of small scale enterprises and

their continuity, there is need for adequate record keeping which will help the proprietors to keep track of the performance of these enterprises.

Mensah et al. (2007) states that a significant number of enterprises in their survey kept no records pertaining to operations, finance, audited accounts, tax returns, and so on. Until recently, all the micro and small enterprise could not receive credit from the banks and promotional institutions on grounds that the formal banking sector considered them a high risk area, and hence charged them high cost for borrowed funds from the banks.

In assessing the financial statements of micro and small enterprises, Aryeetey et al. (1994) claims the existence of practical problems in deriving records and figures that make up the statements. One reason for that is because for almost all enterprises the owners keep all the records in memory and hence the lack of records of all kinds sales, marketing, accounting, credit borrowing from lending institutions, staff costs, owners emoluments, etc. Owners of SMEs do not keep proper records and thus, they are not able to provide data about their entities.

2.4 Financial accounting

In Australia, there have been a large number of empirical studies conducted on SMEs such as (McMahon and Davies 1994), (McMahon 1998). These studies investigate the types of financial reports produced by SMEs, the frequency of their preparation and their perceived usefulness for management purposes. The findings indicate that financial reports for SMEs are prepared predominantly by external accountants at annual intervals, and they normally comprise just the balance sheet and the profit and loss statement. The content and presentation of financial reports appear to be greatly influenced by taxation and corporate statutory reporting requirements. Other Studies were conducted in various countries to examine the usefulness of accounting reports within the context of SMEs, for examples McMahon (1998) in Australia Collis and Jarvis (2002), Gorton (1999) and Nayak and Greenfield (1994) in the UK; and Hopper et al. (1999) on SME Japanese companies. These studies found evidence that financial reports are not considered particularly useful for decision making purposes by SMEs owner-managers. These studies also found that there is limited usage of financial and management accounting reports by SMEs. In addition, it has been argued that accounting reports produced by SME's are usually limited to a few types of simple reports comprising mainly profit and loss account and balance sheet. The studies using a postal questionnaire to small private limited companies in the UK, found that 82

per cent of the companies use monthly or quarterly management accounts, 87 per cent of the companies prepare profit and loss statement and 78 per cent prepare balance sheet (Collis and Jarvis 2002). On the other hand, SMEs consider the most frequently used sources of information are the periodic management accounts, cash flow information and bank statements, to a lesser extent budgets, the state of order book and the additional annual accounts (Collis and Jarvis 2002). Similarly studies conducted in Malaysia SME, for financial accounting reports all respondents (100 per cent) prepare balance sheet and profit and loss account, cash flow statements, fixed asset record, tax returns and inventory analysis.

2.4.1 Financial management

There are a number of reasons that explain the different approach to financial management practices of small firms. Some studies showed that they are driven by the personal motivation of the owner-manager, business life cycle model; resource poverty while a dynamic view of the financial management process reveal that change may be brought about as a consequence of experiential learning of the owner managers.

A review of the literature on the financial management practices of small firms, revealed that owner-managers' personal and business goals dictate partly their approach to short-term financial management of their businesses (Collins and Jarvis, 2002). There is also theoretical justification that the business life cycle model lends support to the evolutionary approach to financial management practices of small firms (Lewis, 1983; Scott and Bruce, 1987). Based on a literature review on financial management practices of SMEs in North America, McMahon and Holmes (1991) concluded that "the state of knowledge about financial management and the exercise of financial controls and techniques remain inadequate in small businesses." Study conducted on 200 manufacturing firms employing less than ten people in the U.K. which provides evidence that only one third of business formally monitored profits and applied any form of budgeting Nayak and Greenfield (1994).

A large number of business failures have been attributed to inability of financial managers to plan and control properly the current assets and the current liabilities of their respective firms (Ooghe, 1998).

The main factors that contribute to success or failure of small business may be categorized as internal and external factors. The external factors include financing (such as the availability of attractive financing), economic conditions, competition, government regulations, technology and environmental factors. The internal factors are managerial skills, workforce, accounting systems and financial management practices. The accounting department is generally viewed as a service unit to support the firm's operations by providing information on costs and performance indicators.

Despite the increasing importance attached to small scale economic activities across the globe there appears to have little reported improvement in the financial management skills of small business owners (Jarvis *et al*, 1996). It is surprising to note that no specific research has been undertaken to tap the potential benefits that SMEs can reap by adopting a good framework of financial and accounting routines. This area has not received the same consideration as the many other areas, ranging from start-ups to schemes promoting the growth of the sector (Dewhurst and Burns, 1989; Johnson and Soenen, 2003). There is a substantial amount of literature providing detailed and carefully tailored advice to small business owners on financial management. But none of them have specifically looked into the benefits that firms can derive from formal accounting systems.

In view of their smallness, SME need continued support in the functional areas of their businesses. The often neglected area is the accounting and finance function of the small business and yet this has not attracted much interest from the support agencies. This being so despite findings from empirical studies showed the lower intake of working capital management by small firms and the absence of accounting systems to provide owner-managers with information about their business (Dodge and Robbins 1992, Howorth and Westhead 2003).

They identified five major management problems and inventory and cost controls was the most frequently mentioned problem and was more prevalent during the late growth stage of the business. The financial related problems were grouped into three major categories, where financial planning was found to be a more pertinent problem among the respondents (42%), followed by accounting systems and record keeping, which persist during all life cycle stages except early growth. Once the firm moves along the different stage of the organizational life cycle, accounting related issues become important for the owner-manager to consider seriously.

These include recording, cash flow information, inventory and cost controls. A lack of such systems affects control of the business and finding sources of capital to finance daily operations become problematic (Dodge and Robbins, 1992).

Small firms make greater use of cash-based management information and this points to the importance that owner-manager placed on controlling cash found by (Collis and Jarvis 2002). A similar finding was found by Jarvis *et al.* (1996). The lesser use of published industry data, credit rating agency data and statutory accounts could be explained by their relevance more to larger companies as small firms tend to have more close and personal relationships with their customers. They further noted that small firms use the services of external accountant for the preparation of the annual statutory accounts.

2.5 Cost and Management Accounting

A study found similarities between costing systems used by SMEs and larger companies (Hopper *et al.* 1999). The costing systems and cost management practices used by the SMEs were mainly for product costing and budget and less emphasis for decision making or performance evaluation. They also found that sophisticated detailed process of cost management was commonly used for engineering and quality control.

The management accounting reports studied include budgets and different types of budget variance analysis, production cost statement, cost volume profit (CVP) analysis and benchmarking report. The findings show that among the management accounting reports, majority of the respondents (92.1%) prepared budget, followed by production cost statement (82.9%), variance analysis (80.3%), CVP analysis (73.7%) and benchmarking reporting (57.9%). The findings might indicate that most of the SMEs are mainly utilizing a traditional management accounting techniques as compared to the more contemporary management techniques such as activity based costing or total quality management. Among the different types of budgets, cash budget is the most frequently prepared (93.4%), followed by sales budget (92.1%), expenses budget (86.8%) and lastly production budget (85.5%). The least prepared management accounting report is benchmarking report (Che Ruhana Isa, Zakiah Saleh, Noor Sharoja Sapiei 2007).

