



**Association for Protection of Landowners'  
Rights**

**Financial Manual**

**Approved  
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# FINANCIAL ACCOUNTING MANUAL

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## INTRODUCTION

This manual is intended for the Association for the Protection of Landowners' Rights. It deals, within the limits of possibility, in detail, with all essential aspects of activity of this organization. This manual is to be used in combination with the APLR manual on administrative procedures.

### **Accounting Principles**

The manual relies on the IASC (International Accounting Standards Committee) structural basics for preparing and submitting financial reports and the international accounting standards. International accounting standard #1 "Submitting financial reports", Point 4, defines the following:

*"Non-profit enterprises, public organizations, other enterprises of the state and public sector, which will attempt to use the indicated standard, may need to add explanatory information about certain articles of financial reporting or financial reporting itself. Such enterprises can also submit additional components of financial reporting."*

Due to the above-mentioned, the principles of accounting and financial reporting, used in the manual, embody the accounting methods generally used in the world accounting practice for non-profit enterprises, which do not contradict the above-mentioned structural basics for preparing and submitting financial reports and the international accounting standards.

### **Main technologies of accounting**

The accounts plan and principle of accounting entries, given in the manual, relies on the so-called technique of accounting of funds. The indicated technique for each accounting element will be discussed in detail in respective chapters. Generally, accounting of funds implies organizing the accounting system in a manner, which will make it possible to maintain separate accounting and, consequently, independent financial reporting for every Project and, at the same time, to prepare and submit reports on the whole organization's scale.

Using the fund accounting technique has several strong advantages:

- ***Maintaining Project financial reporting*** – as a rule, each donor, at certain time intervals, requires submission of financial information, which will indicate a resume of the funds allocated only by this donor and their expenditure. Technique of funds accounting ensures maintaining of such information as not only aggregated but minute detail and its submission without additional accounting work;
- ***Integration of management accounting elements*** – funds accounting technique enables to prepare, at any moment, detailed management information according to each direction of activity;
- ***Strong internal control environment and low level of risk of preparation of financial reports*** – basic principles incorporated into the funds accounting technique ensure observing of all structural and main requirements of

international accounting standards. One of the most problematic issues of accounting for non-profit enterprises is observing the compliance of revenue and expenditures. Funds accounting technique minimizes the risk of violation of the compliance principle.

#### *General legal issues*

The APLR carries out its activities in accordance with the legislation of Georgia and its own rules. Since activities of the Association are mostly related to administering the funds received through grants, this financial accounting manual devotes appropriate attention to this sphere of activity, although it is not limited to it and also discusses the accounting and tax issues, related to economic activity.

## **CHART OF ACCOUNTS**

#### *Formation principle*

The chart of general accounts, given below, is based on the chart of accounts recommended by the Georgian Federation of Professional Accountants and Auditors. As to specific formation of separate accounts, the basis for that is the funds accounting technique, included in the Introduction. Used principles of formation of accounts and sub-accounts do not contradict the chart of accounts recommended by the Federation of Accountants and Auditors, although, proceeding from organizational specifics of the Association, it became necessary to alter the names of some basic accounts and to add certain general accounts.

Structure of the expenses is grouped according to their economic content.

#### General chart of accounts

### **Assets**

#### **1000 Current assets**

1100 Cash

1200 Bank account money

    1210 Current account

    1220 Foreign currency account

    1230 Foreign currency in non-resident bank

1300 Short-term investments

    1310 Short-term investment in bonds

    1330 Current part of Long-term investments

- 1400 Account receivable
  - 1410 Receivable from supply and services
  - 1415 Correction of doubtful debts
  - 1420 Grants receivable
  - 1430 Receivable from personnel
  - 1440 Salary advance

- 1600 Inventory of supplies
  - 1610 Fuel
  - 1640 Office supplies

- 1700 Prepaid expenses
  - 1715 Fuel
  - 1716 Communication cards
  - 1720 Prepaid rent
  - 1730 Prepaid expenses
  - 1790 Other prepaid expenses

