ST MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

MBA IN ACCOUNTING AND FINANCE PROGRAM

AN ASSESSMENT ON THE ACCOUNTING TREATMENT OF FIXED ASSETS IN THE CASE OF INTERNATIONAL NGOs OPERATING IN ETHIOPIA

BY

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ADVISOR

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A THESIS SUBMITTED TO ST.MARY'S UNIVERSITY, SCHOOL OF GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MBA IN ACCOUNTING AND FINANCE

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DECLARATION

I, the undersigned, declare that this thesis is my original work; prepared under the guidance of my advisor **Asmamaw Getie**. All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a university advisor.

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Advisor Signature& Date

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ACRONYMS

ACCA = Association of Chartered Certified Accountants

CSA = Charities and Societies Agency

ERCA = Ethiopia Revenue and Customs Authority

FDRE = Federal Democratic Republic of Ethiopia

IAS = International Accounting Standard

IFRS = International Financial Reporting Standard

IPSAS = International Public Sector Accounting Standard

IPSASB = International Public Sector Accounting Standard Board

NGO = Non-Governmental Organization

NPO = Not for Profit Organization

PP&E = Property, Plant and Equipment

SPSS = Statistical Package for the Social Sciences

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ABSTRACT

The purpose of this paper is to assess the accounting treatment of fixed assets in international foreign charities /NGOs operating in Ethiopia. The accounting transactions for fixed assets go through from acquisition, depreciation, valuation and to disposals. The study used a descriptive research design in order to explore the accounting practice of fixed assets in international charities /NGOs. 22 (twenty-two) international foreign charities /NGOs were selected out of the total population based on judgmental (purposive) sampling technique. 22 finance directors, managers, senior accountants and finance officers were selected one from each organization. The data collection instrument was a questionnaire which adopted from literatures review, accounting standards and previous studies. Validity and reliability test was conducted to check the consistency of the instruments, scoring a Conbach's Alpha value greater than 0.70.

The descriptive results confirmed that most international NGOs used a modified and accrual basis of accounting; followed a US GAAP accounting standard; and also expensed their fixed asset cost at acquisition. Organizations' depreciating the fixed asset was used straight line method to allocate the fixed asset cost when it is used up. Majority of the organizations depreciate the fixed asset were used the shelf life of the asset and some of them also used grant /project life. On the current development of property, plant and equipment for asset valuation and impairment loss treatments most of the NGOs were new. However, they have proper fixed asset registration sheets which have all the necessary information.

Finally, the researcher concluded that the fixed assert accounting practice among NGOs is quite different and capitalizations of fixed assets were influenced by exchange rate for counting depreciation expense and parent organization policies.

Chapter One

Introduction

1.1 Back Ground of the Study

According to the Financial Accounting Standard Board Concepts Statement 6, assets are "probable future economic benefit obtained or controlled by a particular entity as a result of past transaction or events". In its broadest sense, an asset is anything we purchase today that will probably bring future economic benefit, (Peterson 2002).

Long- lived tangible assets, sometimes referred to as fixed assets or property, plant, and equipmentis an asset which possesses a physical form and which is intended to be used in the business on a long term basis in order to earn income or to produce output. A fixed asset should have the following characteristics (The Treasury 1991):

- It should be able to provide services or benefits to the entity that use it;
- It should have an estimated useful life of greater than one year;
- It should be used by the entity in pursuit of its objective; and
- It should be under the control of the entity so that the entity benefit from it.

In recent development these type of assets called property, plant and equipment. As part of IFRS, IAS 16 Property, Plant and Equipment for business entities and IPSAS 17 Property, Plant and Equipment for public sector entities is the basic standard governing the principles of recognition, valuation and presentation of tangible fixed assets. Updated several times it constitutes now one of the most useful standards in many countries. The government of Ethiopia also declared this standard is a guiding standard to charities and societies on proclamation number 847/2014 under article 5 sub article 1/c effective from December 5, 2014. The principal issues in accounting for property, plant, and equipment are (a) the recognition of the assets, (b) the determination of their carrying amounts, and (c) the depreciation charges and impairment losses to be recognized in relation to them, (Handbook of IPSAS, 2014).

Inservice industry, furniture and office fixtures items will be the major tangible assets of the business. Not for profit organizations are part of service industries have larger and more paid staff. These include many career not-for-profit managers who bring more expertise and training to their jobs, (Mulugeta S. 2015). Therefore, NGOs man fixed assets are buildings, motor vehicles, office equipment and furniture's, computers, copiers, cellular telephone and fax machines, televisions and video players.

According to the accounting standards both in GAAP and IFRS those fixed assets are recorded in the balance sheet based on its historical cost by considering the materiality principle. And it should amortized or depreciated based on its useful life of the asset by using the depreciated method on a reasonably constant manner. Asset management is also the key to expenditure control. Therefore, those assets capable of bring future benefits must be managed in a way that will allow those future benefits to occur, (Berhan T. 2010).

The history of charities/NGOs in Ethiopia is related to the early 1970s devastating famine in the country which pressed the imperial regime to open its door to international and local NGOs to undertake relief and rehabilitation activities. The mid 1980s tragic famine drew more NGOs to be established in the country to be engaged in relief effort. After 1991, NGOs made remarkable progress in their number and diversity as well engaged in addressing the country's complex development agenda, (Taye et.al. 2010).In 2009 the government issued a new Proclamation of Charities and Societies No.621/2009 in order to facilitate and strengthen the effective contributions of NGOs to the socio-economic development of the country. The Proclamation made the necessary amendments to reflect new realities and incorporate the best practices from the similar regulations of other nations, (Sisay S. 2015).

Charities and Societies Agency was established under Ministry of Labor and Social Affairs based on the proclamation number 621/2009 and procedure number 168/2009issued by the Council of Ministers. Following of its establishment, the agency issue different directives to monitor and control NGOs' operated in the country. The accounting policies and procedures of those organizations are expected to fulfill the agency's directive for preparation of audit and annual activity progress report directive number 8/2014.

According article 10 of this directive every charities and societies are required to have a separate fixed asset registration sheet which shows the type of the asset, purchasing date and price, identification number, useful-life, current status and placements. In addition to this detail registration sheet on article 11 of the directive require the financial position should incorporate non-current assets balances, (Directive no 8/2014).

Hence, this paper would try to find out the accounting treatment of fixed assets at the time of acquisition, depreciation, valuation and disposals in twenty two international charities /NGOs case organizations operating in Ethiopia. The study is based on existing theoretical and practical experiences. In doing so, academic literature on fixed assets accounting treatment and different accounting treatments are widely addressed. In addition, research findings are also consider, even though they are limited.

1.2 Statement of the Problem

Proper fixed asset accounting treatment is important and relevant for the users of the financial statementswhich are issued by thereporting entities. Therefore at acquisition of fixed assets should be capitalized and they should be amortized or depreciated based on its useful life, (American Appraisal, 2015). Accordingly, in 2014 a proclamation (Number 847/2014) which govern financial reporting in Ethiopia has been enacted. On article 5/1/a of the proclamation, all charities and societies are require to use International Public Sector Accounting Standards (IPSAS) when preparing financial statements, the principal issues in accounting for property, plant, and equipment are; the recognition of the assets, the determination for their carrying amounts, and the depreciation charges and impairment losses to be recognized in relation to them, (Proclamation 847/2014).

In line with this standard, IPSAS 17 Property, Plant & Equipment and FDRE, Charities and Societies Agency Directive 8/14;and any other accounting standards non-current /fixed assets purchased by the NGOs should be capitalized and depreciated based on its useful life. The expenditure for those capital items should reflect on their income statementwhen they are used-up or depreciated. In addition the value of the fixed asset should be included as non-current asset on the left hand columns of the balance sheet or financial position statements, (CSA Directive, 2014).

However, in some empirical studies *(Asaduzzamanand & Mannan2012)* says unlike for profit enterprises, NGOs presents the balance sheet according to its operational nature, and it doesn't classify its assets as current and non-current assets. In addition, American Accounting Association issued article on accounting practice for NPOs says "in smaller governmental entities, churches, and charitable organizations, at the time of fixed asset acquisitions no capitalization entry is made, although files and listing of fixed assets (fixed asset registration sheet) may be maintained" (AAA, 1971). This miss representation of non-current assets are distorted the financial position of those organizations and this is against the accounting standards.

In some International NGO, fixed assets are expensed when they are acquired. Therefore, the asset part of the organization on balance sheet statement is distorted and not fairly presented. This treatment is against accounting standards and local low of FDRE, Charities and Societies Agency directive 8/2014, (NGOs, 2015 Audit Report). Accordingly, as per the empirical study states that the inventory balance at PSI Ethiopia holds 60% of the organization balance sheet statements, (Daniel, 2015). This conclusion was derived due to the exclusion of non-current assets on the financial position of the organization.

In addition, when an item is capitalized, the cost of the item is shown as an asset, and is gradually written off over the life of the asset. The value of an item is also important in deciding whether to treat the item as an expense or as an asset, (The Treasury, 1991). However, in Ethiopian business corporations capitalizing fixed assets capitalized the fixed asset did without taking in to account the value of the assets, (Berhan 2010). This practice is against the Materiality principle and the practice of those Ethiopian international NGOs need to be considered.

To have similar fixed asset accounting treatment in Ethiopian NGOs, the NGOs' controlling organization, theFDRECharities and Societies Agency, directive 8/2014 is not clearly stated the useful life of the asset that an asset is expected to be available for use by an entity. If similar year of service life is not used by those organizations it makes difficult to compare on organization positions or performance with the other.

If depreciation accounting treatment is employed, the exchange rate used at the time of purchase may not be the same as the exchange rate used for recording depreciated expenses to billing donors. A significant loss on exchange rate might be due at the end of the specific restricted fund projects.

1.3 Basic Research Question

The research attempts to address the following questions on fixed asset accounting treatment which are purchased by twenty two International Charities /NGOs operated in Ethiopia.

- ✓ What are the major accounting policies on fixed asset treatment employed by international charities /NGOs operating in Ethiopia?
- ✓ What are the accounting treatments of fixed assets at acquisition?
- ✓ How depreciation and ongoing valuation of fixed assets are treating?
- ✓ How physical fixed assets are controlled, and disposed from the balance sheet and from fixed asset registration sheet?
- ✓ Does the policies and procedures on CSA (Charities and Societies Agency) on NGOs fixed asset management is conducive for international NGOs.

1.4 Objective of the study

a. General objective

The general objective of this study is to examine the accounting treatment of fixed assets in the case of international charities /NGOs operated in Ethiopia. Fixed assets accounting treatment had a great impact on the asset part of the organization statements of position and it's depreciation expenses on the income and loss statements of the organization, (Peterson 2002).

b. Specific Objectives of the study

The detail objective of the research can be specifically expressed as follows:

- ✓ To assess the major accounting policies on fixed assets treatment by international charities /NGOs operating in Ethiopia.
- ✓ To examine the accounting treatment of fixed assets at acquisition.
- ✓ To assess the depreciation method and ongoing treatment of fixed assets by international charities /NGOs.
- ✓ To examine the practice of physical fixed asset control and disposal treatments by those international NGOs.
- ✓ To assess the practicality and convenience of CSA fixed asset rules for those NGOs.

1.5 Scope and Limitation of the Study

Even though there are more 382 international Charites /NGOs operated in Ethiopia as of April 30, 2017 (CSA, 2017), this study focuses on 22 international foreign charities /NGOs by taking one respondent from each NGOs. The number of case organizations will cover 5.76% of international NGOs because the study will cover the detail of each organizations (primary data) and the researcher is believe that the practice of international charities /NGOs are the same.

The primary focus of the research is on the accounting treatment of fixed assets purchased by different projects funded by foreign donors in selected foreign charities /NGOs. The limitation of this thesis is that only 22 foreign charities /NGOs are considered from 382 international NGOs which are only 5.76%. Therefore, it lacks covering all charities and societies /Int. and local NGOs in Ethiopia which may have different treatments and experiences. Besides, as the method of research qualitative method is more employed, it may involve subjective judgments of individuals. Therefore, care needs to be taken in using the findings of this research without having extensive research findings in the foreign charities /NGOs arena in Ethiopia.

1.6 Significant of the Study

In most of the time fixed asset is the largest balance in balance sheet statements in many of the organizations. The research will be important to international charities /NGOs as a reference for the treatment of their fixed assets purchased by foreign donors required submitting the utilization on the other currency /their parent organization currencies. The study will be important for Donors, NGOs Finance Managers and Accountants as a reference for future fixed asset treatments. The FDRE, Charities and Societies Agency may also be used this paper to consider its directive to specify the useful life and the method depreciations used by those charities and societies /NGOs. The paper also useful for other researchers as a reference to do further research on the area of fixed asset in public sector fixed asset accounting treatments.

1.7 Ethical Considerations

The present study was conducted based on the permission obtained from twenty two international charities /NGOs operating in Ethiopia. The finance directors /Managers, those participating on the study by fulling the questioner was clearly instructed on top of the questionnaire that, the study is conducted to explore the accounting treatment of fixed assets in international foreign charities /NGOs and it is truly used for academic purpose only.

For the sake of protecting the privacy of the respondents, instruction was put in place stating that, respondents are not required to write their name and address and organization's on the questionnaire. Finally, the researcher wants to assure that, all the respondents fill the questionnaire based on their bestowed interest.