To summarize others study, in spite of the importance of financial reporting, management accounting and control practices, it is unfortunate to find that these practices are often inadequate

and lacking among SMEs. Except for yearly taxation returns and some form of profit and loss statements, other statements such as balance sheet, cash flow statement, fund statement, production report and variance report are infrequently used. These rather limited usage of financial and management accounting reports could be attributed to SMEs' inability to employ professional managers with functional specialization especially in the financial area due to their limited financial resources. Without adequate, effective and timely financial reports and analysis, the SMEs are losing out on the benefits from those practices such as improved monitoring of financial health and progress, improved ability to anticipate fortunes or failures, better assessments of financial risks and greater ease in financial planning and control. Most importantly, in the context of SMEs requiring extra capital to grow, regular financial reports can provide indications on their ability to produce steady cash flows and to service debt. It has been established that the use of appropriate financial reporting and management accounting practices could be one of the determinants of company survival particularly SMEs (Gorton, 1999; McMahon & Holmes, 1991).

Management Accounting Practices of (UK) Small and medium sized enterprises (SMEs) the emphasis on management accounting in SMEs tends to be on control information rather than aiding decision-making; there is a tendency to make decisions without adequate, or indeed any, financial information or analysis;

In smaller enterprises, the management accounting is often undertaken by the owner-manager/entrepreneur, resulting in significant opportunity costs. Where more structured use of management accounting techniques could add value, it might be appropriate to employ a management accountant 'business partner' to address this problem; there is considerable variation in the amount and type of management accounting undertaken, seemingly conditioned by a number of factors:

1. Size (larger organisations do more management accounting than smaller ones);
2. Financial constraint in terms of profitability, cash flow and credit availability (severely constrained organisations do more management accounting than less constrained ones);
3. external stakeholder requirements;
4. Background and experience of senior management team (senior managers with non-financial backgrounds being less likely to employ management accounting);
5. Nature of the operations and the environment in which the enterprise is operating.

2.6 Accounting standards in Ethiopia

Corruption, mismanagement of public resources and accounting irregularities are huge challenges in developing countries such as Ethiopia. A strong accountancy profession will undoubtedly contribute positively and significantly to the fight against these chronic problems.

Several studies have been conducted in Ethiopia assessing the level of the accountancy profession. Almost all made recommendations which ended up being shelved. These included a 2005 study by the Association of Chartered Certified Accountants (ACCA), a study by the Reports on the Observance of Standards and Codes (ROSC) in 2007 which was a joint initiative by the World Bank and the International Monetary Fund (IMF).

The 2005 ACCA study was conducted for the then Ethiopian Federal Ministry of Trade and Industry (currently the Ministry, split into two under the names Trade and Industry), on the development of accounting and auditing standards. A ‘road map’ was produced, with recommendations for the establishment of a standard setting mechanism, the development of a set of Ethiopian accounting standards, the implementation of International Standards on Auditing (ISA) in Ethiopia, and an investigatory and disciplinary system for audit quality control.

The recommendations of the review included: revising the country’s 1960 Commercial Code and other relevant laws and regulations; enacting a financial reporting law; establishing a national accountants and auditors board; mandating ISA for all auditors; establishing a strong professional accountancy body, with membership of the International Federation of Accountants (IFAC); establishing a local professional and technician accountancy qualification; enhancing the capacity of all regulators, to enable them to effectively discharge their responsibilities; to handle international financial reporting standards related issues in the regulation; and, to conduct awareness campaigns and related programmes.

Now that the government has enacted a financial reporting law, donors and all others concerned in the advancement of the accountancy profession in Ethiopia should work towards making the recommendations realities. These will lead to the education of professional accountants locally, the improvement of the monitoring of private and public audits, the development of ethical culture, and the production of quality and timely financial management information.

It takes more than a strong accountancy profession to fully deal with wastage and corruption, and Ethiopia is not unique in this respect. However, a concerted effort by all concerned to put in place the legal and institutional framework as soon as possible is starting on the right foot. (<http://addisfortune.net/>)

2.7 Theoretical perspective

2.7.1 Importance of Good Records

Authorities in bookkeeping and accounting procedures have provided some importance of good records keeping to include the fact; unless your business is accounting or bookkeeping, keeping financial records is probably not what you do best. Most likely, you would rather spend your time selling your product or service. However, if you are going to run a successful business, accurate and timely financial information is a must.

Malcolm, McDonald & Cavusgil; (1990) again, provide some reasons for a good financial record keeping to include:

- How to monitor the success or failure of your business.
- It is hard to know how a business is doing without a clear financial picture.
- Is the business bringing in enough money?
- Are sales increasing?
- Are expenditures increasing faster than sales?
- Which expenses are too high based on levels of sales?

Furthermore, accounting Longneck and Moore; (1988) evaluating the financial consequences is part of every business decision made. Without accurate records and financial information, it may be hard to know the financial impact of a given course of action.

They go on to say that, a bank will usually want to see financial statements for the most current and prior years, as well as your projected statements showing the impact of the requested loan. A bank may even want to see some bookkeeping procedures and documents to verify whether the business is being run in a sound and professional manner

Smith et al; (1989) assert that if a business has reached the point where there is the need to take in a partner, any prospective partner will want to become intimately familiar with the financial

picture of the business. If it needed a capital and taking in an outside investor, a lot of financial information need to be produced. Even suppliers and other creditors may need certain financial records. Such information may be produced by an outside accountant

According to Longneck et al; (1988) preparing income tax return whether a business is a sole proprietorship or corporation it must file an income tax return and pay income taxes. With good records, preparing an accurate tax return will be easier and it is more likely to be able to be on time. Poor records may result in underpaying or overpaying taxes and/or filing late (and paying penalties). If the accountant prepares the income tax return, poor records will almost certainly result in paying higher accounting fees. If the business is a partnership, not only will it have to prepare a partnership tax return, but partnership return amounts will pass directly to the tax return of each partner. So record keeping will directly affect the tax return of each partner.

2.7.2 Budgeting

Consider the installation of a company's first budgeting system. Previously the company had probably been using some historical recordkeeping and little formal planning. A major benefit of installing the budgeting system is that it compels managers to plan more formally. They may make a different, more profitable set of decisions than would have been done by using only a historical system. Thus, in this instance, the expected benefits exceed the expected costs of the new budgeting system. These costs include investments in computer hardware and software, in training people, and in ongoing operating costs of the system. Naturally, the enhanced formality of the new system must be compatible with the values and inclinations of its intended users. (Management and cost accounting)

Smith et al; 1989 further state that, all businesses use budgets for planning purposes. A budget helps keep businesses on track by forecasting cash needs and helping control expenditures. In addition, if the business is seeking bank financing or other sources of capital, a bank or a prospective investor will probably want to see the budget as evidence that the business is well planned and stable. Solid financial information is needed prepare a meaningful budget.

Formal Accounting System: - A large number of business failures have been attributed to inability of financial managers to plan and control properly the current assets and the current liabilities of their respective firms. The main factors that contribute to success or failure of

business are categorised as internal and external factors. The external factors include financing (such as the availability of attractive financing), economic conditions, competition, government regulations, technology and environmental factors. The internal factors are managerial skills, workforce, accounting systems and financial management practices. The accounting department is generally viewed as a service unit to support the firms' operations by providing information on costs and performance indicators. The needs for formal accounting system negate the need to maintain proper accounting records. The lack of financial management skills, (education level, experience and managerial preferences), is viewed as a major constraint in having proper accounting systems and controlling system.