- 1800 Accrued receivables
  - 1810 Interest receivable

- 1900 Other current assets
  - 1910 VAT receivable

**2000 Long-term assets**

- 2100 Fixed assets
  - 2140 Computer equipment
  - 2150 Office equipment
  - 2160 Communication equipment
  - 2170 Furniture and other equipment
  - 2180 Vehicles

- 2200 Depreciation of fixed assets
  - 2140 Depreciation of computer equipment
  - 2150 Depreciation of Office equipment
  - 2160 Depreciation of Communication equipment
  - 2171 Depreciation of Furniture and other equipment
  - 2180 Depreciation of Vehicles

- 2300 Long-term receivables
  - 2320 Receivable from financial lease

- 2400 Long-term investments
  - 2410 Long-term investments in bonds

- 2500 Intangible assets
  - 2510 License
  - 2590 Other intangible assets

- 2600 Amortization of intangible assets
  - 2610 Amortization of licenses
  - 2690 Amortization of other intangible assets

**Liabilities**

**3000 Short-term liabilities**

- 3100 Short-term liabilities
  - 3101 Trade payables
  - 3102 Advance payments received
  - 3103 Salaries payable to personnel
  - 3104 One-time compensation
  - 3106 Business trip payables

3107 Vehicle depreciation compensation

3300 Tax liabilities

3301 Income tax

3303 VAT payable

3305 Property tax

3309 Profit tax

3312 Social tax

3400 Accrued liabilities

3401 Deferred grant

3402 Accruals

**4000 Long-term liabilities**

4100 Long-term loan liabilities

4200 Deferred taxes

4300 Deferred income

**5000 Net assets**

5110 Unlimited own funds

5120 Profit/losses of the period

5130 Reserves

**6000 Revenue**

6110 Operational revenue

6120 Grant revenue

**7000 Expenses**

7100 Operational expenses

7101 Printing expenses

7102 Insurance expenses  
7103 Business trip  
7104 Mobile telephone expenses  
7106 Office supplies  
7107 Office security expenses  
7108 Office maintenance and utilities  
7110 Salary  
7112 Initial registration of agricultural land parcels  
7120 Salary taxes  
7125 Tax expenses  
7130 Communication expenses  
7136 Trainings and seminars  
7140 Generator expenses  
7150 Care and repairing of equipment  
7130 Internet expenses  
7160 Fuel and vehicle services  
7170 Office rent  
7113 Business trips abroad  
7114 Office supplies  
7115 Special supplies  
7116 Transport services  
7117 Office rent  
7176 Public relations expenses  
7175 Land acquisition procedures  
7180 Advertising  
7181 Initial registration expenses  
7185 Bank services



7190	Audit and financial services
7200	Amortization and depreciation
8000	Non-operational revenue and expenses
8100	Non-operational revenue
8200	Non-operational expenses
9000	Special revenues and expenses
9210	Profit tax
9220	Fixed assets sale

## CREDITOR DEBT AND RECORDING OF EXPENSES

### *Internal control system*

#### *Goals of the internal control system*

- i. Before recognition of the creditor debt, received invoices and related documents are inspected for the purpose of determining correctness of the liability;
- ii. Only proper operations (supplier invoices, credit bank statements, corrections) related to creditor debts, are timely and accurately recorded on appropriate accounts in the accounting books;
- iii. Control over recorded liabilities is carried out for the purpose of timely paying them.

### *Accounting procedures<sup>1</sup>*

#### *Accrual*

General structure of accounting entries for recognition of expenses is the following:

<b>Debit</b>	1910	VAT refundable
<b>Debit</b>	71NN	Accrued expenses
	<b>Credit</b>	3XXX Creditor debt

There are three exceptions:

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<sup>1</sup> Here and after in the text, in the accounting entries cited as examples are always implied the operations carried out within grant limits, unless otherwise indicated.

a) Purchase of reserve supplies (diesel fuel, etc.)