1.8 Organization of the Study

The study has five independent chapters. The first chapter deals with introductory concepts encompassed statement of the problem, research questions, objective of the study, scope and limitations of the study, significance of the study, and ethical consideration of the study.

The second chapter is dealt with review of related literature where exhaustive theoretical concept related to the accounting standards and procedures for fixed asset treatment was described in a very great detail. The third chapter described the methodology employed in order to conduct the study which includes the research design, type of data and data collection instruments, sample size and sampling techniques, procedure of data collection and data analysis. The last two chapters, chapter four and five dealt with data analysis and discussion and summary and conclusion and recommendations respectively.

Chapter Two

Related Literature Review

This chapter summarizes the studies from theoreticians and empirical study researchers who have carried out their research in the accounting treatment and fixed assets managements. The specific areas covered in the first section of this part are overviews of fixed assets management practice of different organization are investigated and a short summary is taken. On the following section the NGOs accounting practice like NGOs operated in different part of the world are summarized which includes the general accounting policies and procedures are reviewed and incorporated. After looking those general theories the accounting practices of the fixed asset are followed. Finally, on the last three section of this chapter the researcher identify research gap and develop a conceptual framework on the factors affecting capitalization of fixed assets at acquisition and hypotheses were developed accordingly.

2.1 Overview of Fixed Assets Management

A fixed assets is an asset which possesses a physical form and which is intended to be used in the business on a long term basis in order to earn income or to produce output. A fixed asset should be provide service or benefit to the entity, have greater than one year service and pursuit of its objective, (The Treasury, 1991).

In the past, tangible assets were often described as fixed assets. However, the more descriptive term plant and equipment or perhaps property, plant and equipment (PP & E) are now used more often, (Larson 1990).

Fixed asset management procedures include all administrative aspects, from the initiation of a capital proposal to its evaluation, approval and follow-up. Once the purchase or Construction of an asset has been approved, the acquisition needs to be carefully planned and managed. This includes detailed specifications and cost monitoring. Finally, when assets are no longer needed, they should be covered by fixed asset disposal procedure (The Treasury 1991).

The Government's capital assets are different in nature than those held by a business. Most government capital assets represent service capability or unexpired service potential rather than future cash inflows. Since they do not normally provide resources to pay off existing liabilities or finance future operations, they are recorded as non-financial assets along with other assets such as prepaid expenses and inventories held for consumption or use, (Financial Administration Manual, 2016).

Property, Plant and Equipment (PP&E) assets invariably represent a significant portion of a company's asset base and play a key role for company output. As a result PP&E should be subject to appropriate management, accountability and control arrangements. Company should consider the following points in the development of management, accountability and control arrangements for PP&E assets: (Treasury's Directive 2006).

- ✓ Accountability for asset purchase including timely and accurate asset recognition and recording;
- ✓ Safeguarding and protection of assets against loss, damage or other risks;
- ✓ Monitoring of asset condition, use and performance, including maintenance requirements and verification of asset holdings;
- ✓ Full accountability for assets disposal and write-offs, including approval process; and
- ✓ Asset life cycle management, taking into account asset planning, acquisition, operation (including maintenance) and disposal.

Fixed assets have been analyzed in depth in terms of alternatives and appropriateness of the investment prior to purchase. However, once acquired and put in place, fixed assets such as buildings, furniture, production equipment, and motor vehicles are given little attention. But there is a new perspective emerging on the part of managers and accountants with respect to fixed assets, (Peterson 2002).

The high initial costs to purchase, as well as the high carrying costs of debt, require a rethinking of the management of fixed assets. Getting the maximum future value out of existing buildings and production equipment has become a more important aspect of management. In addition to process requirements and debt concerns, the cost of disposal is also growing at an alarming rate,(Sisay S. 2015).

PP&E involves several measurement issues related to initial purchase, subsequent expenditures, periodic depreciation, and disposal. One might think that the purchase of PP&E represents a relatively straightforward part of accounting. Just take the amount from the bill of sale and debit the account. Of course, some of fixed assets are not depreciated (land) while others are depreciable but at different rates (buildings, equipment, and land improvements, for example), (JCT & L 2007).

There are no one and the most suitable depreciation /amortization method for long-lived non-financial assets for all companies. The most suitable depreciation /amortization method for one company could be not such a method for other company. It is very crucial that these assets owned by company are not only treated and presented correctly, in accordance with definite accounting legislation, but also are in line with company's business specifics, (Ieva K. 2015).

2.2 NGO Accounting practice

An NGO organization is a legal entity or group formed for some purpose other than to make a profit and not owned by any one or more individuals or entity, moreover, not for profit organizations as defined by (Larkin & Tommaso, 2011) are entities that possess the following characteristics not usually found in other organizations:

- They receive contributions from significant resource providers who do not expect a commensurate or proportionate monetary return.
- They operate for purposes other than to make a profit.
- There is an absence of ownership interests like those of business enterprises.

In connection to NPF /NGOs, indicated that NGOs are required to have well organized and established financial management practices for successful accomplishment of its objectives. NGOs operate in a rapidly changing and competitive world. If their organizations are to survive in this challenging environment, it is required to develop well organized financial management tools:

- to help managers to make effectiveand efficient use of resources toachieve objectives and fulfillcommitments to stakeholders helpNGOs to be more accountable todonors and other stakeholders,
- to gain the respect and confidenceof funding agencies, partners andthose served; give the NGO theadvantage in competition forincreasingly scarce resources; and
- help NGOs prepare themselves for long-term financial sustainability, (Mengesha, 2014)

In some empirical studies like a study in Bangladesh different NGOs using different method of accounting and reporting system due to lack of accounting and financial reporting standards, hence the comparison among the NGOs isn't possible. As there is no IAS/IFRS it is very difficult to follow a common standard in generation and presentation of accounting and financial information, (Asaduzzamam& Abdul, 2012).

As the accounting environment the same as NGOs, IPSAB handbook issued in 2014, the primary function of governments and other public sector entities is to provide services that enhance or maintain the well-being of citizens and other eligible residents. Those services include, for example, welfare programs and policing, public education, national security and defense services. In most cases, these services are provided as a result of a non-exchange transaction and in a non-competitive environment. Governments and other public sector entities are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term. The discharge of accountability obligations requires the provision of information about the entity's management of the resources entrusted to it for the delivery of services to constituents and others, and its compliance with legislation, regulation, or other authority that governs its service delivery and other operations. Given the way in which the services provided by public sector entities are funded (primarily by taxation revenues or other non-exchange transactions) and the dependency of service recipients on the provision of those services over the long term, the discharge of accountability obligations will also require the provision of information about such matters as the entity's service delivery achievements during the reporting period, and its capacity to continue to provide services in future periods, (IPSAB, Handbook, 2014).

The NGO financial transactions and programs has some principles; these principles guide the Project behavior and help in the development of policies and procedures for financial activities. The principles are: stewardship or safekeeping of the project resources, accountability to explain how funds are being used, transparency to ensure financial information is recorded accurately and presented clearly; consistency is maintained over the years so that comparisons can be made; non-deficit financing, it represents sufficient funding source, standard documentation guides the system of maintaining financial records and documentation according to internationally accepted accounting standards and principles, (Mohammad, 2012).

According to the researchers in BRAC Micro Finance NGO, the finance program for reporting are adopted depending on the expertise and resources available, the volume and type of transactions, reporting requirements of managers, and obligations to donors, (Mohammad, 2012).

American Accounting Association Committee on accounting practice of NPOs put many recommendations on NPOs accounting practices. The recommendations of this committee are based on its conclusion that current accounting and reporting practices of most NPF organizations, being almost exclusively evolved from and focused upon legalistic dollar accountability for individual fund entities on a year-by-year basis. Which includes: Making decisions concerning the use of limited resources, including the identification of crucial decision areas, and determination of objectives and goals. Effectively directing and controlling an organization's human and material resources, maintaining and reporting on the custodianship of resources and Facilitating social functions and controls, (AAA, Accounting Review, 1971).

The committee recommendations including:

1. Significant similarities between NFP and profit-oriented organizations have largely been minimized-while the differences have been emphasized-in the development of current NFP accounting and reporting practices;
2. Both types of organizations (a) are important, complementary parts of the same economic system, (b) compete for many of the same scarce resources to convert into

their respective goods and services, (c) should utilize all available analytical techniques to ensure appropriate and efficient use of resources in the best interest of society as a whole, and (d) require information systems, of which accounting is an integral part, to provide all interested parties with data bearing upon "operational accountability" as well as "dollar accountability" in order that such parties at interest may properly plan, direct, control, and evaluate the way its scarce resources are utilized;

3. As necessary as they are to fulfilling the obligation to report on fund and budgetary constraints, current financial reporting practices of most NFP organizations produce data that may be biased, inappropriate, or inadequate for other evaluation and decision making purposes;
4. Thus, legalistic and other constraints peculiar to NFP organizations shouldnot prohibit the development and reporting of additional useful and relevant data; and
5. In view of the growing importance of NFP organizations in our economy, it is essential that additional supplementary data be accumulated and reported in order that NFP organizations fulfil their obligation of reporting upon operational accountability for the resources of the entity as a whole as well as dollar accountability for particular fund sub-entities, (AAA, Accounting Review, 1971).

BRAC prepare the Micro finance program's financial statements under the historical cost convention on a going concern basis. BRAC Micro finance program generally follows the accrual basis of accounting or a modified form thereof for key income and expenditure items. The financial statements have been prepared in accordance with the comprehensive guidelines and policies, (Mohammad. 2012).

According to Mengesha, a research on the area of local NGO accounting practice in Addis Ababa, the method of accounting used by Addis Ababa local NGOs were 22.89% used accrual bases, 25.30% uses cash bases and the remaining 51.80% uses a modified bases of accounting methods. These three methods are being used by the NGOs though most of the organizations (51.80%) used modified accounting methods. Regarding the accounting standards the result of his finding indicates that 93.90% follows GAAP and 6.10% uses IFRS /IAS. Most of the NGOs used GAAP,(Mengesha, 2014).

Accordingly, the Federal Government of Ethiopia enacted this standard in proclamation number 847/2014 as a mandatory standard for public sectors and charities and societies starting from December 5, 2014 that they are required to be follow for their financial reporting preparations and presentations. The standard contains 31 different standards which should applicable for public sector and not for profit entities. The specific standard related with this paper is IPSAS number 17 Plant, Property, and equipment.

2.3 Fixed Asset Accounting Treatment

Many research are done on fixed asset accounting treatments even though most of them are old. On this part of the paper different treatments of fixed assets starting from acquisition to disposal are considered.

2.3.1 Accounting Treatment at Acquisition

The accounting handling for fixed assets starts at purchasing. Purchasing implies a systematic approach to the process of buying required goods and services in proper quantities and qualities, from the right sources at the right times and at fair prices, (CML, 1996). All fixed assets acquired must be purchased in terms of the capital budget. Assets must be procured in such a way that:

- ✓ A proper need for the asset was identified; and
- ✓ Proper and approved procurement procedures are adhered.

In addition to this budget approval in place, negotiations with suppliers can be concluded, and contracts entered into. A good purchasing system provides economic value of money for the entities, (The Treasury 1991).

According to IPSAS 17 (PP&E), an item of property, plant and equipment should be recognized as an asset when it is probable that future economic benefits or service potential associated with the asset will flow to the entity; and the cost or fair value of the asset to the entity can be measured reliably. Property, plant and equipment is often a major portion of the total assets of an entity, and therefore is significant in the presentation of its financial position, (IPSASB 2014)

An item of property, plant and equipment which qualifies for recognition as an asset should initially be measured at its cost. Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition. It may be gifted or contributed to the entity. An asset may also be acquired at nil or nominal consideration through the exercise of powers of sequestration. Under these circumstances the cost of the item is its fair value as at the date it is acquired, (Lai, 2013).

The cost of an item of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, and any directly attributable costs of bringing the asset to working condition for its intended use; any trade discounts and rebates are deducted in arriving at the purchase price, (IPSASB 2014).

Spare parts and servicing equipment are usually carried as inventory and recognized in surplus or deficit as consumed. However, major spare parts and stand-by equipment qualify as property, plant, and equipment when an entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant, and equipment, they are accounted for as fixed assets or property, plant, and equipment in the current standard, (Peterson 2002).

This standard does not prescribe the unit of measure for recognition, i.e., what constitutes an item of property, plant, and equipment. Thus, judgment is required in applying the recognition criteria to an entity's specific circumstances. It may be appropriate to aggregate individually insignificant items, such as library books, computer peripherals, and small items of equipment, and to apply the criteria to the aggregate value. An entity evaluates under this recognition principle all its property, plant, and equipment costs at the time they are incurred. These costs include costs incurred initially to acquire or construct an item of property, plant, and equipment and costs incurred subsequently to add to, replace part of, or service it. Specialist military equipment will normally meet the definition of property, plant and equipment, and should be recognized as an asset in accordance with this Standard, (IPSASB, 2014).

When a plant asset is constructed by a business for its own use, cost including materials, architectural and design fees, labor costs, building permits, insurance during constructions, and a reasonable amount of overhead or indirect expense such as heats, lights, power, and depreciation of the machinery used in constructing the asset. However, insurance on the same asset after it has been placed in production is an expense, (Larson 1990).