2.7.3 Primary Financial Statements

The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling or holding equity and debt instruments, and providing or settling loans and other forms of credit. Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial reports for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial reports are directed.

General purpose financial reports do not and cannot provide all of the information that existing and potential investors, lenders and other creditors need. Therefore those users need to consider pertinent information from other sources. Other parties, such as regulators and members of the public other than investors, lenders and other creditors, may also find general purpose financial reports useful. However, those reports are not primarily directed to these other groups.

In order to meet their objectives, financial statements are prepared on the accrual basis of accounting. Accrual accounting depicts the effects of transactions and other events and circumstances on a reporting entity's economic resources and claims in the periods in which those effects occur, even if the resulting cash receipts and payments occur in a different period. This is important because information about a reporting entity's economic resources and claims and changes in its economic resources and claims during a period provides a better basis for assessing the entity's past and future performance than information solely about cash receipts and payments during that period.

The financial statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future.

2.7.4 Auditing

Auditing is one of accounting practice different scholars give different definition for the term some of them are; Spicer and Pegler: "Auditing is such an examination of books of accounts and vouchers of business, as will enable the auditors to satisfy himself that the balance sheet is properly drawn up, so as to give a true and fair view of the state of affairs of the business and that the profit and loss account gives true and fair view of the profit/loss for the financial period, according to the best of information and explanation given to him and as shown by the books; and if not, in what respect he is not satisfied."

Prof. L.R.Dicksee. "Auditing is an examination of accounting records undertaken with a view to establish whether they correctly and completely reflect the transactions to which they relate.

2.7.5 Cost of Capital

It is defined as "the opportunity cost of all capital invested in an enterprise." The Opportunity cost is what you give up as a consequence of your decision to use a scarce resource in a particular way, that is all capital invested is the total amount of cash invested into a business. In an enterprise this refers to the fact that we are measuring the opportunity cost of all sources of capital which include debt and equity.

2.7.6 Investment

It is the current commitment of money or other resources in the expectation of reaping future benefits. These investment decisions are made in an environment where higher returns usually can be obtained only at the price of greater risk and in which it is rare to find assets that are so mispriced as to be obvious bargains.

2.8 Research Gap

As previously mentioned, large and medium scale enterprises are a significant component of the economy and there is a lack of empirical evidence along with the gap between the theory and the practice considering their accounting practice and its effect in large and medium scale enterprises in Addis Ababa. Therefore, this study assessed large and medium scale enterprises accounting practice in Addis Ababa to provide empirical evidence of this gap.

Chapter Three

Research Methodology

3.1 Research Approach

The study will be conducted by combining quantitative and qualitative research approach. By means of employing this combined approach, the researcher is able to obtain the advantage of both quantitative and qualitative approaches and can overcome their limitations. The selection of the quantitative approach is to respond for research questions requiring numerical data, the qualitative approach for research questions that requires textural data. The data is collected by using two instruments that are questioner and semi structured interviews. The target populations are the large and medium scale enterprises which are located in Addis Ababa. The collected data is analyzed manually by using descriptive research methodology.

This study is basically a descriptive study. Descriptive research is conducted for detailed description of specific situation(s) using interviews, observations and document review. Accordingly, the study deals with clearly defining the problem related with accounting practice.

3.2 Target Population

The study focus is large and medium scale enterprise in Addis Ababa. Addis Ababa comprises 6 zones and 28 woredas. The city is divided into 328 dwelling associations (Kebeles) of which 305 are urban and 23 rural. The city council is made up of 18 bureaus, offices and authorities. Amharic is the working language of the city administration.

Addis Ababa is the diplomatic capital of Africa. More than 92 embassies and consular representatives cluster in the city where the Organization of African Unity and the UN Economic Commission for Africa have their headquarters (<https://wikipedia.org>.)

According to the October 1997 five-year draft plan (1997-2002) of the Addis Ababa City Administration, 52,480 private investment projects have been licensed for the last 6 years (1992-1997). The figures indicate that these newly approved projects for the last 6 years have already surpassed all investment undertakings of the city prior to 1991. The total amount of capital

investment during the last 6 years is around 18 billion Birr. More than 150,000 persons will benefit from the employment opportunity of the investment. Licenses were given in areas predominantly of industrial, real states, trade and commerce, hotel and tourism as well as handcrafts. So far within five years time, the investment in the city could be able to reduce, the total unemployment rate by 10%, which was 40% for the city. Addis Ababa alone takes about 54% of the total investment in Ethiopia, according to the draft plan. (www.ethioembassy.org.)

The target populations of the research are the large and medium scale enterprises in Addis Ababa specifically three sectors that is service providers, retailers and producers are the main population of the research. The selection of the enterprise is based on their capacity and there range of activity that will give comprehensible insight in the practice of the two sectors.

3.3 Data Source

Descriptive research can be done relying on secondary research such as reviewing available literature or data, or primary qualitative approach such as formal or informal approach to accountants or managers. In the case of this study both primary and secondary data are used. The primary data is obtained from accountants and managers of the large and medium scale enterprises in the medium scale enterprise there are 18,114 enterprises and the large scale enterprise are 1,113 enterprise and independent auditors, accountants and tax advisers are participated. The secondary data is attained by reviewing literature on the accounting practice and related topics.

3.4 Data Gathering Tools

As noted earlier, this is descriptive study based on primary and secondary data. The primary data is collected through survey using structured questionnaires for the first three research question and semi structured interview for the last objective of the research question. The questionnaires has both close ended and open ended questions are included in the questionnaires to find out the accounting practice of large and medium scale enterprises. The study considers the theoretical background of modeling the variables of our interest depending on the explanatory variables that determine them. In this regard as our variables of interest are accounting practices the theoretical

framework is dependent to the International Accounting Standard Board, there are minimum reporting standards for explaining the actual practice of accounting.

3.5 Sampling Frame and Sample Size

The sampling technique for this study is a judgmental sampling of non probability techniques. The reasons for selecting these techniques are:-

- It will enable the researcher to select the respondent enterprise that fits for his question.
- It is less time consuming as compared with other sampling techniques.

Those enterprises contacted for this study purpose are three sectors from manufacturing, retailers and service providers.

The sample determination technique is judgmental sampling techniques, because their response is depend up on their accounting practice and experience towards the study.

The total population of large tax payers are 1,305 in number participated in 140 different business activities. The medium tax payer population is 18,114 in number and 178 different business activities. From the two sectors the target population from the large tax payers is 13. For the second target group which is medium scale enterprise the target population the population is extremely large the sample size will be 1% of the total population which is 181 samples has been taken.

3.6 Data Type and Source

The data will be both qualitative and quantitative data which is collected from primary and secondary sources. The primary data is collected through close ended as well as open ended questionnaire for both the large and medium scale enterprise and semi structured interview for auditors, accountants and tax advisers. The secondary data is collected through different manuals, journal articles, books, master's thesis and materials from different internet sites as well as the reports generated by the participant of the research are used. In addition other inputs collected from accounting practitioners like auditors and accountants by using semi structured interviews.