**Debit** 1910                      VAT refundable

**Debit** 16XX                      Fuel

**Credit** 3XXX    Creditor debt

Apart from recording of funds, proceeding from capabilities of the accounting software, quantitative recording of such reserves is necessary – maintaining an inventory registry.

b) Purchase of petrol coupons, communication cards:

**Debit** 1910                      VAT refundable

**Debit** 17XX                      Advance expenditures

**Credit** 3XXX    Creditor debt

c) Purchase of fixed assets:

1. General:

**Debit** 1910                      VAT refundable

**Debit** 2XXX                      Fixed assets

**Credit** 3XXX    Creditor debt

Similarly to reserve supplies, in accordance with capabilities of the accounting software, quantitative recording of fixed assets must be conducted.

Recognizing of supplies and advance expenses as expenses happens based on the report of spending the fuel coupons, issued by the responsible person; the expense is reflected in the accounting books under the following entry:

**Debit** 71XX                      Districted expenses

**Credit** 1610    Fuel

**Debit** 71XX                      Districted expenses

**Credit** 17XX    Advance expenses

### *Payments to supplier*

For any payment, the Association uses the voucher system.

Voucher system is a component part of the Association's internal control and accounting systems. In accordance with this system, before actual payment of the expense is

processed a voucher, which unites the documents related to this operation and is practically a sanction on monetary funds flowing out of the organization. Voucher system envisages usage of several types of vouchers.

Expense voucher is a multi-copy, serially numbered document of strictly defined format. Only based on this type of voucher does recognition of actual expenses take place. In the voucher must be indicated the following:

- Code of the Project/contract to which the expense in question belongs;
- Date of the operation;
- Type of payment;
- Amount in GEL and, in case of necessity, in relevant foreign currency;
- Exchange rate used;
- Budget category;
- Operation content, in case of necessity;

Any voucher is approved with signature of the Head of the financial department.

First copy of the voucher, to which is attached the package of approval documents (invoice, strict recording note, notice on good reception, order form, requisition application, payment order, etc.), is filed in the accounting documents' binder of the Association.

Second copy of the voucher is filed in the Accounting service company.

Voucher must not be processed if:

- a) Package of documents is incomplete; or
- b) All of the internal control procedures, cited above, have not been carried out on the documents.

Accounting entries of payment for any goods and services are the same:

- a) Payment is made through transfer:

<b>Debit</b> 3XXX	Creditor debt
<b>Credit</b> 12XX	Bank

### **Value Added Tax**

In case of return of paid VAT or it being counted as another tax, the following entry is made:

<b>Debit</b>	12XX	Bank
	<b>Credit</b>	1910 VAT refundable

or

<b>Debit</b>	3320	Income tax
	<b>Credit</b>	1910 VAT refundable

If the Association cannot manage to submit the tax statement to the tax agency within the defined time term, paid VAT is entered into expenses, in the relevant category of main expenses.

## **REVENUE**

### **REVENUE RECEIVED AS GRANT**

#### *Recognition criteria*

In order to recognize revenue received through grants in the accounting books, it is necessary to satisfy the following two conditions:

- a) The Association must have substantial guarantee that it will be able to satisfy the conditions related to the grant, and
- b) The Association will have justified guarantee that it will receive the grant.

Proceeding from structural basics of the international accounting standards, except for these two conditions, one other general condition is applied: it should be possible to reliably assess the grant (in terms of the amount).

#### *Time of recognition*

Any grant must be recognized as revenue for the period(s), during which were borne those expenses, for covering which the grant in question is intended (the principle of compliance of revenue and expenses).

If non-monetary assets are transferred to the Association as a grant, these assets and related grant (grants) are recognized at their market or nominal value.

#### *Accounting procedures*

Recognition of the grant within revenue in general takes place under the following entry:

<b>Debit</b>	1420	Grants receivable
	<b>Credit</b>	61xx Revenue received as grant

If implementation of the above-indicated grants cannot be managed in full or in part due to time division, then for the part of the grant left beyond the current accounting period:

**Debit** 1420                      Grants receivable  
**Credit** 3401      Differed grant revenue

It is clear that during the next accounting period, the remainder of postponed revenue is recognized within revenue in accordance with expenses

**Debit** 3401                      Grant postponed revenue  
**Credit** 61XX      Revenue received as grant

After reception of grant funding

**Debit** 12XX                      Bank  
**Credit** 1420      Grants receivable

Recognition/non-recognition of receivable grants depends on the specific grant agreement, it is possible that recognition of grant postponed revenue take place at the moment of money transfer and not at the moment of writing of request/invoice.