In America Federal Government agencies and the self-sustaining activities or funds of other governments and educational institutions follow accounting procedures for the purchase or construction of fixed assets closely paralleling the procedures used by profit-seeking (commercial) entities. Hospitals and certain other entities establish a specific fund to account for both resources earmarked for fixed asset acquisition and fixed assets owned. Acquisitions of fixed assets from resources of such funds are capitalized in the fund making the expenditure. In these cases there is no "expense connotation" at the time of asset acquisition; the distinction between capital and revenue expenditures is maintained as in commercial accounting, (AAA, Accounting Review, 1971).

According to BRAC Micro-Finance, a big NGO in Bangladesh, fixed assets recorded at acquisition in a segregated form, like buildings, vehicles, investments and so on. The organization have a separate chart of account for each asset and the accumulative depreciation balance will reduce the non-current asset part of the balance sheet, (Asaduzzaman and Mannan, 2012).

2.3.2 Recorded as an Expense at Acquisition

When the initial expenditure is interpreted as an expense of the fund or account group from which the expenditure is made and the capitalization entry is viewed simply as a memorandum record of assets on hand, the effect of present accounting practices is to charge the cost of the asset to expense in the period of acquisition and to show salvage proceeds as revenue of the period of disposal or retirement, (Marilena 2013).

In America some instances, particularly in smaller governmental entities, churches, and charitable organizations, no capitalization entry is made, although files or listing of fixed assets may be maintained. Although not condoned, this practice is understandable in view of current accounting (or non-accounting) practices relative to accounting for fixed assets during use and at disposal or retirement. As will be noted subsequently, once a general fixed asset is acquired, records are maintained primarily for physical accountability, insurance, or similar purposes, (AAA, Accounting Review, 1971).

A report of the Committee in American Accounting Association, put the following recommendation to charge expenses at acquisition.

1. Depreciation accounting serves no useful or constructive purpose in not-for-profit organizations. The purpose of NFP organizations is to render service, not produce a profit. Therefore, they feel there is no need for concern with income determination.
2. The purpose of accounting for not-for- profit organizations is to establish "dollar" and "item" accountability. They point out that the budget is the controlling factor in accounting for current-period transactions and must be observed-that to include non-budgeted depreciation charges would bias budgetary comparisons on a fund-by-fund basis.
3. Various concepts of the harmful or erroneous effects of depreciation and accumulated (reserve for) depreciation are mentioned in opposing its recognition, especially if not "funded."
4. Account for depreciation would result in double-charging the current generation. Although this line of reasoning involves the concept and use of depreciation, it is stated separately because of the frequency of its occurrence and the importance usually attributed to it both in terms of unequitable tax or fee structures and of taxpayer or donor resentment.
5. Assets owned are largely a heritage of past administrations or administrators and their acquisition may have been politically motivated or made for other unsound rea- sons. Accordingly, charging the current administration with a share of these costs would not be deemed fair to the current administration and might be misleading.

In Ethiopia, some of the international charities, audit report shows on the qualification point states that “the acquisition of fixed assets is recorded directly as an expense contrary to general accounting principles”, (NGO Audit Report, 2015).

2.4 Depreciation

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life, (IPSASB, 2014). Therefore, from this definition the non-current asset expenses are allocated based on the useful life of the assets.

On the other hand depreciation is a measure of wearing out, consumption or other loss of value of a depreciable asset arising from use, effluxion of time or obsolescence through technology and market changes. Depreciation is allocated so as to change a fair proportion of the depreciable amount in each accounting period during the expected useful life of the asset. Depreciation includes amortization of asset whose useful life is predetermined, (Chartered Accountants of India).

Depreciation /amortization expense is informative about company's depreciation policy and depreciation/amortization methods have significant influence over investment decisions taken by company's management and shareholders like asset replacement or even various capital investment decisions. Usually selection of particular depreciation method is based on the company's financial policy and available amount of financial resources to be invested. Depreciation policies allow to modulate company's self-financing flows among years. The linear depreciation method is the one used most often by companies, (Ilincuta 2013).

The depreciable amount of an asset shall be allocated on a systematic basis over its useful life. The residual value and the useful life of an asset shall be reviewed at least at each annual reporting date and, if expectations differ from previous estimates. The depreciable amount of an asset is determined after deducting its residual value. In practice, the residual value of an asset is often insignificant, and therefore immaterial in the calculation of the depreciable amount, (IPSASB, 2014).

However, on other study, the straight-line method is not reflecting real usage of the definite long-term asset as it could be with units'production method. Especially crucial it is due to nowadays global economic situation. Before company's management selects the most appropriate depreciation/ amortization method it is necessary to take into account following criteria; industry /company operates, type of long-lived nonfinancial assets, economic situation of the company, situation/ legislation, etc. in the country it operates in, global economic situation, company's investment strategies, possibilities, useful life of the asset, asset's depreciable/ amortizable amount, (Ieva k. 2015)

Therefore, today long-lived non-financial assets management plays really significant role as in company's accounting process as in company's management and stakeholders' or even potential investors decision-making processes concerning investing, financing, controlling and other activities, (Ieva K. 2015).

According to Chartered Accountants of India, the prime objective for providing depreciation are:

- ✓ Correct income measurement: Depreciation should be charged for proper estimation of periodic profit or loss.
- ✓ True position statement: Value of the fixed assets should be adjusted for depreciation charged in order to depict the actual financial position.
- ✓ Fund for replacement: Generation of adequate funds in the hands of the business for replacement of the asset at the end of its useful life.
- ✓ Ascertainment of true cost of production: For ascertaining the cost of the production, it is necessary to charge depreciation as an item of cost of production, (Chartered Accountants of India)

2.4.1 Depreciation Methods

The depreciation/ amortization expenses should be recognized in the company's income statement which very often can be also a very large item. There are various methods of depreciation/ amortization calculation. In situation when different depreciation/ amortization methods for the same long-lived non-financial assets are applied also the result per financial period can differ quite substantially, (Ieva K. 2015).

According to Ilincuta (2013), depreciation method has been selected based on the company's financial policy and available amount of financial resources to be invested by. And he concludes the following:

- There is no the best method thatcould be applied in all companies, because:
- There is no such a one basic or the most suitable depreciation method tobe applied in all companies; the method effective for one company couldbe ineffective for the other one;
- There are plenty of factors influencing the effectiveness of method selected by the particular company, amount of long-lived non-financial assetdepreciation/ amortization expense to other expenses and income, proportionof the total amount of assets to be depreciated to total assets reflectedin company's balance sheet;
- Units in which the useful life of asset to be depreciated has been expressed;
- The principal by use of which the useful life of assets should be dividedinto accounting periods;
- Length of time period the asset will be used in company's business;
- Scrap value of assets, (Ilincuta 2013).

According to Ieva (2015), in Latvian companies most of companies apply the straight-line method (96%), only 4% of companies apply diminishing balance method, and there are no any company applying units' production method.

Depreciation/ amortization expenses are non-cash expenses without direct impact on the company's cash balance, but with the indirect impact on the income tax calculated from the net income. Therefore, the choice of the most appropriate depreciation/ amortization method for each company is very important process. The research results showed that the most common reason selecting the most appropriate depreciation/ amortization method of long-lived non-financial assets is useful life of long-lived non-financial assets – 51%. But such important reason as planned economic benefit from assets used has indicated only by 18% from all respondents. Also 18% was indicating as the key reason company's established practice over time, but 13% – category and depreciation rates of fixed assets for tax purposes, (Ieva, 2015).

A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method, and the units of production method. Straight-line depreciation results in a constant charge over the useful life if the asset's residual value does not change. The diminishing balance method results in a decreasing charge over the useful life. The units of production method results in a charge based on the expected useor output. The entity selects the method that most closely reflects the expectedpattern of consumption of the future economic benefits or service potential embodied in the asset. That method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits or service potential, (IPSAB 2014).

According to John B. (2005), a research conducted in Canada, the detail of each depreciation method is studied as follows:

1) **Straight Line Method:**Under this method, an equal amount is provided each year for depreciation ofeach asset until the asset has been written down to nil or its scrap value at the end ofthe estimated life of the asset. This methodis also called 'Fixed Installment Method' because a uniform amount of depreciation ischarge each year.
2) **Diminishing Balance Method:**In this method, depreciation is charged at a fixed percentage each year to the net asset balance (i.e. cost less accumulated depreciation). The depreciation charges is higher at the early stages than the later stages i.e. the amount of depreciation decreases gradually although the depreciation rate is fixed. This method is also known as 'Declining Balance Method', 'Written Down Value Method".
3) **Sum of the Years Digits Method:** This is another accelerated depreciation method which was introduced by theUS Internal Revenue Code of 1954. Under this method the cost less salvage value ischarged to different years in the ratio of capital blocked in the asset in the yearconcerned to the total blockage over its life. This method assumes that depreciation ofthe first year should be the highest as no portion of the capital has been recovered tillthen and the depreciation of the last year should be the least of all years because amajor portion of the invested capital has been already recovered.
4) **Double Declining Balance Method:**This methodmay be identified as a combination of straight line and diminishing balance method.Like diminishing balance method

here the depreciation is charged on the openingwritten down value of the fixed asset. Like straight line method a fixed rate ofdepreciation is charged in this method. But the rate used is twice the straight line rate.Depreciation charge for thelast year may be adjusted to make salvage value equal to its anticipated salvage value.

5) **Sinking Fund Method:**Under this method, depreciation is a provision by charging out of revenue forreplacement of an asset and a means of maintaining capital. This method is based onthe assumption that a fund is to be built up and that the amount of this fund shouldequal the total amount of the depreciation at the end of the useful life of thedepreciable asset.
6) **Annuity Method:**The principle underlying this method is that in calculating depreciation regardshould be held, not only to the cost of an asset but also to the interest, which thecapital blocked in that asset would have earned had it been invested outside thebusiness. So under this method, a fixed installment of depreciation is charged againstrevenue for each year of the life of the asset in such a way that at a given rate ofinterest the present value of the sum of all those installments equals to the cost of theasset.
7) **Insurance Method:**This method is similar to the sinking fund method except that instead ofinvesting the money in securities an insurance policy^^ is taken to produce the amountrequired at the end of asset's life. Here a fixed amount is charged each year to theProfit and Loss Account, but unlike the sinking fund method, the amount is paid to theinsurance company as premium at the beginning of each year.

2.4.2 Fixed Asset Useful Life

The useful life of an asset is an estimate and represents the number of years the asset is expected to be in service. The depreciation base is allocated over the useful life, (FAS Manual, 2013).

The useful life of an asset is the period of time during which the firm expects to use the asset for earning revenue. It is not an easy task to estimate an accurate life of the asset. The useful service life of an asset may come to an end whether as a result of physical causes or as a result of changing economic significance or both. John (2005) observed that “the life of the asset is the shorter of the life determined by (a) physical wear and tear, taking the maintenance policy of the firm into account, (b) obsolescence, and (c) where a machine has been installed to exploit a wasting asset, the period of exploitation or in the case of a machine with a specialized function the period determined by the effective and sufficient demand for its products.” The physical, engineering life of the asset can be determined with a fair degree ofaccuracy, but technological obsolescence and demand for a product cannot bedetermined easily. So, instead of exact working life only the probable useful periodmay be assumed through rational approach like, past experience, quality of asset, expert’s opinion, consulting asset’s manual, statistical tools for forecasting etc., (John B. 2005).

On the empirical study conducted in Latvian companies listed in Baltic stock exchange (Ieva 2015), the key determinants are described as follows in a tabular format:

Table 2.1: Useful life determinants in Latvian Companies

Criterion	Tangible Assets (%)	Intangible Assets (%)
Planned economic benefits of the asset to be used	0%	52%
Technological properties of the asset	34%	0%
Physical deterioration	32%	0%
Conditions of purchase contract	0%	21%
Obsolescence	17%	0%
Situations in the market	0%	14%
Technological progress	13%	0%
Others	4%	14%

Source: Useful life determinants in Baltic stock exchange, Ieva, 2015

The General conclusion by Ieva’s based on the above table information relating key determinants defining the expected useful life of long-lived non-financial assets are different for tangible assets; e.g. technological properties of these asset, physical deterioration, obsolesce, etc. and intangible ones; e.g. planned economic benefits of asset, conditions of purchase contract and even situation in the market, (Ieva K. 2015).

According to Marilena (2013), in some countries like France, the accounting rules indicate that for the same type of property, plant and equipment, this lifespan can differ from one company to another, according to the use of the machines. Lifespan can also depend on the renewal policy of the fixed assets for instance, a company can decide to renew a car park every five or three years; in the first case, it is amortized in five years and in the second in three years, taking into account the residual value.

According to the new accounting regulations in Europe, the cost of the immobilization to be amortized is made per components. For the example presented above, an amount of the building's structure is determinedand will be amortized in thirty years and another amount is set for the heating and air conditioningsystems which will be amortized within a shorter period, like ten years. The breakdown applies with certain restrictions as regards the amount of the components and their lifespan, (Marilena, 2013).