3.7 Method of Data collection

The data collection method is two which is questionnaires and semi structured interviews. The secondary data will be collected from publicly available sources. The questioners are on paper and distributed to the respondents by going in person to the respondent office. The interview is also done in person to make the interview question elaborated more by the researcher and to explain any doubts and to make sour of the reliability of the information.

3.8 Data Analysis Techniques

The data analyzed and interpreted by using descriptive methods. This method help to describe the findings and the results from the data collected. Descriptive method is used to analyze the accounting practice of large and medium scale enterprise using tables, simple average method such as percentage and frequency is used to investigate which accounting theory has been practiced.

3.9 Limitation of the Study

As can be said to all research, this study was not also without its limitations. The extent of which objectives of the study could be reached was affected by time limitations. Due to limitation of finance and time shortage the survey instrument is distributed to some large and medium scale enterprise only. The other problem encountered by the researcher is the lack of easy access to most recent literatures on the subject matter of the study. In addition since most of the findings are based on the information provided by the respondents, the study is subject to the potential bias and prejudice of the people involved.

Chapter Four

Data Presentation and Analysis

4. Introduction

This chapter discusses the analysis of data collected from various sources related with accounting practice of medium and large scale enterprise in Addis Ababa. The data were presented and analyzed according to their scale and the sensitivity of the issues starting from their characteristics, followed by their record keeping and what type of accounting practice are there.

4.1 Characteristics of the Respondent

The sample respondents used in this paper are classified into three categories, which are the medium scale enterprise, the large scale enterprise. Structured questionnaires (attached in Appendix 1) were distributed to 181 medium scale enterprises 13 for large scale enterprises and semi structured interview (attached in Appendix 2) were done with audit firms, accountants and tax advisers. One hundred sixty five of the respondents (85%) have filled and returned the questionnaires properly. The questionnaires were distributed to and filled by the medium and large scale enterprise.

The next step will be determination of respondent from each scale. Accordingly the total sample size of 194 respondents were not considered for the study, because some respondents were filled partially or not willing to filled the questionnaires, the study focused effectively on 165 respondent of which is 152 of the respondent were from medium scale enterprise and 13 were from the large scale enterprise. The distribution and some status of the respondent are shown in the following table.

Table 4.1 Distribution and some Characteristics of Respondents

Number of organization	Type of Business			Age of the business				Ownership		
	Service Provider	Producer/ Manufacturer	Retail	1-5 Years	6-10 Years	11-15 Years	16-25 Years	Privet limited company	Partner ship	Share Compa ny
Category A (large tax Payer)	6	7			2	3	8	5		8
Category B (Medium tax Payer)	36	72	44	69	44	32	7	86	63	3
Total	42	79	44	69	48	35	15	99	63	11

Source: survey data

4.2 Record keeping and Accounting System

4.2.1 Record keeping

If has been stated in the introduction part the study carried out through questionnaire, interview and secondary data. The first part of the questions are focusing on the record keeping and how the enterprises practice them, what are the basic financial reports have been prepared, what kind of accounting system they follow which is computerized and manual accounting practice, what is there motive to do so are some of the questions. The frequency and percentage distribution is summarized in the following table.

Table 4.2 Record keeping

Number	Issues	Number of times cited	Respondents (%)
1	Keeping records	160	97%
2	Payroll preparation	146	88%
3	Taxation/ vat	165	100%
4	Bank statement	62	38%
5	Balance Sheet	69	42%
6	Income and loss Statement	165	100%
7	Statement of Retained Earnings	11	7%
8	Statement of Cash flows	29	18%

Source: survey data

If any company is planning to run a successful business, accurate and timely financial information is a must this accurate and timely financial information is greatly dependent on the record keeping of every transaction. The record keeping will help to monitor the success or failure of any business, if there is no proper record keeping it will make hard to know how a business is doing without a clear financial picture.

Most of the business organization spend their time in selling their products and services however; even to know the business is making enough money, which expenses are too high based on level of sales the record keeping is the best practice to be done. If the record keeping is supported by computerized accounting practice will make the record keeping more accurate and easy to interpret, linking the accounting record to the computerized system will make the preparation of financial information very easy and to have more sophisticated and moderated financial information to be generated within a short time frame.

Without implementation of complimentary and accurate record keeping, it is impossible to achieve full benefit of the accounting information. As could be observed in the table 4.2 almost all (97%) of the respondents confirm that they maintain record keeping but the question is for what purpose do they use the record keeping and how accurately dose all the transaction pass through the record keeping. The answer for this question is most of them almost all use the basic record keeping is for taxation purpose which is (100%) of the entire respondent confirmed that, this indicates that most of the respondent gives priority for the government tax declaration.

The other purpose of the record keeping shows that all of the respondents are from the medium scale and large scale enterprise so that these two groups are required to prepare income and loss statements in this regard all the respondents follow the requirement. The income and loss statement is a report that measures the success or failure of company's operation for a given period of time.

4.2.2 Accounting System

The accounting system based on their computer based accounting system. The computer based accounting system is more like to link every aspect of the finance. As it is indicated in the table 4.3 there are companies who use the computer based accounting system. Using the computer based accounting system is more useful and easier than the manual system and the computer based system will reduce the error, but in the survey data making the computerized accounting system for further management use is very low which is out of the total users of the computerized system most of the respondent (75%) use the system for inventory management.

Table 4.3 Accounting System

Accounting System	Category A (large tax Payer)	Category B (Medium tax Payer)
Manual		27or 18%
Computerized	13	83or 55%
Partly Computerized		42 or 28%
Computerized accounting system	Category A (large tax Payer)	Category B (Medium tax Payer)
Peachtree	12	83 or 66%
QuickBooks		
Excel		42 or 32%
Other	1	
Reason of usage	Category A (large tax Payer)	Category B (Medium tax Payer)
Inventory management	13	125
Cost of Production	9	21
Budget Preparation	5	3

Source: survey data

The computerized accounting system will have more usefulness based on their capital that is the category A or the large scale companies use the system for more further use than the category B or the medium scale enterprise, this is because of the system by itself require some cost of administration so that the large scale companies have the capacity to consume this costs.

As a result most (66%) of the medium scale enterprises use the Peachtree software, but the most usage of the software is to summarize there financial data and inventory management. Most of the respondents from medium scale enterprise's, there response regarding computerized accounting system also include the Excel system, more for the inventory management use the

Excel have high frequency (98%) the one who use partially computerized system. There are also some companies who use other accounting software's other than Peachtree like ISCALA.

The major purpose of adopting computerized accounting system is to make the data more accurate and to make it more flexible to users especially for internal users, making the system computerized will facilitate the above uses. In general the accounting information has plenty usage but the main purpose of the information is to indicate the performance of the entity, as indicated in the table 4.3 the accounting system of the respondent's give more attention for the control of the inventory.

Looking in to their basic motive to use the computerized accounting system from the users of the computerized accounting system and partially computerized system all the respondents use the computerized system to minimize error there are others who use the system because the scale of the business which cannot be managed through the manual system which will consume high labor force to administer. The users of the manual accounting system have more intention to fulfill the minimum requirement of the record keeping; this will indicate that tax declaration is there first priority.