## DEBITOR DEBT

### **Internal control system**

#### *Goals of the internal control system*

In general, like for any other internal control system, goals of the internal control system over revenue and debtor debts is to ensure that only sanctioned operations are recorded timely, accurately, on relevant accounts and within relevant accounting periods. In particular, internal control procedures should ensure the following within the system of control over debtor debts:

- Sanctioning of invoices and credit bank statements, before their entering into accounting records;
- Control and repayment of creditor debt.
- Invoices and corrections
  - Based on approved sale form and notice of sending the goods, is written a serially pre-numbered invoice, which is approved with signature of the relevant responsible person;
  - Processed invoices are entered into the sales registry, which is the initial recording document;
  - Cancelled invoices should be filed separately;

- Cancellation of invoices should be followed by cancellation of the relevant notice of sending of goods;
- Cancelled invoice should be approved with signature of the relevant responsible person.
- Debtor debt
  - Official responsible person should be appointed, who will maintain the debtor debt list and reveal the debts, term of repayment of which has expired;
  - The Association should be in frequent contact with debtors for the purpose of returning debt.
  - Debit remainders should be divided according to their date, for the purpose of revealing doubtful and hopeless debts.
  - Hopeless debts should be eliminated in accordance with determined authority (after the authorization of official person).
- Sales

Persons conducting sales of goods or/and services are obliged, by the end of each day if the sales takesplace, to submit to the Financial Department below mentioned documents:

- Agreement.
- Invoice.

### *Accounting Procedures*

During processing an invoice

**Debit** 14XX supply debts  
**Credit** 61XX operational revenue

In case of money transfer, based on the bank extract:

**Debit** 12XX National currency in bank  
**Credit** 14XX Operational revenue

### *Doubtful debts*

Doubtful and hopeless debts, as a rule, do not represent a necessary element for non-profit organization accounting. However, if the Association reaches high levels of commercial activities, it will be necessary to comply with international standards of accounting in order to keep financial reports just and correct.

Records of doubtful debts are created based on past trade experience and on the date of debit remainders.

**Debit** 71XX Expenses related to doubtful debts

**Credit** 1415 Correcting doubtful debts

Hopeless debts will be considered as expense:

**Debit** 7XXX Hopeless debts

**Credit** 14XX Supply debts

If the operation is VAT taxable the following records will be added to the records mentioned above:

<b>Debit</b>	14XX	Requests from supply
<b>Credit</b>	61XX	Sales revenues
<b>Credit</b>	3303	VAT

#### *VAT Refund*

It needs to be mentioned that VAT refundable does not concern certain types of products and services, detailed and complete list of which is provided in Article 247 of Georgian Tax Code.

Including VAT, record is as follows:

<b>Debit</b>	3303	VAT
<b>Credit</b>	1910	VAT Refundable

## **CASH AND CASH REMAINDERS**

Internal Control System

#### *Purposes of cash flows control system*

Purposes of the internal control of the cashier's office may be justified as follow:

- Cash deposited in the cashier's office shall be completely, timely and accurately recorded in relevant reports and cashier's books;
- Cash residues in the cashier's office is recorded and safely protected;
- Funds given out from the cashier's office shall be used only purposely;

Internal Control

Internal Control Organization

- First, the Association for Protection of Landowners' Rights (APLR) falls under the regulation of Georgian Legislation on cashier's office maintenance. The Provision on Cashier's Office Maintenance is such regulatory document.