According to Ethiopian income tax law (proclamation 979/2016) Article 25; in determining the taxable income of a taxpayer for a tax year, the taxpayer shall be allowed a deduction for the amount by which the depreciable assets and business intangibles of the taxpayer declined in value during the year through use in deriving business income. The Council of Ministers are issued detail directives to administer this proclamation to determining the useful life of the asset which depreciate them as deductive taxable expenditures are as follows:

1. Building: useful life 20 years, straight line basis,
2. Computer items: useful life 4 years, declining method
3. Other business assets (Motor, Machineries, …): useful life 5 years, declining method. (Misrak, 2011)

2.5 Impairment Loss Treatment

After recognition as an asset, an item of property, plant, and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation, less anysubsequent accumulated depreciation, and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date, (IPSASB, 2014).

The asset impairment test refers to according to external and internal information of enterprises, financial and accounting personnel in the enterprise judge whether the enterprises have indication of assetimpairment. If there are real evidence showing that asset impairment happens actually, it needs enterprises to reasonably estimate the recoverable amount of this asset, (Lai J. 2013).

Company's management and shareholders or even financial analysts should regularly evaluate the potential risk of obsolescence of long-lived non-financial assets belonging to the particular company. This information will help to identify situations when company's management tries to manipulate with the net income per particular period by increasing/decreasing depreciation /amortization expenses. This could be done in various ways – changing depreciation method, increasing /decreasing period of an asset's useful life, deciding to capitalize or not the elements of the acquisition cost. Also, it could be the situation, that the management identify situation, when depreciation/ amortization method should be changed, (Ieva K. 2015).

With regard to asset impairment accounting, after we confirm that the asset impairment is necessary to be done, the next thing to do is to measure loss of asset impairment, which depends on measurement of value of the depreciated assets. According to Lai (2013) the selection and application of evaluation methods depends on different value kinds.

1. The net amount, the fair value of asset minus the selling cost: This estimation of fair value should be considered to adopt market method, if there is no relevant active market or lack of relevant market information, income method can be used for evaluation.
2. Current value of assets of expected future cash flow: This is determined by gains method, and the amount of expected future cash flow discounted at correct discount rate will be evaluation value. (Lai J. 2013).

Evidence judgment on impairment of fix assets. The enterprise should check its fixed assets at the end of fiscal year, if the evidence of fixed assets impairment is found, the enterprise should make impairment test. The internal and external factors to judge evidence of fixed assets impairment include sharp decreasing of market price of assets, changing of economic, technological and law environment and market situation and interest rate of market, damage of , idleness of or pre-disposition of old entity and economic performance of asset are not as expected. When its asset has impairment evidence, the enterprise should make impairment test to determine the recoverable amount. The recoverable amount is determined by which is higher between the net amount, fair value misusing its selling cost and current value of expected future cash flow, (Lai J. 2013).

2.6 Disposal of Fixed Assets

Asset disposal is mostly known as the act of selling an asset usually a long term asset that has been depreciated over its useful life like production plant and vehicles. Disposal may be considered as the third life of any item acquired by a procuring entity; first it is procured and accepted- the procurement cycle; second it is utilized by the procuring entity in the discharge of its duties-the life cycle; third it has to be disposed- the disposal cycle. Disposal of unwanted assets is a critical element of stores and equipment management in any organization. When, for example, equipment is obsolete, continuing to keep it through maintenance, storage, parking, insurance, etc. may well exceed the returns that can be derived from the use of that equipment, (Susan A.M. 2014).

An item of property, plant and equipment should be eliminated from the statement of financial position on disposal or when the asset is permanently withdrawn from use and no future economic benefits or service potential is expected from its disposal. Gains or losses arising from the retirement or disposal of an item of property, plant and equipment should be determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset. For the purposes of display in the financial statements, the gain or loss should be included in the statement of financial performance as an item of revenue or expense, as appropriate, *(IPSASB 2014).*

The research conducted in Kenya, considered under procurement planning for disposal were the presence of a disposal plan and disposal committees in the departments; the length of the process of procurement planning; the effects of procurement planning on the rate of disposal; unique management commitments towards effective disposal; department dependence on higher authority to endorse disposal activities; presences of assets requiring disposal and times elapsed after recommendation to dispose; and overall departmental disposal of assets rating. The study sought to find out the number of the departments that had annual disposal plans as is required by the Public Procurement and Disposal Act and it was revealed that out of the 28 departments, 19 of them, that is, 67.9% did not have disposal plans. Further the researcher sought to find out the number of departments that had disposal committees and it was found that only 14.3% had these committees. These results revealed that departments were lacking in procurement planning for disposal. The study also sought to find out if the process of procurement planning for disposal was long or short as perceived by the 18 procurement personnel respondents, (Susan A.M. 2014).

2.7 Research Gap

After observing such relevant studies, it can be concluded that many researchers examined and studied different aspects of fixed asset accounting treatment for commercial and public /NGO sectors. However, there are some considerable contradiction treatments of fixed asset transactions among the practice of some organizations and accounting standards. Many researchers have studied their work in the commercial sectors. This study emphasizes on the international charities /NGOs operating in Ethiopia.

Accounting standards and most of the previous works agree fixed assets must and should be capitalized at acquisition and depreciated based on the useful life of the asset. However, in some of the studies and audit reports of some organizations fixed assets were expensed at acquisition. Therefore, the practices of those international charities /NGOs need to be studied in detail.

In addition to that, as per the knowledge of the researcher, the relationship of fixed asset capitalization with NGOs' years of operation in Ethiopia and worries of exchange rate volatility for depreciation expenses are not studied.

The next chapter will focus the research methodology

Chapter Three

Research Design and Methodology

This chapter outlines the methodology that describes the research design as well as the methods that were used to sample the population and the target population to bringing out the sample size. The chapter further looked at methods of data collection, research instruments, their validity and reliability, operational definition of variables and methods of data analysis.

3.1 Research Designed

An important part of the research activity was to develop an effective design which shows the logical link between the data collected, the analysis and conclusions to be drawn. This design used to satisfy the most suitable methods of investigation, the nature of the research instruments, the sampling plan and the types of data, (John, 2009).

Research designed refers to the way a study was planned and conducted. It entails choosing the subjects who participate in the study. The techniques and approaches for collecting data for the subject and procedures (Kumssa, 2011). The main objective of a research design is to enhance the validity, the degree to which the results obtained from the analysis of the data actually represent the phenomenon under study, (Mugenda & Mugenda, 2003).

While carrying out the study, the researcher adopted a descriptive research design in order to explore the accounting practice of fixed assets on international charities /NGOs. This design investigates the current practice and nature of the phenomena. Orodha (2003) defines descriptive as a method of collecting information be interviewing or administering a questionnaire to a sample of individuals. Descriptive research, describes data and characteristics about the population or phenomenon designed studied. According to Coopers and Schindler (2004), descriptive studies were more formalized and typically structured with clearly stated hypothesis or investigative questions.

3.2 Research Approach

The researcher would use a qualitative data which were collected through questioner. The primary data were used to accomplish the study, and to collect the data from the respondents included in the sample questionnaires were distributed. The questionaries' were distributed to the finance managers and/or accountants of those selected international charities /NGOs. The questioner deals about the fixed accounting treatments of different practices.

3.3 Target Population

The target population refers to the group of people or study subjects who are similar in one or more ways and which forms the subject of the study in a particular survey (Orodha, 2003). As of September 23, 2014 there were 3,031(three thousand thirty one) charities and societies. They are categorized in to foreign charities (354), Ethiopian societies, Ethiopian resident societies, Ethiopian resident charities, Ethiopian charities, Consortiums, and adoption foreign charities. These organizations are spread all over the country and are vary from small to international ones. They range from organizations run by small teams of volunteers to mega organizations with hundreds of fully paid staff of diverse professions and sophisticated systems and processes. These organizations are diverse in respect of their activities such as welfare, environmental protection, human rights, development, relief, education, health, empowerment and son, (Mulugeta, 2015). Of all these NGOs, the subject population is foreign charities which operate in Ethiopia.

The target population of the study was accountants and finance managers working in those international charities /NGOs operated in Ethiopia. As per the source of FDRE, Charities and Societies Agency the number of foreign charities operated in Ethiopia as of April 30, 2017 is 382 and they were expected that every organization had a one finance manager and two accountants in average (CSA, May 2017).

3.4 Sample Size and Selection

This study has employed convenience sampling technique to select samples of the study under consideration. Convenience sampling as one of sampling techniques (non-probability sampling techniques) is used by researchers regardless of its limitations. Non-probability sampling is sampling in which participants are chosen based on the researcher's judgment regarding the characteristics of the target population and the needs of the survey. In non-probability sampling, some members of the eligible target population have a chance of being chosen and others do not. Owing to chance, the survey's findings may not be applicable to the target group at all (Fink, 2003, pp. 9-10). The selection of sampling units in non-probability sampling is quite arbitrary, as researchers rely heavily on personal judgment.

This technique is employed due to the accessibility and proximity of the subjects to the researcher. All organizations were not possible to access due to unwillingness to share more sensitive information by the selected organizations to participate in the research.

Under certain circumstances this strategy is an excellent means of obtaining preliminary information about some research question quickly and inexpensively (Berg, 2001). One of the criterions pointed out to employ convenience sampling is if the population is homogeneous (Helle&Ulhøi, 2007). In this regard, the population of this study is homogeneous for the entire subject considered is foreign charities in Ethiopia.

Njoki, used Convenience sampling to draw a sample of 20 NGOs from a cumulative definite population size of 6,075 for a thesis submitted to University of Nairobi titled "*the effect of the budgeting process on budget variance in non-governmental organizations in Kenya",* (Njoki, 2012).

Similarly, AreshaMaree Martinez-Cardoso employed a convenience sampling technique for a study of *"Assessing the Effects of Gender and Education on the Influence of Menu Labels among Latino Consumers"* thesis submitted to University of California, Los Angeles (Martinez-Cardoso A. M., 2013).

In addition, MulugetaShume has used convenience method of sampling for a thesis under a title of “role of budget in foreign charities /NGOs in Ethiopia” submitted to Addis Ababa University, (Mulugeta, 2015).

In this regard, care needs to be drawn as the sample selection means is convenience sampling, one of the nonprobability sampling, suffers the limitation of this category of sampling techniques such as biasness. Therefore, it may not perfectly represent the population. However, the researcher found convenience sampling technique most appropriate for this study as the population under consideration is homogeneous.

The researcher has selected about 22 foreign charities which has head offices in Addis Ababa. The researcher, used to collect data from finance managers and accountants working in an international nongovernmental organization has operated in Ethiopia. Regarding determination of the sample size, 22 INGOs were selected judgmentally which is 5.76% of the total population (382) well above similar surveys.

3.5 Data Collection Method

This research used questionnaires as a method of collecting data. The questionnaires were developed based on the literature review.

In order to collect the required information for this thesis, self-administered drop and pick up of questionnaires was used. The questionnaires which were used by this research as a main source of data collection instrument were structured questionnaires. In connection to this, the questions were open and close ended. This is due to the fact that close ended questions will provide structured responses and open ended question used to get new knowledges and practices.

The questionnaires were prepared in English language as the participants were considered professionals working in foreign charities and the medium of communication is English language in their work place. The questionnaires were divided in to two categories. The first part focuses on demographic information such as level of education, area of assignment, Job experience, accounting related experience and age of organization.

The second part focuses on specific questions regarding the accounting method of the organization, treatments of fixed assets, and the way of bill donors /funders.

The questionnaires were developed based on the Likert-scale method so that the responses can be analyzed statistically. In developing the questionnaires respondents were expected to answer the questions based on their knowledge as Agree (A), Neutral (N), Disagree (DA for most of the questions and the last research question based on Strongly Agree (SA), Agree (A), Neutral (N), Disagree (DA) and Strongly Disagree (SDA). A response of strongly agree takes 5 points, Agree takes 4 points, Neutral takes 3 points, disagree takes 2 points and strongly disagree takes 1 point. In addition, before the questionnaires were distributed the questionnaires were distributed for eight non participant respondents which have financial exposures as to whether the questionnaires were ambiguous or not. Based on the suggestions received they were adjusted.

3.6 Procedures of Data Collection

First the researcher collected an introductory letter from SMU, school of graduate to the request support from international NGOs those are willing to participate in the study. This assisted to increase the willingness and participation of the staffs for data collection. The researcher hired and oriented part time field workers to deliver and collect the questionnaires. The orientation was carried out in two sessions; the researcher tested the questionnaires with a sample group of small organizations. Secondly after the pilot test the questionnaires were corrected and refined for the final data collection stage.

To accomplish this effectively the researcher was critically supervised the pilot testing, delivery and collection process; this ensured the quality of data obtained. Being a cross sectional survey, the data were collected at just a point in time. Secondary sources of data supported the primary data. Thus audit report, manuals and financial reports of some organizations were looked during the research process.

3.7 Measurements of Reliability and Validity

Cronbach's Alpha coefficient is typically equated with internal consistency De Vellis (1991). The cronbach's Alpha is interpreted as a coefficient Alpha and its value ranges from 0 to 1.

Sekaran (2000) explained that when calculating Cronbach's reliability coefficient, reliabilities less than 0.6 are considered poor, reliability within 0.7 ranges are considered acceptable and those coefficients over 0.8 are considered good.

Based on this criterion, Cronbach's Alpha reliability coefficient was calculated to estimate the reliability of the data collection instrument and results are given Table 3.1 below. The average the result in table 3.1 indicate average Cronbach's Alpha reliability coefficient for each type of question, which were reasonably good Alphas. Therefore, for this research, the data collection instrument was a reliable measure of the accounting treatment of fixed assets by international charities /NGOs.