4. 2.3 Users of Accounting Information

Accounting Information can be used by any interested user, who has the capacity to understand their interpretation of the information. Accounting has various advantages for the users of the information if it is practiced in a well defined way the users of this information are the internal users and external users when these users utilize this information the information must be real and any user can count on it.

Table 4.4 users of accounting information

Category A (large tax Payer)		Privet limited company	Partnership	Share Company
	Government	1 st		1 st
	Owners	2 nd		
	Creditors	3 rd		3 rd
	Employees			4 th
	Customers			5 th
	Investors			2 nd
Category B (Medium tax Payer)		Privet limited company	Partnership	Share Company
	Government	1 st	1 st	1 st
	Owners	2 nd	2 nd	
	Creditors	3 rd	3 rd	3 rd
	Employees			
	Customers			
	Investors			2 nd

Source: survey data

This information is useful for owners, creditors, employee, investors, government, and customers. Owners always keep an eye on the returns from the investment, by comparing the accounts of various years which will helps them in gating good piece of information. Managers of a business are greatly interested in knowing the position of the firm and to make a sound decision it is often one of the main functions of management. Creditors are the one who supply goods on credit, or bankers or lenders of money. It is usual that these groups are interested to know the financial soundness before granting credit. The progress and prosperity of the firm, for which credits are extended, are largely watched by creditors from the point of view of security and further credit.

Employs payment and benefits depends upon the size of profit earned by the firm. The demand for wage rise, bonus, better working conditions etc. depend upon the profitability of the firm and in turn depends upon financial position. Investors the prospective investors, who want to invest their money in a firm, of course wish to see the progress and prosperity of the firm, before investing their amount, by going through the financial statements of the firm. This is to safeguard the investment.

Government keeps a close watch on the firms which yield good amount of profits. The state and central Governments are interested in the financial statements to know the earnings for the purpose of taxation. Consumers these groups are interested in getting the goods at reduced price, therefore, they wish to know the establishment of a proper accounting control which in turn will reduce to cost of production, in turn less price to be paid by the consumers. In our country the users of accounting information other than the owners of the company are limited to some numbers.

Looking in to their priority from the external users the government is the first user of the accounting information. Next to the government, creditors are the second users from the external users of the accounting information.

In share companies this priority will be changed that is before the government the invertors will have the second priority. Employees and customers will be the last users of the information but this will not work for all the respondents which is, in the medium scale enterprise they are not even in the list of the users of the accounting information. If employees and customers are consider as a user of accounting information it will explain that employees will expect more payment when there is more profit and also customers will expect some price deduction or more quality products. On the other hand if this is the suitcases if the company consider the employees and customers as a user the company's scale is high and have willingness to disclose the information.

4.2.4 Accounting Standards

The accounting standard other than financial institution as a nation there was no defined accounting standard. Proclamation 847/2014 "Ethiopian Financial Reporting" which shall be applicable to all reporting entities established in accordance with the Ethiopian law or operating in Ethiopia and the proclamation also establish "Accounting and Auditing Board of Ethiopia". The board has the powers and duties of issuing standard and directives relating to financial reporting and set criteria to distinguish reporting entities as either public interest entities or small or medium enterprises and register them accordingly.

The board will be the one who will set the accounting standards for professionals and the reporting entities; the board is about to start its duty. When it comes to perform its duty with a full capacity the question for accounting standard will be answered, for the time being most of

our enterprises the one who keep accounting books use the generally accepted accounting standard (GAAP).

The medium scale enterprise almost all of them who maintain formal accounting books use the GAAP, in the large scale enterprise also the same but there are some only one enterprise use partially IFRS. The users of GAAP and partially IFRS there fundamental intention is the legally required which to follow one of them but they are not by preference of the owners. In some company investors also require them to follow one of the internationally accepted accounting standards.

The Ethiopian commodity exchange (ECX) require the participants in this commodity market to adopt IFRS to make sure that there capacity to handle any transaction and to see their real image especially there real asset, this is an example to see the practice of the accounting in Ethiopia. (source interview)

4.2.5 Basis of Accounting

Most large companies use accrual basis of accounting, they recognize revenue when it is earned and expenses in the period incurred, without regard to the time receipt or payment of cash. For small and average individual taxpayers, however, use a strict modified cash basis approach. Under the cash basis, companies record revenue only when they receive cash, and they record expenses only when they disperse cash. Determining income on the cash basis rests upon collecting revenue and paying expenses. The cash basis ignores two principles: the revenue recognition principle and the expense recognition principle. Consequently, cash-basis financial statements are not in conformity with GAAP.

In short, cash-basis accounting violates the accrual concept underlying financial reporting. The modified cash basis is a mixture of the cash basis and the accrual basis. It is based on the strict cash basis but with modifications that have substantial support, such as capitalizing and depreciating plant assets or recording inventory. Not infrequently, companies want to convert a cash basis or a modified cash basis set of financial statements to the accrual basis for presentation to investors and creditors.

Companies in the following situations might use cash or modified cash basis.

- A company that is primarily interested in cash flows
- A company that has a limited number of financial statement users (small, closely held company with little or no debt).
- A company that has operations that are relatively straight forward (small amounts of inventory, long-term assets, or long-term debt).

Table 4.5 Basis of Accounting

Number of organization	Basis of Accounting		
	Cash basis	Accrual Basis	Modified
Category B (Medium tax Payer)	139		13
Category A (large tax Payer)		8	5

Source: survey data

The large companies have the practice to use the accrual or modified cash basis of accounting. The medium scale enterprises most of them (91%) are using the cash base of accounting the basis of accounting also dependent to the scale of the business, the accrual basis of accounting can also clarify what is the real image of the reporting entity what is actually there income and there actual expenses.

4.2.6 Cost and Management Accounting

The cost and management accountings measures and report financial information as well as other types of information that are intended primarily to assist managers in fulfilling the goals of the any organization, in addition to this management accounting system is an important facet of overall organizational control. Cost accounting measures and report financial and non financial information related to the organization's acquisition or consumption of resources. Most of the respondents who have cost accounting practice (88%) of the respondent use the cost accounting for inventory and cost control purpose. The remaining companies use both inventory and cost control system and product costing system.

Table 4.6 Cost and Management Accounting

cost and management accounting practices	Category A (large tax Payer)	Category B (Medium tax Payer)	Total (%)
Periodic management accounting		42	0.25
Inventory and cost	13	132	0.88
Break even analysis			
Product costing	13	9	0.13
There is no any cost and management accounting		2	0.01

Source: survey data

4.2.7 Budgetary Accounting

A major benefit of installing the budgeting system is that it compels managers to plan more formally. A budget helps keep businesses on track by forecasting cash needs and helping control expenditures. It can cover both financial and non-financial aspects of these plans and acts as a blueprint for the company to follow in the forthcoming period.