- Cash funds of the APLR and each separate project should be kept separately in locked boxes and fireproof safes to prevent confusion of these funds;
- The APLR management designates the cashier who is in charge of maintenance of the cashier's book, registration of cash flows, and in addition to the responsibility of complying with the procedures below, is liable for the funds in her/his control;

### ***Internal control and accounting procedures***

#### ***Cash flow in the cashier's office***

- Any cash flow in the cashier's office should be documented with the cashier's office income order, which is serially numbered.
- Cashier's office income order should be filled as follows:
  - Basis of the order should be indicated;
  - Respective documentation should be attached to the order;
  - Transaction can be completed the day the order is completed;
  - The order is completed with the ballpoint pen;
  - Making any changes or corrections to the order is disallowed;
  - The cashier signs the order immediately it is completed;
  - The organization stamp is placed in the central part of the order, crossing the detachable line. The second detachable part of the order is signed by the cashier and the accountant and given to the person depositing the cash.
- The deposited money is first recorded in the cashier's book, where the code of the respective project to which the cash belongs is indicated, as required.

#### ***Cash Outflow from the Cashier's Office***

- The cash may be given out from the cashier's officer only under the authorized voucher.
- Any cash flow out of the cashier's office should be documented with the cashier's office outflow order, which is serially numbered. It should be completed as follows:
  - Basis of the order should be indicated;
  - Respective documentation should be attached to the order;
  - Transaction can be completed the day order is completed;
  - The order is completed with the ballpoint pen;
  - Making any changes or corrections to the order is disallowed;
  - The cashier signs the order immediately it is completed;
  - The order is also signed by the person receiving the cash.
- The cash outflow is first recorded in the cashier's book, where the code of the respective project to which the cash belongs is indicated, as required.

#### ***Maintenance of the Cashier's Book***

- Cash flows in and out of the cashier's office is completely recorded in the cashier's book;



- Cashier's book is a locked accounting book that has its pages numbered and marked and should be endorsed by the administrator and the financial manager;
- Records are made in the cashier's book in two copies using the copy paper. The second copy is detached from the book and is the cashier's reporting document to the Accounting Department. The first copy stays in the cashier's book. Both copies are numbered with the same number.
- Erasing, crossing, scratching the records in the cashier's book is disallowed. To correct a mistake, one should cross the wrong record out so that the corrected records were legible. A new record must be made, checked and endorsed by the cashier and financial manager with their signatures.
- Records are made to the cashier's book immediately after the operation under each order. Before the end of the business day the cashier sums up the operations concluded during the day, calculates the residue of cash remaining in the cashier's office and after signing the cashier's book, gives the second detachable copy of the book to the accounting office together with all other cash inflow and outflow documents;
- Financial manager is responsible for correct maintenance of the cashier's book.

Accounting of cashier's office operation is based on the documents received from the cashier. The structure of the APLR's Financial Department requires that the accountant, in charge of recording cash operations, were independent from the cashier's functions.

### ***General Control***

When reported by the cashier, the account:

- Checks whether the cash outflow orders are complete;
- Sums up the cash outflow orders and compares them with the cashier's book data;
- Carries out the cash inventarization;
- Checks whether the cash inflow orders are complete;
- Sums up the cash inflow orders and compares them with the cashier's book data;
- Checks whether the data entered in the accounting software are complete and correct.

Cash should be deposited in the bank if the cash residue in the cashier's office exceeds 100 GEL. The cashier reports on monthly basis.

Conversion:

- a) Exchange rate gain as a result of conversion

<b>Debit</b> 12XX	bank (currency received as a result of conversion)
<b>Credit</b> 12XX	bank (converted currency)
<b>Credit</b> 81XX	exchange rate gain

- b) Exchange rate loss due to conversion

<b>Debit</b> 12XX	bank (currency received as a result of conversion)
<b>Debit</b> 82XX	exchange rate loss

**Credit** 12XX            bank (converted currency)

Re-evaluating foreign currency remainders

a) Exchange rate gain as a result of re-evaluation

**Debit** 12XX            bank  
**Credit** 81XX            exchange rate gain

b) Exchange rate loss due to re-evaluation

**Debit** 82XX            exchange rate loss  
**Credit** 12XX            bank

## **ADVANCE PROCEDURES**

### **Advances paid to suppliers**

If agreement processed with suppliers envisages advance payments, the following modification of procedures and accounting entries will take place:

Advance payment

While paying advances to suppliers, advance voucher is used.