Table 3.1: Cronbach's Alpha reliability coefficients for detail variables for each stage of fixed asset accounting treatments

Variables	Number of Items	Cronbach's Alpha	Status
Accounting treatment at acquisition	7	0.702	Acceptable
Depreciation and ongoing treatments	8	0.923	Good
Asset Valuation & Disposal	4	0.759	Acceptable
Fixed asset physical control	8	0.694	Acceptable
CSA roles and regulation on fixed asset	3	0.730	Acceptable

Source: Calculated from the researcher survey, SPSS

3.8 Data Analysis Method

Before processing the responses, the completed questionnaires were edited for completeness and Consistency. The data was processed and grouped into categories.

The purpose of analysis is to build up a sort of empirical model where relationships are carefully brought out so that some meaningful can be drawn, (Zikmund, 2003). It was necessary to employ statistical techniques to analyze the information, as this study was qualitative in nature; the following statistical techniques were used to analyze the gathered data.

3.8.1 Descriptive Statistics

To provide descriptive information for the profile of respondents background information, frequencies were used. Moreover, research question one to five were addressed by employing descriptive statistics. According to Andy Field (2006), frequencies refer to the number of times various subcategories of ascertain phenomenon occurs, from which the percentage, mean and standard deviations of their occurrence can be obtained.

3.9 Ethical Considerations

Ethical considerations of confidentiality and privacy were addressed. A concerted and conscious effort was made at all times to uphold this promise. A guarantee was given to the respondents that their and organizations names were not revealed in the research report. And they are assured on the questionnaire paper that the information provided will be accessible only to the undersigned researcher only.

3.10 Operationalization and Definition of Terms

In this proposal these are the meanings of the most relevant terms which are frequently used in this research.

- **Accounting treatment**: is the method of recording, measuring and reporting of assets that is used for the long run and the method of depreciation and continues to be used in international NGOswill be reported on the balance sheet at its cost along with its accumulated depreciation. And also it includes the treatment of depreciation expense recorded and reported to donors and its effect on the donors' bill.

- **Method of accounting:**is a set of rules to determine when and how income and expenses are recorded. The two most common methods are accrual method, modified method and cash method.
- **Fixed Asset:**is an asset that is not consumed or sold during the normal course of business, such as land, buildings, equipment, machinery, vehicles, leasehold improvements, and other such items.Fixed assets enable their owner to carry on its operations.
- **Capitalization:** is the process recording of entries as a non-current assets or property, plant and equipment.
- **Depreciation /Amortization of expenses:**is the gradual conversion of the cost of a tangible capital asset or fixed asset into an operational expense (called depreciation expense) over the asset's estimated useful life.The objectives of computing depreciation are to reflect reduction in the book value of the asset due to obsolescence or wear and tear,spread a large expenditure (purchase price of the asset) proportionately over a fixed period to match revenue received from it, and reduce the taxable income by charging the amount of depreciation against the company's total income.

Chapter Four

Result and Discussion

4.1 Introduction

This particular study concentrates on fixed asset accounting treatment in international charities /NGOs in the case of twenty-two international charities /NGOs. Hence, the study followed a qualitative research design as its plan of action. A total of 22 questionnaires were distributed to the selected 22 international NGOs operating in Ethiopia according to their accessibility and willingness to participating in the study. Accordingly, the entire distributed questionnaire was collected and the researcher managed to get 100% response rate, which increased the quality as well as the generalizability of the study.

Pertinent to the methodology, descriptive statistic for analyzing the general information, accounting policies and fixed asset accounting treatment at acquisition, depreciation, valuation and disposal have analyzed in detail are looked.

The data were collected from finance directors, managers, senior accountants, senior finance officers, accountants and finance officers of selected international charities /NGOs operating in Ethiopia was first loaded into SPSS version 20, so that the required output of frequency distribution for descriptive analysis of the study were extracted.

Questionnaires addressing the fixed asset accounting treatments at acquisition, depreciation and ongoing treatments, impairment loss and disposal, physical control of fixed assets and CSA roles fixed asset managements were incorporated in the detail questions of each treatment. Summary of the treatment and number of questions under each treatment is presented under table 4.1. The questionnaire is not sensitive for gender, sex and age (demographic factors).

A copy of the questionnaire was annexed on this paper.

Table 4.1: Fixed asset accounting treatment and number of questions under each role

S.No	Categories	Number of Questions
1	Background information	7
2	Accounting policies of the organization	8
3	Accounting treatment at acquisition	7
4	Depreciation and ongoing treatment	8
5	Impairment loss and disposal of fixed assets	4
6	Physical control of fixed assets	8
7	CSA roles and regulation on fixed asset	3
Total questions		45

Source: Own summary

4.2 Result and Discussion on Background Information

4.2.1 Background information about the respondents

This section presents the survey results obtained from sample international charities /NGOs based on the distributed questionnaires and available information.

Data from 22 foreign charities' employees was collected. The target respondents were finance directors /managers, senior finance officers /senior accountants, accountants /finance officers, junior accountants /cashiers. Accounting transaction and reporting in NGOs generally is conducted by these staff. Therefore, the response was received from one experienced finance staff which is selected by the finance head of the organization.

In connection to the question raised in assessing the position held in their respective organizations, 9.1% found out to be accountants /finance officers, 27.3% were senior finance officers or senior accountants and 63.6% of the respondents were senior positions like finance managers or directors. There are no participants from junior position, (table 4.2).

Table 4.2: Background information of the respondents

Are of Assignment				
Position Held	Frequency	Percent	Valid Percent	Cumulative percent
Accountant /Fin. Officer	2	9.1	9.1	9.1
Sen. Accountant /Fin. Officer	6	27.3	27.3	36.4
Fin. Director /Manager	14	63.6	63.6	100.0
Total	22	100.0	100.0	
Level of Education				
Education Level	Frequency	Percent	Valid Percent	Cumulative percent
Bachelor	7	31.8	31.8	31.8
Masters	15	68.2	68.2	100.0
Total	22	100.0	100.0	
Job Experience in Years				
Years	Frequency	Percent	Valid Percent	Cumulative percent
4 to 8 Years	5	22.7	22.7	22.7
9 to 12 Years	7	31.8	31.8	54.5
More than 12 years	10	45.5	45.5	100.0
Total	22	100.0	100.0	

Source: Own survey, SPSS

As indicated on the above table 4.1 the level of education of the respondents out of 22 participants from 22 international foreign charities in Ethiopia, 31.8% indicated that they have bachelor degree and 68.2% of the respondents had indicated that they obtained master degree. From respondents there were no participants have less than bachelor degree and above master's degree. Some of the participants are ACCA members which they provide on the open space.

The other question raised in the questionnaires was respondents‘ job experience in years. In answering this question 22.7% had up to 8 years of Job experience. 31.8% of the respondents said they had job experience nine to twelve years. Respondents, who had replied that they possess more than 12 years of job experience were 45.5%, (table 4.2).

Therefore, the researcher is believes that all respondents have the relevant educational and years of experience to understand their financial practice in their respective organizations. In addition they would fully understand the questionnaire which required filling by them without assistance.

Table 4.3: Engaged in accounting transaction and report preparation

Years of experience on accounting transaction and reporting					
Years	No	Yes			
		Frequency	Percent	Valid Percent	Cumulative percent
3 years & less	0	1	4.5	4.5	4.5
4 to 8 Years	0	8	36.4	36.4	40.9
9 to 12 years	0	4	18.2	18.2	59.1
More than 12 years	0	9	40.9	40.9	100.0
Total	0	22	100.0	100.0	

Source: Calculated from own survey, SPSS

In terms of accounting transaction experience, all respondents have directly participated in accounting transaction on the activities like coding, recording, reviewing and reporting. Majority of them (61.1%) had 9 years and above working experience on accounting transactions.

4.2.2 Background information about selected organizations

The organizations selected for this study are international foreign charities /NGOs operating in Ethiopia. As discussed on the sampling section of the paper the selection criteria is based on a convenience sampling techniques which those willing to participate on replaying the questionnaire were participated.

As indicated the list on the following table (4.4) NGOs selected for this study are more popular.

Table 4.4 List of NGOs participating on the study

S.No.	Name of the Organization	Based in
1	GIZ	Europe
2	ABT	USA
3	Techno Service	USA
4	The Fred Hollows Foundation	Australia
5	Care Ethiopia	USA
6	AMREF	Africa
7	CDSF	Canada
8	Johns Hopkins	USA
9	PATH	USA
10	Action Aid	Africa
11	International Medical Crops	USA
12	International Health Institution	USA
13	Justice for All P.E Ethiopia	Africa
14	SOS	Europe
15	KNCV	Europe
16	RTI	USA
17	Population Service International	USA
18	Catholic Relief Service	USA
19	Partners In Health	USA
20	Hope for Africa	Africa
21	Clinton Health Access Initiative	USA
22	CAFOD	Europe

Source: Own survey

Table 4.5 Organizations' origin and years of operation in Ethiopia

Organization based in	Years of operation in Ethiopia in years				Total
	Less than & 3	4 to 8	9 to 12	More than 12	
USA & Canada	2	1	2	8	13
Europe	0	1	0	3	4
Asia & Australia	0	1	0	0	1
Africa	0	1	0	3	4
Total	2	4	2	14	22

Source: Calculated from own survey, SPSS

Finally ages of the sample organizations was assed as to the bases of each organization and how long have been each international charities /NGOs' used to operate with in Ethiopia. Accordingly, as per table 4.5 majority of the organization 59.1% were a US or Canada based and 18.2% were Europe, 4.5% Asia or Australia and 18.2% were Africa based organizations. Accordingly, 63.6% of respondents indicated the organizations operating in Ethiopia for more than 12 years where as 36.4% respondents have shown their organizations have been operating in Ethiopia for up to 12 years. From this 9.1% of the respondents confirmed the age of their organizations is up to three years. Organizations which age 4 to 8 and 9 to 12 years were 27.3% and 9.1% respectively.

4.3 Descriptive Result and Discussion

4.3.1 Accounting policies of the organizations

All organization, 100% of sample organizations has a financial manual which will guide the accounting practice and reporting standards of those organizations.

As indicated on table 4.6, majority of the organizations (81.8%) were adopted their financial manual from their parent organizations. And 13.6% of them developed by domestic consultants and the remaining 4.5% of the organization developed their financial manual by internal employees of the organizations. No organization developed their financial manual by international consultants and/or adopted from other NGOs operating in Ethiopia.

Table 4.6: Financial manual and development of it

Organization have a Financial Manual				
Adopted from	No	Yes		
		Frequency	Percent	Cumulative percent
The parent organization	0	18	81.8	81.8
Developed by domestic consultants	0	3	13.6	95.5
Developed by internal employees	0	1	4.5	100.0
Total	0	22	100.0	

Source: Calculated from own survey, SPSS

The accounting method used by those international charities /NGOs are as follows:

Figure 4.1 Method of accounting followed by NGOs

Source: From own survey, SPSS chart

As the figure indicated on 4.1, Most NGOs (72.73%) were followed a modified cash bases of accounting. Only one organization (4.5%) was followed a cash bases of accounting. And the remaining 22.73% were followed an accrual bases of accounting.

Empirical evidence

According to Mengesha (2014), a research on Addis Ababa based NGOs 25.30% were used a cash bases accounting, 51.80% were a modified bases of accounting and the remaining 25.3% were followed an accrual bases.

In general, the result of this study was also in line the empirical evidences of the aforementioned scholars. The only difference now this time is, most NGOs was shifting their method of accounting from cash bases to modified bases of accounting.

Table 4.7: Accounting standards and automation of the accounting system

Accounting standards	NGOs used a manual system	NGOs have computerized system		
		Frequency	Percent	Cumulative percent
US GAAP	0	20	90.9	90.9
IFRS /IPSAS	0	2	9.1	100.0
Total	0	22	100.0	

Source: Calculated from own survey

As indicated on the above table 4.7 all NGOs were automated their transaction recording, and reporting's. Regarding the accounting standard majority of the organizations (90.9%) were followed a US GAAP and only two organizations (9.1%) were followed IFRS/IPSAS.

Empirical evidences:

Staring from December 5, 2014, the Federal Democratic Republic of Ethiopia enacted IPSAS standard as a mandatory accounting standard for all public sectors and charities and societies /NGOs by proclamation number 847/2014.

In 2014 (Mengesha) indicates that NGOs operating in Ethiopia 93.9% followed a US GAAP and only 6.1% implement IFRS.