Table 4.7 Budgetary Accounting

Budgetary accounting	Category A (large tax Payer)	Total (%)	Category B (Medium tax Payer)	Total (%)
Cash budget	1	0.08		
Seles budget	2	0.15		
Budget variance analysis	9	0.69		
Expense budget	13	1	3	0.02
No Experience				
Effort to follow the budget				
No effort				
little effort			3	0.02
Modest effort	11	0.85		
Strong effort	2	0.15		

Source: survey data

Budgets covering financial aspects quantify management's expectations regarding future income, cash flows and financial position. In addition, investor will probably want to see the budget as evidence that the business is well planned and stable. As previously indicated in the table 4.2

and 4.3 most of the record keeping purposes are for inventory management and control purposes the same is true, from the respondents who use the budgetary accounting system the most of the respondents use the budget practice for the expense budget and budget variance analysis purpose. There effort to follow the budget, from the medium scale enterprise most of the respondent (2%) of the respondent give little effort but in the large scale enterprise they give modest effort (85%) to follow the budget and they also practice cash budget.

4.2.8 Major Purposes of Accounting System

The accounting system is among the most significant quantitative information systems in almost every organisation. This system aims to provide information for some broad purposes. Formulating overall strategies and long-range plans, this includes new product development and investment in both tangible (equipment) and intangible (brands, patents or people) assets, and frequently involves special-purpose reports. Increasingly, many organisations seek market supplier- and customer-based information for determining longer-term strategic action.

Resource allocation decisions such as product and customer emphasis and pricing, this frequently involves reports on the profitability of products or services, customers, distribution channels, and so on.

Cost planning and cost control of operations and activities, this involves reports on revenues, costs, assets, and the liabilities of divisions, plants and other areas of responsibility. Performance measurement and evaluation of people, this includes comparisons of actual results with planned results. It can be based on financial or non-financial measures.

Meeting external regulatory and legal reporting requirements where they exist. Regulations and statutes often prescribe the accounting methods to be followed. Financial reports are provided by some organisations to shareholders who are making decisions to buy, hold or sell company shares. These reports ordinarily attempt to adhere to authoritatively determined guidelines and procedures.

Table 4.8 Purpose of Accounting System

Purpose of accounting system	Category A (large tax Payer)	Category B (Medium tax Payer)	Total (%)
Formulating overall strategies and long-range plans			
Resource allocation decisions such as product and customer emphasis and pricing.	13	81	0.57
Cost planning and cost control of operations and activities.	5		0.03
Performance measurement and evaluation of people			
Meeting external regulatory and legal reporting requirements	13	147	0.97

Source: survey data

As it is discussed in the previous topics the main motive and need to practice accounting records and other frameworks which are in practice are discussed. Coming to the main purpose of the accounting system is for resource allocation and cost control of operations and activity (57%) and the remaining for meeting the external regulatory and legal reporting requirement are the respondent's main purpose of accounting system this also can be taken as the limitation of accounting practice.

4.2.9 Managing Account Payables

The accounts payable function is the most labor-intensive of all the accounting functions. The basic process in most companies is to receive three types of information from three sources which is to receive invoice from the supplier, a purchase order from the purchasing department, and a proof of receipt from the receiving department.

Table 4.9 Account Payables

Account payable	Category A (large tax Payer)	Total (%)	Category B (Medium tax Payer)	Total (%)
Invoice from suppliers	8	0.62	74	0.49
Purchase order from purchase department				
Proof of receiving from receiving department	5	0.38		

Source: survey data

The accounts payable staff then matches all three documents to ensure that a prospective payment is authorized and that the underlying goods have been received, and then pays the bill. The process is labor intensive partially because there is such a large amount of matching to do, but also because the three documents almost never match. Either the purchase order quantities or prices do not match what the supplier is charging, or else the amount received does not match the quantities on the other two documents. Because of these inaccuracies, the amount of labor required to issue a payment can be extraordinarily high. The real practice of this accounting system is largely seen in the large scale enterprises but in their practice they are not using the three integrated process to record the account payables most (62% or only 8) of the respondent use only the invoice from the supplier to record account payable, on the other hand there are some (38% or only 5) companies use proof of receiving department and invoice from suppliers to compare the real amount and to take it as account payable.

4.2.10 Cash Management System

The cash management system is concerned with creating an orderly flow of cash into and out of a company's treasury, leaving no cash in the system that is not being properly utilized to the fullest extent. To make a plan in the cash management system there are some drawbacks in general, our payment system is not modern by saying this the payment system is not flexible all over the country by not forgoing what has been done in the past few years to make payment easy and accountable. The government is working on starting from creating awareness to make every transaction in bake system and modern payment systems.

Table 4. 10 Cash management system

payment system	Category A (large tax Payer)	Total (%)	Category B (Medium tax Payer)	Total (%)
Cash only			136	0.89
Trough banks				
Bothe on cash and through banks	13	100%	16	0.11

Source: survey data

The cash management system in these focus groups all large scale enterprises use both on cash and by banks, on the other hand most of (89%) of the medium scale enterprises use cash payment system. The most important thing is if the companies have a plan to manage their cash, is there any alternative way to make the resource to be more useful us we all now there is market for that but, for controlling purpose the internal control for the one who conduct any on cash activity their internal control need to be good.

4.2.11 Preparation of Bill of Quantity

When the accounting department issues financial statements, one of the largest expenses listed on it is the material cost mostly manufacturing environment. Unless the accounting department conducts a monthly physical inventory count, the accounting staff must rely on the word of the logistics department in assuming that the month end inventory listed on the books is the correct amount. If it is not, the financial statements can be off by a significant amount. The core document used by the logistics department that drives the accuracy of the inventory is the bill of quantity. There are listings of the components that go into a product. If it is incorrect, the parts assumed to be in a product will be incorrect, which means that product costs will be wrong, too. This problem has the greatest impact in the price of the product, where the bills of quantity determine how many materials are used to produce a product. Thus, the accuracy of the bills of quantity has a major impact on the accuracy of the financial statements.

Table 4.11 Bill of Quantity

Preparation of bill of quantity by:	Category A (large tax Payer)	Category B (Medium tax Payer)
Engineering	6	3
Production	7	13
Logistics		
All		

Source: survey data

Measuring a bill of quantity includes several steps. One is to ensure that the correct part quantities are listed. Another is to verify that parts should be included in the product at all. Yet another is that the correct subassemblies roll up into the final product. If any of these items are incorrect, a bill of quantity should be listed as incorrect in total. The other point is by whom dose the bill of quantity is prepared, engineering, production or logistics. From the survey only the large scale enterprises which engage in manufacturing sector prepare the bill of quantity but from these manufacturing companies (85%) most of them prepare their bill of quantity by engineering department the remaining use the engineering and production department to generate bill of quantity.

4.2.12 Audit Practice

Auditing is such an examination of books of accounts and vouchers of business, as will enable the auditors to satisfy himself that the balance sheet is properly drawn up, so as to give a true and fair view of the state of affairs of the business and that the profit and loss account gives true and fair view of the profit/loss for the financial period, according to the best of information and explanation given.

Table 4.12 Auditing

Audit practice	Category A (large tax Payer)	Total (%)	Category B (Medium tax Payer)	Total (%)
Internal auditor			13.00	0.09
External auditor			68.00	0.45
Both internal and external	13	1		

Source: survey data

Depending on the scale of the business companies will have only external auditor and both internal and external auditor. All large scale companies have internal auditors, in the case of the medium scale enterprises use the external auditors the one who maintain proper accounting books. As a result the need for the external auditors in the medium and large scale enterprises is to make their financial information more reliable and acceptable by users like the tax authority and for the creditors.