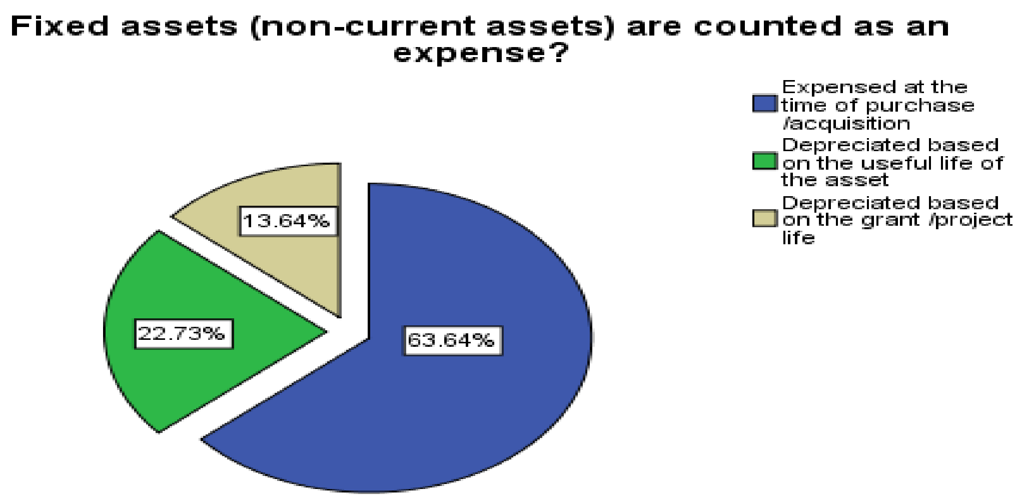
Therefore there is a slight increase on the implementation of this new guiding standard. However still this finding shows that there is a big gap by those NGOs to implement the required financial standards of the country.

4.3.2 Fixed Asset Accounting Policies

The main part of this paper deals with the fixed asset treatment in foreign charities /operating in Ethiopia considering their real practices and treatments. Various question were developed under each section of the treatment which able to address the research objective of the study.

As indicated on the charts below there are three types of treatments by those organizations to count the expense of fixed asset costs.

Figure 4.2: When fixed assets are expensed?



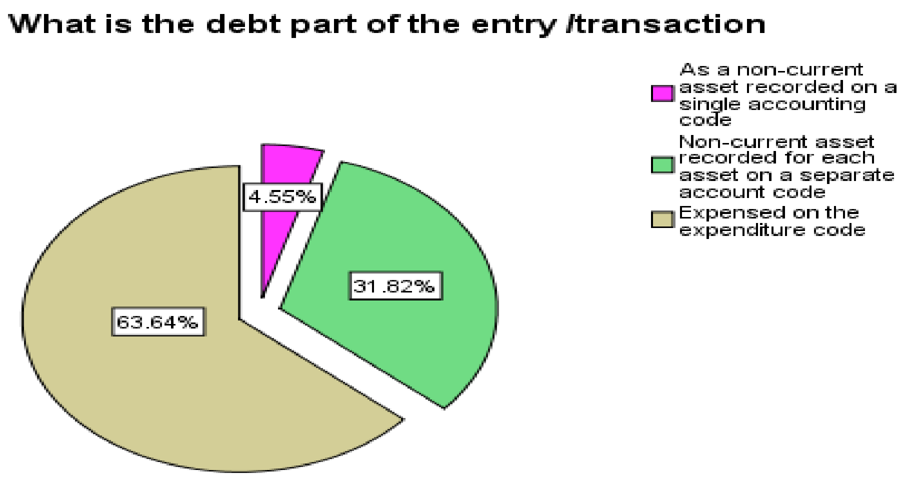
Source: Calculated from own survey

1. Expensed at the time of purchase /acquisition: If fixed assets were expensed at the time of acquisition, the depreciation, evaluation and amortization method is not expected to be used by those organizations for ongoing treatments of fixed assets. Majority (63.4%) of the organization were expensed at acquisition which is against the accounting standards and principles.
2. Depreciated based on the useful life of the asset: this treatment is in line with the accounting standards and acceptable by most jurisdictions. As per this study five from twenty-two NGOs (22.73%) were followed this system.

3. Depreciated based on the grant /project life of the fund: This treatment is used a full cost for a particular project and at the same time a single useful life were used for all type of assets. 13.64% were followed this trend.

At the beginning the following transaction would be done on the debit part of the entry.

Figure 4.3: Transaction entries at the beginning



Source: Calculated from own survey, SPSS

As indicated on the above figure, 63.64% of the organization were expensed their fixed assets cost at acquisition by debiting the expense code, 31.82% were recorded as a fixed asset based on a separate chart of account for each fixed asset based on its nature. 4.55% were recorded on a single non-current asset code.

In general, treatments at acquisition are the most relevant thing for fixed assets accounting to know what will be done next.

As indicated on the following table 4.8, fourteen NGOs from twenty two (63.6%) were expensed their fixed asset at acquisition. Therefore those organizations did not used depreciation method to amortize the cost of fixed assets. The remaining eight NGOs (36.4%) were depreciating the cost of fixed assets by using a straight line method. Therefore, all NGOs those depreciate the expense of fixed assets were used a single method of depreciation.

Table 4.8: Depreciation method

Depreciation Method	Depreciation method employed by the organization		
	Frequency	Percent	Cumulative percent
Straight line method	8	36.4	36.4
Not applicable	14	63.6	100.0
Total	22	100.0	

Source: Calculated from the own survey

4.3.3 Accounting treatment at acquisition

As it is mentioned earlier in discussion part of the paper, fixed assets accounting treatment at acquisition determine future cost allocations, valuation and utilization reporting of those fixed assets. The researcher addressed research question two by investigating or assessing the practice of fixed asset treatment at acquisition by those international foreign charities /NGOs. Hence, descriptive statistics help to summarize the results on the following table 4.9.

From table 4.9, it is clear that capitalizing fixed asset is acceptable by 36.4% of the organization and those respondents were agreed that capitalizing fixed assets at acquisition is done by respective NGOs. On capitalizing fixed asset is supported by your organization accounting policies and procedures /manuals 63.6% of the respondents were disagreed that capitalizing fixed assets is supported by accounting policies and procedures /Manuals of the organization.

As per question for preparing two reports for donor and for CSA purpose, if fixed assets are expensed at the time of purchase, majority of the respondents /organizations (54.5%) were agree to prepare two different reports for CSA and for donors' purpose. In this case if organizations are preparing two different reports at a time, the true presentation of financial reports were under question mark. In addition to do this, it is cost for those organizations by highly consuming the effort of accountants to fabricate two different reports at a time.

Table 4.9: Fixed asset accounting treatment at acquisition

Questions	Frequency		Percentage (%)	
	Disagree	Agree	Disagree	Agree
Fixed assets are capitalized by your organization at the time of purchase.	14	8	63.6	36.4
Capitalizing fixed asset is supported by your organization accounting policies and procedures /Manuals	14	8	63.6	36.4
Capitalizing fixed assets is acceptable by parent organization (head-office) and donors for specific fund	13	9	59.1	40.9
If fixed Assets are expensed at the time of purchase, your organization would prepare two different reports for donors and CSA.	10	12	45.5	54.5
When capitalizing the asset, does your organization consider the value of the asset?	14	8	63.6	36.4
If fixed assets are expensed at the time of purchase, do you believe that the balance sheet part of the statement is distorted and mislead the user?	4	18	18.2	81.8
If fixed assets are expensed at the time of purchase does your organization have a proper fixed asset registration sheet which updated immediately when the asset is purchased?	2	20	9.1	90.9

Source: Calculated from own survey, SPSS

Regarding capitalizing the asset many of the respondents (63.6%) disagree to consider the value of the item to capitalize the asset, because the share of those organizations' were expensed the fixed asset at acquisition. Were as 36.4% of the organizations were consider the value of the asset to capitalized the fixed asset those organization number is the same with the number of organization capitalizing the fixed asset at acquisition. On the empirical studies (Berhan, 2010) Ethiopian business corporations, capitalize the fixed assets without considering the value of the asset is against this finding.

Majority of the respondents (90.9%) were agreed that if fixed assets are expensed at the time of purchase those organization have a proper fixed asset registration sheet and updated immediately when the asset is purchased.

Most respondents (81.8%) were agreed that if the organization are expensed the fixed asset at the time of purchase, they believe that the balance sheet part of the statement is distorted and misrepresented. Therefore, expensed at acquisition is not acceptable by those finance staffs' that may be imposed by parent organization policies and procedures without accepting by the finance managers of the organizations.

Regarding the capitalizing fixed assets was acceptable by parent organizations /donors 59.1% of the organizations disagree on the question and the remaining 40.9% were agreed that the parent organizations were accepting the fixed asset capitalizations. This implies that at international level either fixed assets were capitalized or expensed at acquisition had no specific for NGOs' environment.

As we can see the **empirical studies in America** (AAA, 1971), in chapter two of the study, particularly in smaller governmental entities, churches, and charitable organizations, no capitalization entry is made. In this case, as we discussed on the financial manual of those NGOs, most of them adopted their financial manual from their parent organizations, (table 4.6). Therefore it's better to look the crosstabs relationship of fixed asset expense treatment verses the origin /head-office of those NGOs.

Table 4.10: Origin of NGOs Vs Fixed asset expense treatments

Cost of fixed assets are expensed at the time of:	The head-office /origin of the organization								Total number of NGOs
	US & Canada		Europe		Asia & Austr.		Africa		
	#	%	#	%	#	%	#	%	
At acquisition	10	77	2	50	0	0	2	50	14
Depreciated on useful life	0	0	2	50	1	100	2	50	5
Depreciated on grant /project life	3	23	0	0	0	0	0	0	3
Total	13	100	4	100	1	100	4	100	22

Source: Calculated from the researcher survey

It is clear that USA and Canadian based NGOs did not depreciate their fixed asset based on the useful life of the asset. Majority of USA and Canada based NGOs (77%) we expensed at acquisition and the remaining 23% were depreciated based on the grant life of the project. In Europe and Africa based NGOs half of them were expensed at acquisition and the remaining half were depreciated based on the useful life of the asset. In Asia and Australia only one NGO was considered in this study and the experience of that organization is depreciating the fixed assets expenses based on the useful life of the asset.

Table 4.11 Financial manual adoption Vs Fixed asset expense treatments

Cost of fixed assets are expensed at the time of:	Financial Manual of the organization was adopted from:						Total number of NGOs
	Parent Org.		Domestic consult.		Internal Employee		
	#	%	#	%	#	%	
At acquisition	13	72.2	1	33.3	0	0	14
Depreciated on useful life	3	16.7	1	33.3	1	100	5
Depreciated on grant /project life	2	11.1	1	33.3	0	0	3
Total	18	100	3	100	1	100	22

Source: Calculated from the researcher survey

From the table 4.11 it is clear that from those organizations adopting their financial manual from their parent companies 72.2% were expensed their fixed asset cost at acquisition, which is greater than the whole NGOs' considerations (63.6%). Therefore, those organizations adopting the financial manual from their parent companies were influenced to expense their fixed assets at acquisition.

4.3.4 Fixed Asset depreciation and ongoing treatments

The second detail question in fixed asset treatment is the transaction for depreciation and ongoing treatments. This discussion will answer the third research question of this paper. The detail results of each treatment of the respondents' response were discussed as follows.

As it is showed in the following table 4.12, the response on depreciation and ongoing treatments had big deviations among NGOs Specially, depreciation method used by organizations is the same for all fixed assets the respondents 54.5% of disagreed because most of them were not apply depreciation method. On the other hand 45.5% of the organizations agreed the depreciation method used by those organizations the same for all fixed assets.

Table 4.12: Depreciation and ongoing treatment of fixed assets

Questions	Frequency		Percentage (%)	
	Disagree	Agree	Disagree	Agree
Does your organization depreciate the asset based on the useful life of the asset?	17	5	77.3	22.7
The acceptable depreciation method for fixed assets based on your organizations financial manual is straight line method.	14	8	63.6	36.4
Straight line method of depreciation is the best method which convenience for NGOs fixed asset accounting treatment.	13	9	59.1	40.9
Depreciation method used by your organizations is the same for all fixed assets.	12	10	54.5	45.5
Each fixed asset has different useful life. Does your organization use different useful life for each asset based on its shelf life?	15	7	68.2	31.8
If the useful life of the asset is greater than the project life; the total book value of the asset is expensed at the end of the project.	11	11	50.0	50.0
Exchange rate /Translating depreciation expense to other currencies is one of the main cases for not capitalizing the fixed asset by your organization.	6	16	27.3	72.7
Does your organization is constantly used a single depreciation method for all fixed assets on the reasonable time.	14	8	63.6	36.4

Source: Calculated from the researcher survey

NGOs depreciate the asset based on the useful life of the asset; those NGOs depreciating the fixed asset based on the useful life of the asset are agreed on this question. Others (majority of the organizations 77.3%) were disagreed that either the cost were expensed at acquisition or depreciated based on the grant life of the projects, (table 4.12)

As per the above table 4.12, those organizations depreciating the fixed asset were agreed that the acceptable depreciation method for fixed assets based on their organizations' financial manual is straight line method. When we see the empirical studies:

- ✓ In Latvian companies (Ieva, 2015), most companies apply the straight line method (96%) and 4% of companies apply diminishing balance method.
- ✓ According to Misrak 2011, the Ethiopian Revenue and Customs Authority (ERCA), issue directive to use different method of depreciation for different fixed assets. Like for building straight line, for computer and other business assets used a declining method of depreciation.
- ✓ Therefore, this finding has some different from business organizations' practice in Ethiopia.

Majority of the respondents were agreed straight line method of depreciation is the best method that is convenience for NGOs fixed asset accounting treatment for those organizations applying the depreciation method. Plus most of the organizations doing depreciation were agreed that the depreciation method used by those organizations is constantly applied for all time of fixed assets that is a straight line method. This practice is against the empirical evidences discussed on that depreciation method is depend on the type of items and according to Misrak (2011) straight line method of depreciation was used for Building depreciation for other materials diminishing method of depreciation were applied, (table 4.12).

Regarding the useful life of the assets, on table 4.12, majority of the NGOs those depreciating the fixed asset were agreed that different useful life of the asset were used to depreciate the cost in accordance of its use. However, organizations using the grant life to depreciation the fixed asset were not consider the shelf life rather they simply depreciated based on the life of the project.

Empirical evidences:

- ➢ In Latvian Companies (Ieva, 2015) the most determinate factor for useful life of the physical fixed assets are technological properties and physical deteriorations of the asset. Therefore because of these factors the useful life of the asset would be different based on its natures.

- In Ethiopia business organizations, according to Misrak (2011), the useful of the building will be 20 years, for computers 4 years and for other business properties 5 years.

Therefore, the practices of those NGOs using the grant life as a depreciation life are something different from those empirical evidences and conclusions in Ethiopia allowable expenses for tax purpose.

On the above table 4.12 three NGOs those were depreciated the fixed asset cost based on the grant life of the project were agreed that if the useful life of the fixed asset is greater than the project life, the total book value of the asset will be expensed at the end of the project. The other NGOs (50%) were disagree on the useful life of the asset is greater than the project life; the total book value of the asset is expensed at the end of the project before the shelf life of the asset is end.

Regarding the effect of exchange rate for depreciation expense, if the organizations are worried about the volatility of the exchange rate in the near future, capitalizing and depreciating fixed assets based on the useful life were reduced. Therefore, those organizations expensed at acquisition and other respondents (72.7%) were agreed that the main causes for expensed at acquisition are the issue of volatility of exchange rates for depreciation expenses. Most international NGOs received their operational advance by other currencies (USD, GBP or other hard currencies) and they were expected the expense settlement to be done by those foreign currencies. This implies that the hard currency value in today's market is something different from tomorrow's market. And if operational advance will take long time for settlement the exchange rate loss amount will be higher than for short term settlements.

4.3.5 Impairment loss and disposal treatments

Asset valuation and impairment loss treatment is a new phenomenon in the accounting treatments. According to IPSAS 17, every entity should evaluate their fixed asset at least once a year or if they don't doing so disclosure should be disclosed on the notes of the financial statements. The practices of those NGOs were discussed as follows:

Table 4.13: Impairment loss and disposal treatments

Questions	Frequency		Percentage (%)	
	Disagree	Agree	Disagree	Agree
Does any impairment loss account is opened in your organization chart of account.	21	1	95.5	4.5
Does valuation of fixed assets are done by your organization at least once a year.	17	5	77.3	22.7
Fixed assets purchased by one project is used for the other project does your organization transfer the value of those fixed assets as previous project contribution.	20	2	90.9	9.1
Do you think that fixed asset disposal have reflected on the financial statement of the organization like it will credited the non-current asset part.	14	8	63.6	36.4

Source: Calculated from the researcher survey

From table 4.13, it is clear that majority of the respondents were disagreed (95.5%) the impairment loss account is opened in their organizations chart of account. Only one organization had an impairment loss chart of account which held 4.5% of NGOs in the study. If the impairment loss account were not opened this is a big indicator that NGOs were not doing impairment evaluations at least once a year.

Regarding the fixed asset valuation to be done at least once a year 77.3% of the organizations were disagree to do so. Only 22.7% of the organizations were agreed to do valuation once a year which includes physical check-up doing the count by auditors and inspectors, (table 4.13).

Generally, Asset valuation and impairment loss treatment is not starting by most NGOs; even though this treatment is one of the components of newly issued standard (IPSAS) which the FDRE enacted to every NGO should be used for their financial report preparations and reporting.

The last two questions are talking about the disposal of fixed assets. Majority of the respondents (90.9%) were disagreed that fixed assets purchased by one project were transferred to the other projects is recorded as a contribution for the newly projects. If the contribution is not full recorded the performance verses the expense of the newly projects were distorted and mislead the managers of those projects. Similarly, those organizations expensed at acquisition (63.6%) were disagreed that fixed asset disposals would reflecting on the balance sheet items of the organization like credited the non-current asset part of the transaction, (table 4.13).

Therefore, we can conclude that impairment loss and disposal treatment by those NGOs will not do as per the accounting standards (IPSAS).

4.3.6 Physical control of fixed assets

To address the fourth research question of this paper, descriptive statistics enable to obtain frequencies, mean and standard deviations of the respondents on their detail fixed treatments. Hence, the following table 4.14 summarized the results.

As indicated on the below table 4.14 majorities of the organizations had a fixed assets registration sheet. Many of the respondents (95.5%) were agreed that the registration sheet was shows the values of the asset. Only one respondent was disagreed that the registration sheet was showing the values of the asset. Therefore, most of the organizations were have a proper fixed asset registration sheet which indicates the value of the asset.

Table 4.14: Physical control of fixed assets

Questions	Frequency		Percentage (%)	
	Disagree	Agree	Disagree	Agree
Fixed asset registration sheet have been maintained which shows the value of the asset.	1	21	4.5	95.5
Fixed asset registration sheet shows estimated useful life of the asset.	9	13	40.9	59.1
Fixed asset registration sheet shows the destination of the asset.	2	20	9.1	90.9
Assets are registered on Fixed Asset Registration sheet at the time of acquisition.	3	19	13.6	86.4
Fixed asset count is done at least once a year and verified by independent personnel.	2	20	9.1	90.9
At the time of disposal fixed asset registration sheet is immediately updated without waiting the yearend count.	6	16	27.3	72.7
Does all fixed assets have a tag number identification number) which are unique to each asset?	1	21	4.5	95.5
Does the tag number is specific for each project implemented by the organization.	6	16	27.3	72.3

Source: Calculated from the researcher survey

Regarding the fixed asset registration sheet showing the estimated useful life of the asset, the result of the response where different among NGOs 59.1% of the organizations were registration sheet show the useful life of the asset. However 40.9% of the organizations fixed asset registration sheet was not showing the useful life of the asset. Therefore, on the registration sheet the useful life of the asset is not fully presented.

On assets are registered on fixed asset registration sheet at the time of acquisition, majority of the respondents 90.9% were agreed that the registration is updated at acquisition. On the other hand 84.6% of the organizations were agreed that fixed asset registration sheet is shows the destination of the asset, (table 4.14).

90.9% of the organization in table 4.14 were agreed that fixed asset count is done at least once a year and verified by independent person. Similarly 95.5% of the organization put a tag number on their fixed asset registration sheet but all of them they don't put different identification number by considering different projects.

Generally, the physical control of fixed assets was done properly by those international charities /NGOs the only gap that we understand from this study is most organizations fixed asset registrations sheet does not show the estimated useful life of the asset on the registration sheet.

4.3.7 Assessments CSA fixed asset policies

This section of the assessment would answer the fifth part of the research question which whether the policies and procedures of CSA for NGOs fixed asset management is conducive for them. On the below table 4.14 the responses of respondents are summarized as follows.

Table 4.15: Analysis on CSA rules on NGOs fixed asset treatment

Questions	Percentage of responses (%)					Mean	Median	Std. Deviation
	Str. Disagree	Disagree	Neutral	Agree	Str. Agree			
B.5.1	4.5	27.3	40.9	13.6	13.6	3.0455	3.000	1.09010
B.5.2	18.2	31.8	40.9	4.5	4.5	2.4545	2.500	1.01076
B.5.3	22.7	31.8	27.3	18.2	0	2.4091	2.000	1.05375

Source: Calculated from the researcher survey

As indicated on the above table majorities of the respondents were neutral and disagree that the rules and regulation of CSA regarding fixed asset accounting treatment is clear and realistic for NGOs practice, the question raised on B.5.1. Only 27.2% of the respondents were agreed that those CSA rules and regulations were conducive for NGOs, (table 4.15).

On question B.5.2, on table 4. 15, regarding the CSA rules match with your organization fixed asset treatment, majority of the respondents were neutral and disagreed on it. In addition majority of the respondents replayed on question B.5.3 that they were disagree on CSA directives has details on the capitalizing values, useful life of assets by those NGOS, (table 4.15).

Generally, this analysis is not enough to say that the fixed asset rules and regulations of CSA are not clear for those international charities /NGOs. Rather it is better to see the crosstab relationships with the position of the respondents to judge their response on these questions may be affected by their work experience and exposures. The table presented hereunder would help to understand those CSA rules verses the positions of the respondents.

Table 4.16: Position of the respondent Vs CSA's rules evaluations

Do you think that the directives of CSA has details on the capitalizing values and useful life of the assets which your organization as treated as fixed assets * What is your position in your organization Crosstabulation

Count

		What is your position in your organization			Total
		Accountant /Finance Officer	Senior Accountant /Senior Finance Officer	Finance Director /Manager	
Do you think that the directives of CSA has details on the capitalizing values and useful life of the assets which your organization as terated as fixed assets	Strongly Disagree	0	0	5	5
	Disagree	1	0	6	7
	Neutral	0	5	1	6
	Agree	1	1	2	4
Total		2	6	14	22

Source: Calculated from the researcher survey

From the above table 4.16 it is clear that from the higher post of those organizations, finance directors /managers 79% of them are disagreed that CSA rules regarding fixed assets have details for the valuation and useful life of the asset. Only accountants were half of them agreed on the question and senior accountants were neutral. Regarding the rules and policies the senior post holder had a great understanding than others. Therefore, we can conclude that the rules and regulations CSA is do not have details and is not clear enough for those international charities /NGOs.

Chapter Five

Summary, Conclusion and Recommendation

The purpose of this chapter is to conclude the whole thesis and highlight future research directions. Accordingly, the first part presents the summary of major findings; the second section for devoted for conclusion; Section three is provides recommendations and finally, future research directions is presented in section four.

5.1 Summary

Based on the data collected from respondents of 22 international charities /NGOs and the analysis made so far the following important summary was obtained.

- The reliability test conducted to check the dependability and consistency of the instrument showed, a Cronbach's Alpha is above 0.70, which is a reasonably acceptable.
- The study focus on twenty-two international foreign charities /NGOs and one respondent per organization was considered. The study is not sex, gender, and age sensitive. On the study 13 USA & Canada, 4 Europe, 1 Australia and 4 Africa based organizations were considered.
- A total of 45 questions on questionnaire form were prepared and distributed for 22 international NGOs and the researcher get 100% response rate.
- The occupational status of the respondents showed, 9.1% were accountants /finance officers, 27.3% were senior finance officers or senior accountants and 63.6% of the respondents were senior positions like finance managers or directors.
- The educational qualification of the respondents showed, 31.8% indicated that they have bachelor degree and 68.2% of the respondents had indicated that they obtained master degree.
- The respondents' job experience, 22.7% had up to 8 years of Job experience; 31.8% of the respondents had nine to twelve years; and more than 12 years of job experience were 45.5%.

- On this study the selected organization head office, 59.1% were a US or Canada based and 18.2% were Europe, 4.5% Asia or Australia and 18.2% were Africa based organizations.
- The organizations years of operation in Ethiopia, 63.6% of respondents replayed more than 12 years where as 36.4% respondents have shown their organizations have been operating in Ethiopia for up to 10 years. From this 9.1% of the respondents confirmed the age of their organizations is up to three years. Organizations which age 4 to 8 and 9 to 12 years were 27.3% and 9.1% respectively.
- Regarding the financial manual of those NGOs, 81.8% of organizations were adopted from their parent organizations, 13.6% of them developed by domestic consultants and the remaining 4.5% of the organization developed their financial manual by internal employees of the organizations.
- Majority of the NGOs (72.73%) were followed a modified cash based of accounting, 4.5% of organizations were followed a cash based of accounting. And the accrual based organizations were 22.73%.
- Regarding the accounting standard majority of the organizations (90.9%) were followed a US GAAP and only two organizations (9.1%) were followed IFRS/IPSAS.
- Fixed asset expenses were counted in different time by those NGOs, 63.6% of the organization expensed at acquisition, 22.7% depreciated based on the useful life of the asset, 13.65% of depreciated based on the grant /project life.
- All NGOs' used depreciation method were employed a straight line method of depreciation.
- Most NGOs those expensed fixed assets at acquisition, fixed asset capitalization is not acceptable by their parent organizations and donors and most of them are prepared two different reports for CSA and for donor purpose.
- Majority of the organizations have a proper fixed asset registration sheet and updated immediately when the assets were purchased, the registration sheet shows the values and destination of the asset, and yearend fixed asset count were done and verified independent person.
- Majority of NGOs depreciate the fixed asset based on the useful life of the asset. However, some of them depreciate based on the grant /project life of their fund.

- Regarding the asset valuation and impairment loss treatment, majority of the organizations did not fulfill this standard. Only one organization has impairment loss account.
- CSA roles for NGOs fixed asset accounting treatment is not clear and realistic for NGOs environment and majority of the respondents were agreed that the CSA roles are not detail enough.

5.2 Conclusion

The study has find out the accounting treatment of fixed assets by international foreign charities /NGOs starting from acquisition to disposal in the case of twenty-two international foreign charities /NGOs. In order to address this objective, relevant literature review was conducted considering the accounting practice of NGOs, fixed asset accounting treatments at acquisition, depreciation, revaluation, and disposals. In addition, empirical studies in this area were tried to be addressed but were hardly available.