4.2.13 Investment Management

There are several ways of investment but in our country we don't have the market to do the analysis to make one investment worthy over the other, but still there are investments these investments are done by the owner's sulfa assessment ether investing in their premises or in fixed asset.

Table 4.13 Investment Management

Investment Management	Category A (large tax Payer)	Category B (Medium tax Payer)
Short term investment		
Fixed Asset	9	3
Purchase of security		
Investment in Premises	4	

Source: survey data

The evaluation method is only one alternative which is dependent on the market or economic condition. As a result the respondents from the survey from the total of the medium scale enterprises who have investment plan are only 3 and there investment plan is in their premises. The large scale enterprises also invest in their premises (75%) and in fixed asset (25%).

4.3 Limitation and Users of Accounting Information

To know the real practice and the basic problems of the next two topics the researcher conducted semi structured interview with accountants, tax advisers and auditors.

4.3.1 Limitation of Accounting Information

The accounting information basically prepared for two purposes for external and internal purpose. The external users are government, banks, insurance companies, and inverters like if there is a takeover. There purpose also limited to taxation, to access fund or loan, sometimes for

tender. What makes the practice to be limited is there purpose of preparation the financial information's are limited to specific user targeted.

If the company's intension is to pay tax liabilities the financial information will refer the tax authority. Because there is no any governing body and frame work to be followed the reporting entity may show different kinds of reports for the tax authority and some other for a bank loan. The quality of the financial information is another issue to be seen as dependable financial information some of their limitations are:

- Lack of formal stricture
- Specific user targeted reports
- Referring one to the other
- There is no correct asset valuation
- Using historical cost
- There is stock market to get the real value
- Using the general purpose statement for specific purpose
- Cost allocation system

4.3.2 Usefulness of Accounting Practice

The Accounting practice has various uses if it is practiced in a well defined way. If the accounting practice is in a full quality stage the users of the information will boost at the same time the usefulness also increase. The government will get the real amount of tax which meant to be paid. Owners will get to see there right position also now which investment is profitable than the other. Creditors will have confidence in their lending because the financial information shows the real image of the company this all can be possible if there is proper practice in the accounting profession. In practice the absence of formal accounting standard make the usefulness to be limited for some users only.

Chapter Five

Summary, Conclusion and Recommendation

Summary

To run a successful business, accurate and timely financial information is a must this accurate and timely financial information is greatly dependent on the record keeping of every transaction. The record keeping will help to monitor the success or failure of any business, if there is no proper record keeping it will make hard to know how a business is doing without a clear financial picture. The accounting practice of large scale enterprise is more consistent comparing to the medium scale enterprise regarding to the record keeping all of the respondents are from the medium and large scale enterprise so that these two groups are required to prepare income and loss statements in this regard all the respondents follow the requirement. The medium scale enterprise almost all of them who maintain formal accounting books use the GAAP, in the large scale enterprise also the same but there are some only one enterprise use partially IFRS. The users of GAAP and partially IFRS there fundamental intention is the legally required.

Computerized accounting system is used widely in both enterprises this considers the one who use partially computerized accounting system. The major purpose of adopting computerized accounting system is to make the data more accurate and to make it more flexible to users especially for internal users, making the system computerized will facilitate the above uses. Peachtree software is used in most enterprises for there all transaction, the Excel sheet also used for inventory and cost controlling purpose.

The accounting information is used by the government in the first place and it keeps close watch to know the earning for the purpose of taxation. Most of the accounting practice basic motive is filling tax. The priority for the users to owners and creditors will become to the next stage, but the priority may change in share companies the first priority will be changed and the investors will be the first users of the information.

Most large companies use accrual basis of accounting, they recognize revenue when it is earned and expenses in the period incurred, without regard to the time receipt or payment of cash. The cash-basis accounting violates the accrual concept underlying financial reporting. The large companies have the practice to use the accrual or modified cash basis of accounting. Most of the

medium scale enterprises are using the cash base of accounting the basis of accounting also dependent to the scale of the business, the accrual basis of accounting can also clarify what is the real image of the reporting entity what is actually their income and their actual expenses or recording inventory.

Cost accounting measures and report financial and non financial information related to the organization's acquisition or consumption of resources. Most of the respondents who have cost accounting practice respondent use the cost accounting for inventory and cost control purpose. The remaining companies use both inventory and cost control system and product costing system.

A major benefit of installing the budgeting system is that it compels managers to plan more formally. A budget helps keep businesses on track by forecasting cash needs and helping control expenditures. It can cover both financial and non-financial aspects of these plans and acts as a blueprint for the company to follow in the forthcoming period. In addition, investor will probably want to see the budget as evidence that the business is well planned and stable. In this regard from the medium scale enterprise most of the respondent of the respondent give little effort but in the large scale enterprise they give modest effort to follow the budget.

The accounting system is among the most significant quantitative information systems in almost every organization. This system aims to provide information for some broad purposes. Formulating overall strategies and long-range plans, resource allocation decisions such as product and customer emphasis and pricing, cost planning and cost control of operations and activities, this involves reports on revenues, costs, assets, and the liabilities of divisions, performance measurement and evaluation of people, meeting external regulatory and legal reporting requirements are some of the major purpose of accounting practice but most of the causes are two cost controlling and meeting external regulatory and legal reporting requirement are the major purpose.

Depending on the scale of the business companies will have only external auditor and both internal and external auditor. All large scale companies have internal auditors, in the case of the medium scale enterprises use the external auditors the one who maintain proper accounting books. As a result the need for the external auditors in the medium and large scale enterprises is

to make their financial information more reliable and acceptable by users like the tax authority and for the creditors.

The accounting information basically prepared for two purposes for external and internal purpose. The external users are government, banks, insurance companies, and investors like if there is a takeover. Their purpose also limited to taxation, to access fund or loan, sometimes for tender. What makes the practice to be limited is their purpose of preparation the financial information's are limited to specific user targeted.

Conclusion

As it has been stated, the study focused on the accounting practice of large and medium scale enterprise. For this reason, it reviewed relevant literature and documents, and collected data from the large and medium enterprises as a sample.

The accounting practice of large scale enterprise is more consistent comparing to the medium scale enterprise regarding to different accounting practice like, record keeping, formal accounting standards, implementation of computerized accounting system, their bases of accounting, the practice of management accounting and their audit practice.

The accounting system is among the most significant quantitative information systems in almost every organization. This system aims to provide information for broad purposes but, most of the reasons are for cost controlling and meeting external regulatory and legal reporting requirement are the major purpose.

The requirement by the tax authority and the expected soundness of the financial information by the creditors is determining the accounting practice of the reporting entities. Most of the accounting practice is for tax filling and to get credit from the banks this makes the accounting report specific target oriented. This and other explanations reduce the trustworthiness of the accounting reports. The scale of the business and the type of the business activity is also other determinant of the accounting practice.

The Accounting practice has various uses if it is practiced in a well defined way. If the accounting practice is in a full quality stage the users of the information will boost at the same

time the usefulness also increase. The government will get the real amount of tax which meant to be paid. Owners will get to see their right position also now which investment is profitable than the other. Creditors will have confidence in their lending because the financial information shows the real image of the company this all can be possible if there is proper practice in the accounting profession

Recommendation

The main intention of this research paper is to identify the fundamental problems of the accounting information and their weaknesses, and suggest possible recommendation to overcome such problems. Therefore the following recommendations are suggested to the concerned body.

The reporting entities at any stage of activity need to use their financial information more than the tax filling to further managerial decisions, the managerial accounting will give the insight to see the business activity in different direction. To boost the users of the accounting information the reporting entities must improve the quality of the reports by adopting computerized accounting and internationally accepted accounting standards. They also need to make sure that their financial report can represent their real image and they need to make a preparation to the coming changes regarding to the accounting standards.

Sound policy and regulation should be developed to manage the irregularities in the accounting practice in every sector but the upcoming Accounting and Auditing Board of Ethiopia is in the process to make the change. The board needs to make any policy and regulations change depending on our country's development stage, educational level and the education system itself and other considerable issues need to be assessed. On the other hand the medium scale enterprise need standard that will fit their reduced size and minimum stakeholder base the board need to adopt standard that will fit them.

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Appendix: 1

St. Mary's University
School of Graduate Studies
Department of Accounting and Finance

This questionnaire is prepared by St. Mary's University student who is working on the topic "Accounting Practice of Large and Medium Scale Enterprise in Addis Ababa". The researcher will kindly request your cooperation to respond for the questions given below. The question has been designed purposely to source information on accounting practice of large and medium scale enterprises. The information will be treated in utmost confidential and used mainly for academic purpose.

Your honest and objective answers to the following question will be highly appreciated and acknowledged. This is the questionnaire to be filled by accountants or managers of the business. So your genuine frank, timely response is vital for the success of the study. Therefore I kindly request you to respond to each question carefully.

Please answer the following questions accordingly;

- *Where alternative answers are given, choices and cercal the letter where necessary*
- *Please give more alternative and for some questions there is space provided you can add your answer in the appropriate place and return the complete questionnaire.*
- *If you need further explanation you can contact me (Telephone no.0910178702) and discuss the matter.*

Thank You, for your cooperation and timely response in advance.

Name of your business _____(Optional)

1.What is the type of your business?

- A. Service Provider B Producer/ Manufacturer C. Retail

2.How old is your business? A 1-5 Years B. 6-10 Years C. 10- 15 Years D. 16-25

3.Ownership state?

- A. Privet limited company B. Partnership C. Share Company

4.Which tax category are you in?

- A. category A (large tax Payer)
B. Category B (Medium tax Payer)

5.Does your organization maintain formal accounting system? A YES B. NO

6.Which accounting do you practice in the business?

- A. Keeping records B. Payroll C. Taxation/ vat D. Bank statement

7.What kind of financial information is prepared?

- A. Balance Sheet B. Income and loss Statement
C. Statement of Retained Earnings D. Statement of Cash flows

8.What kind of accounting system does your company implemented?

- A. Manual B. Computerized C. Partly computerized

9.If your answer is "B Computerized accounting system" describes the name of the system?

- A. Peachtree B. Quick book C. Excel

or, _____

It your answer is partly computerized for which purpose?

- A. inventory management B. Cost of production C. Budget preparation

D. _____

10. What is the reason to maintain computerized accounting?

- A. Scale of the business B. availability of the resource
C. Cost of administration D. To minimize error

11. If your answer is "A. Manual accounting" what is the reason? Because of

- A. availability of resources B. cost of administration
C. To fulfill the minimum requirement to keep records D. scale of the business

12. Which bases of accounting have been practiced?

- A. Cash base B. Accrual base C. Modified

13. Who are the users of the reports? Put them in their priority?

- A. Government B. Owners C. Creditors
D. Employees E. Customers F. Investors
-

14. Which standards have been implemented in your organization? (international accounting standards) A. GAAP B. IFRS C. IAS D. _____

15. If there is any accounting standard what is the basic motive to use the above standard?

- A. legally required B. organization regulation C. required by the owners
D. to full fill the requirement of the users of the financial information

If there is other motive

16. Which of the following cost and management accounting do you practice? A. Periodic management accounting B. Inventory and cost controls C. Break even analysis
D. Product costing E. there is no any cost and management accounting

17. For the budgetary accounting which of the following does your organization practice?

- A. Cash budget B. Seles budget C. Budget variance analysis D. Expense budget E. None

18. Does the company grant strong effort to follow the budget?

- A. Not at all B. a little effort C. modest effort D. Strong effort

19. Which of the following financial management have been practiced?

- A. Ratio analysis B. Working capital management

20. The major purposes of accounting systems?

- A. Formulating overall strategies and long-range plans
B. Resource allocation decisions such as product and customer emphasis and pricing.
C. Cost planning and cost control of operations and activities.
D. Performance measurement and evaluation of people
E. Meeting external regulatory and legal reporting requirements

21. Is there any system to manage account payables? A.YES B.NO

22. If your answer is yes for the above question what are the process to record the account

- payables? A. Invoice from suppliers B. Purchase order from purchase department
C. Proof of receiving from receiving department

23. Is there any cash management system? A.YES B.NO
24. How payments and collections are made? A. Through banks
 B. on cash C. Both D. on cash payment only petty cash
25. Dose the company prepare bill of quantity? A.YES B.NO
26. If your answer is yes for the above question how the accuracy of the bill is measured?
 A. By making physical count of the parts
 B. Ensure that the correct part quantities are listed
 C. Verify the parts are included in the product at all
 D. Make sour the correct sub assemblies are roll up in to the final product
27. By who does the bill of quantity is prepared?
 A. Engineering B. Production C. Logistics D. All
28. Is there any strategy to reduce cost of capital? A. YES B.NO
29. IF your answer is yes for the above question what are the strategies?
 A. Engage in to preferable business that is minimum risk
 B. Accelerate collectives like account receivables
 C. Any other _____
30. Is there any audit practice in the organization? A.YES B.NO
31. If your answer is YES for the above question who perform it? A. Internal auditor
 B. External auditor C. both internal and external
32. Is there any investment plan? A. YES B.NO
33. If your answer is YES for the above question what are the practices?
 A. Short term investment B. Fixed Asset
 C. Purchase of security D. Investment in Premises
34. How the investment plan is evaluated? A. Depending on the plan
 B. depending on the market or the economic condition C. by using other alternatives

Appendix: 2

This **interview check list** is prepared by St. Mary University student who is working on the topic “Accounting Practice of Large and Medium Scale Enterprise in Addis Ababa” as the partial fulfillment of the Masters degree in accounting and finance. The researcher will kindly request your cooperation to respond for the questions given below.

Each of your answer will have a greater value for the paper.

Name of the organization _____(optional)

1. What is your roll in the organization?
2. Who are your clients in their tax category which tax payers does maintain formal accounting practice?
3. What is legally expected and what are their practice regarding to their financial reports?
4. How do you see the quality of the financial reports?
5. Have you ever suggest any thing to your clients to increase the quality of the financial information?
6. What are the limitations of their reports?
7. From your experience for what purpose does your client use their financial information?
8. Who are the users of the financial information and does they require auditor's approval to be dependent in the information which is generated by the company?