Therefore, relevant questionnaires were developed based on the experience of the researcher, literature review and empirical studies on the accounting treatment of fixed assets. The questionnaires were distributed to selected twenty-two foreign charities expecting to receive one response from the most experience finance staff. Reliability test was also conducted to check the consistency and dependability of the instruments and accordingly the Cronbach's Alpha value obtained to help the researcher to conclude that, the instruments was proven to be reliable.

Financial manual of the organization is the guiding document which will help organizations on what and how transactions. Most of the organizations (81.8%) were adopted from their parent organizations. The practice and procedures of their parent organization is more influenced them. Majority of the organization (72.7%) were followed a modified bases of accounting and only 4.5% of the organizations were a cash based method of accounting. Regarding the accounting standards 90.9% of NGOs were followed US GAAP accounting standard. Only two organizations were followed IPSAS, the standard which introduced by the government for all NGOs and public entities to be followed. Therefore, we can conclude that the general accounting practice by those international charities /NGOs operating in Ethiopia has followed a different accounting practices from the requirement.

Majority of the organization (63.6%) were expensed their fixed asset at acquisition. Those organizations' fixed asset capitalizations were not acceptable by their parent organization and major donors. Plus capitalizing fixed asset is not allowed by their financial manual since most of them were adopted from their parent organization. Most USA and Canadian based organizations and those organization adopted their financial manual from their parent organizations were expensed their fixed cost at acquisition. The factors affecting not capitalizing fixed assets at acquisition by those international NGOs are:

- ✓ Capitalizing fixed asset is not acceptable by their parent organizations and major donors.
- ✓ Financial manuals developed from their parent organizations' were expensed at acquisition. Therefore following their parent organizations trend is the major factor for not capitalizing at acquisition.
- ✓ Exchange rate change for translating depreciation expenses to other currencies.

Most NGOs finance staff were agreed that if the organization was expensed at acquisition the financial statement of the organization will be distorted and mislead users and they believe that two different reports at one time will be prepared for CSA and donor purpose.

Regarding the depreciation method, those NGOs depreciating the cost of fixed assets in different periods were used a straight line method of depreciation. The useful life for depreciation majority of them consider the useful life of the asset but other were used a grant /project life as amortization year. Hence, grant life for allocating depreciation expense is not acceptable by the accounting standards. The other ongoing treatments of fixed assets are valuation and measuring impairment loss amounts. This treatment is required to do by IPSASs, a new guiding standard for charities and societies. Accordingly those NGOs are not in a position to do so. Therefore, this treatment is not introduced by most organizations.

Fixed asset registration sheet was properly maintained by most NGOs, the registration sheet shows the value of the asset, estimated useful life, destination of those assets, and fixed asset count is done at least once a year.

CSA roles for NGOs fixed asset accounting treatment were not clear for most NGOs and it is not detail enough for identifying the minimum capitalization amount and useful life of those assets. As a NGOs controlling organizations, it's highly expected by NGOs the detail roles would be issued by CSA about the minimum requirements for capitalization like value of fixed assets, useful life and the depreciation method would be employed by those NGOs.

5.3 Recommendations

In today's highly controlled NGOs environment, standard procedures and similar accounting practices in between NGOs are expected to be followed. So, in order for international charities /NGOs, to be followed the standards of the country and homogeneity of accounting practices, the following constructive suggestions were forwarded by the researcher armed the response obtained from finance staffs of selected international charities /NGOs.

International NGOs

- Majority of NGOs were not followed the accounting standards enacted by the country like implementing IPSAS and capitalizing fixed assets at acquisition. And most of them adopted their financial report from their parent organization. Therefore, those NGOs should consider the local requirement and Ethiopia accounting standards when they prepared their financial manuals and the existing manual should be revised in accordance to IPSAS.
- Training for finance staffs should be provided on the area of local requirement and accounting standard of Ethiopia. For NGOs non-performing those requirement is a high risk, since the activities and performance of those NGOs are closed monitored by CSA.
- If the fund utilization report is required to be prepared by other currencies, and if donors and parent organization are expecting to expense the fixed assets at acquisition, the organization would prepare two different reports for donor (non-capitalizing) and for the organization's public financial reports. Actually doing so might be expensive for NGOs to preparing two different reports at a time. However, fulfilling the requirement should be prioritized.

- ❖ For those NGOs using grant /project life for depreciation purpose, would change their policy to use the shelf life of the asset for depreciation and when the project were ended the assets' book value to be transferred for the next projects as previous project contributions.
- ❖ International charities /NGOs asset valuation and impairment loss of fixed assets would be reviewed or disclosure for not doing so would be done at least once a year in accordance to IPSAS 21, "Impairment of Non-Cash-Generating Assets".
- ❖ Those old NGOs (relatively operating for a long time in Ethiopia) would be updated their financial system based on the current developments and new enacted proclamations and standards.

For FDRE, Charities and Societies Agency

- ❖ CSA directive for NGOs financial report preparation and audit requirements (directive 8/14), regarding the fixed asset treatment were not detail enough. And NGOs have different practices for their fixed asset accounting transactions and treatments. Therefore, CSA should amend the directive to have similar practices by NGOs and the amendment should consider at least the following points:
    - ✓ As per proclamation 847/2014, for all charities and societies operating in Ethiopia, the mandatory accounting standard is International Public Sector Accounting Standards (IPSAS). Therefore the amendment should include this standard would be a governing standard for all NGOs.
    - ✓ The directive should have appropriate depreciation method that convenience for NGOs interims of simplicity and understandability of practitioners. As per the result of the finding on this paper most respondents agreed that straight line method is conducive for NGOs. But according to Misrak (2012) the ERCA has issued different depreciation method for different items (straight-line and diminishing method).
    - ✓ Minimum fixed asset capitalization amount and its nature should be identified on the directive to have similar treatments in between NGOs. If the directive has such detail specifications the ambiguity for implementers would be

reduced and will increase understandabilities and homogeneities of recordings.

- ✓ On the directive a standard useful life of the asset shall be sit for fixed assets based on its nature and purpose.

❖ After amending the directive CSA should organize a one or two day's sensitization workshop for all NGOs finance managers to cascade the directive to all stakeholders and to create familiarities on the amendment.

❖ The CSA monitoring and evaluation team shall understand the rules in detail and their follow-up would be considering those fixed asset accounting treatments.

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St. Mary's University

Post-Graduate Program

MBA in Accounting and Finance

Questionnaire on an Assessment on the Accounting Treatment of Fixed

Assets in the Case of International Charities/NGOs Operated in Ethiopia.

May 22, 2017

Dear Sir/ Madam,

This questionnaire is designed to study the accounting treatment of fixed assets in foreign charities/international NGOs in Ethiopia. The questionnaire has been sent to selected International NGO Finance Directors/Managers and Accountants/Finance Officers. The response will be used for part of the data needed for the study of **" An Assessment on the Accounting Treatment of fixed Assets in the Case of International NGOs Operating in Ethiopia"**. The result of the study is expected to contribute the understanding of International NGO practices on the Accounting treatment of fixed (non-current) assets on their financial presentations. Therefore, I believe you will assist the completion of the study by participating.

The questionnaire includes all the directions necessary to complete the response without assistance. Since the success of this study depends on the cooperation of all targeted respondents, the information that will be obtained from the questionnaire will not identify individual respondents in the study. Hence, your response will be used in aggregate. I would also like to assure you that the information you provide will be accessible only to the undersigned researcher only.

Your honest and thoughtful response is invaluable.

N.B: This questionnaire has a total of six pages including this page.

Thank you for your participation.

Best Regards,

Melku Setargew (MBA in A &F Candidate)

Part A: General Question

Section I: Background information about the target population (Please tick ☑(mark) on the appropriate box.

1. What is your position in your organization?

   Finance Director/ Manager ☐Sen. Accountant/Senior Finance Officer ☐

   Accountant/ Finance. Officer ☐Junior Accountant/ Cashier ☐

2. What is your level of education?

   Secondary school☐ Diploma/10 plus☐ Bachelor☐

   Masters☐PHD & Above☐Other ☐

3. How long is your job experience in years?

   0-3 Years ☐4-8 Years ☐9-12 Years ☐More than 12 Years☐

4. Do you participate on the accounting transactions of your organization like coding, recording, and approving?

   Yes ☐ No☐

5. If "YES", how long have you been engaged in accounting transactions in years?

   0-3 Years ☐4-8 Years ☐9-12 Years ☐More than 12 Years☐

6. The head office of your organization based in

   USA & Canada ☐Europe & Australia ☐ Asia ☐Africa ☐Other: ____________

7. How long has been your organization operating in Ethiopia (in years)?
   0-3 Years ☐4-8 Years ☐9-12 Years ☐More than 12 Years☐

Section II. Accounting Policies of the Organization

1. Does your organization have a specific financial manual

   Yes ☐No ☐

2. If "YES" the manual is

   Adopted from the parent organization (head-office) ☐

   Developed at home by International Consultants ☐

Developed at home by using Domestic Consultants ☐

Developed at home by internal employees ☐

Adopted from other Int. NGOs ☐

Other: ________________________☐

3. What is the method of accounting that your organization is followed?

   Cash based ☐   Accrual based☐

   Modified cash based☐ Modified Accrual based☐

4. What is the system your organization have been followed?

   Manual system☐ computerized ☐other: ___________

5. What is the accounting standard your organization is followed?

   Us GAAP☐ IFRS/IPSAS☐ Other: _____ ☐ I do not know☐

6. When the expense of fixed assets (non-current assets) is counted as an expense?

   Expensed at the time of purchase/Acquisition ☐

   Depreciated based on its useful life ☐

   Depreciated based on the grant/project life ☐

   I do not know the policy ☐

7. If your organization depreciate expenses, what is the method of depreciation is used?

   Straight line method ☐ Sum of Years method ☐ Diminishing balance method☐

Unit of production method ☐ I do not know the method☐

8. If your organization capitalized the item, what is the debt part of the entry/transaction?

   As anon-current asset recorded on a single accounting code ☐

   Non-current asset recorded for each asset on a separate account code☐

   Expensed on the expenditure code☐

Part B, Fixed Asset Accounting Treatment.

Kindly put a tick (☑) on space provided according to your opinion

	Agree 4	Disagree 2
<u>Section I, Accounting Treatment of Fixed Assets at the Time of Purchase</u>		
1.1 Fixed assets are capitalized by your organization at the time of purchase.		
1.2 Capitalizing fixed asset is supported by your organization accounting policies and procedures /Manuals		
1.3 Capitalizing fixed assets is acceptable by parent organization(head-office)and donors for specific fund		
1.4 If fixed Assets are expensed at the time of purchase, your organization would prepare two different reports for donors and CSA.		
1.5 When capitalizing the asset, does your organization consider the value of the asset?		
1.6 If fixed assets are expensed at the time of purchase, do you believe that the balance sheet part of the statement is distorted and mislead the user?		
1.7 If fixed assets are expensed at the time of purchase does your organization have a proper fixed asset registration sheet which updated immediately when the asset is purchased?		
<u>Section II Depreciation and ongoing treatment of fixed assets</u>		
2.1 Does your organization depreciate the asset based on the useful life of the asset?		
2.2 The acceptable depreciation method for fixed assets based on your organizations financial manual is straight line method.		
2.3 straight line method of depreciation is the best method which convenience for NGOs fixed asset accounting treatment.		
2.4 Depreciation method used by your organizations is the same for all fixed assets.		
2.5 Each fixed asset has different useful life. Does your organization use different useful life for each asset based on its shelf life?		
2.6 Is the useful life of the asset is greater than the project life, the total book value of the asset is expensed at the end of the project.		

	Agree 4	Disagree 2
2.7 Exchange rate /Translating depreciation expense to other currencies is one of the main cases for not capitalizing the fixed asset by your organization.		
2.8 Does your organization is constantly used a single depreciation method for all fixed assets on the reasonable time.		
<u>Section III Impairment Loss treatment and disposal of fixed assets</u>		
3.1 Does any impairment loss account is opened in your organization chart of account.		
3.2 Does valuation of fixed assets are done by your organization at least once a year.		
3.3 Fixed assets purchased by one project is used for the other project does your organization transfer the value of those fixed assets as previous project contribution.		
3.4 Do you think that fixed asset disposal have reflected on the financial statement of the organization like it will credited the non-current asset part.		
<u>Section IV .Fixed Asset Management</u>		
4.1 Fixed asset registration sheet have been maintained which shows the value of the asset.		
4.2 Fixed asset registration sheet shows estimated useful life of the asset.		
4.3 Fixed asset registration sheet shows the destination of the asset.		
4.4 Assets are registered on Fixed Asset Registration sheet at the time of acquisition.		
4.5 Fixed asset count is done at least once a year and verified by independent personnel.		
4.6 At the time of disposal fixed asset registration sheet is immediately updated without waiting the yearend count.		
4.7 Does all fixed assets have a tag number identification number) which are unique to each asset?		
4.8 Does the tag number is specific for each project implemented by the organization.		

	Strongly agree 5	Agree 4	Neutral 3	Disagree 2	Strongly disagree 1
Section V. Fixed Asset Management and Policies of FDRE, Charities and Societies (CSA) Law					
5.1 Do you think that the rules and regulation of CSA regarding fixed asset accounting treatment is clear and realistic for NGOs practice.					
5.2 CSA fixed asset law match with your organization fixed asset treatment policies and procedures.					
5.3 Do you think that the directives of CSA have details on the capitalizing values and useful life of assets which your organization as treated as fixed assets?					