**Debit** 1480            Advances paid to suppliers  
**Credit** 12XX    Bank

### **Advance reconciliation**

If supplied goods or services fail to satisfy the norms of agreement with the supplier, advance must not be settled or can be settled proportionally (e.g. when the amount of goods received is less than the amount of goods ordered, advance is settled in the same proportion as the proportion of received goods compared to ordered goods).

**Debit** 71NN            Expenses paid

Expense voucher is processed, based on which:

**Debit** 1910            VAT refundable  
**Credit** 1480            Advances paid to suppliers

Purchase, transportation and sale of fixed assets must be conducted based on the invoice.

### **Business Trips**

*Internal control system*

### *Aims of internal control*

Advance is issued via money transfer to the private account of the receiver. The aim of control system is to ensure target spending of funds. Besides, internal control system should ensure the protection of relevant legislative requirements, acting in Georgia.

### *Internal control procedures*

In terms of procedures, the following objectives are achieved in the following manner:

- Member or the head of group, going to the business trip, is filling out the requisition for business trip funds, which is approved by official responsible person.
- Based on approved requisition, is processed advance voucher.
- Within three days after returning from business trip, person or the group of persons should present a relevant report, or/and the document confirming their business trip, on its basis is will be cancelled advance voucher (processing spending voucher).
- If the end of business trip coincides with the end of the month, relevant report should be submitted immediately before the month end.
- Within the country, personnel is given a determined per diem, additional expenses are compensated based on the director's decision, if issued advance exceeds documented expenses, the loss will be compensated via administrative procedures determined by the Association.

### *Accounting procedures*

Issuing business trip funds

<b>Debit</b> 1430	receivable from personnel
<b>Credit</b> 12XX	bank

Recognizing expenses

Spending voucher will be processed upon presenting relevant confirming documentation, based on which:

<b>Debit</b> 71NN	appropriate category of the budget
<b>Credit</b> 1430	receivable from personnel

### **Advances to Personnel**

Cash is issued to the reporting person if a purchase should be done in cash.

- For the purchase not exceeding 300 GEL, the cash is transferred to the reporting person under the purchase request document and the expenditure verification document shall be submitted no later than three days or before the end of the calendar month.

- Purchase through a reporting person exceeding 300 GEL requires additional approval by the director.
- To avoid conflict of interests, reporting person shall be selected pursuant to the purchase requirements. The reporting person cannot be a Financial Department employee or the staff responsible for administration of purchased materials.
- Purchase Department is responsible for regulation of above issues.

### *Accounting Procedures*

Issuance of funds to the personnel

Debit 1430                      Receivable from personnel

    Credit              12XX Bank

Acknowledgement of expenses

After submission of respective verification documents, expenditure voucher is compiled, based on which:

debit 71NN                      Expenses category of the respective project

    Credit              1430    Receivable from personnel

Banking fees shall be reimbursed only after the organization submits relevant documentation.

## PAYMENTS FOR HIRED EMPLOYEES

### **Internal control system**

#### *Objectives of internal control system*

The aim of below provided internal control procedures is to secure the following:

- i. Salaries are calculated only for the Association members based on determined rates.
- ii. Salary calculation is precise and is relevant with the work done (for example, an hourly wage);
- iii. Salaries should be issued to relevant employees only.
- iv. Tax obligations should be recorded correctly, timely and precisely.

### **Internal control procedures**

- Salaries should be calculated only by official responsible person (persons) based on the hourly execution of authorized activities.
- Authorization of direct or concrete supervisors of the activities is necessary for issuing bonuses.
- The Association compensates to hired workers by monthly transfers. proceeding from this:
  - Payroll sheet is prepared, which contains the following details:
  - The amount of worked hours/days during a month.

- Salary rate.
- Transferred salary.
- Taxes.
- Amount to be issued.
- An official person, not related to calculating salaries, checks and approves the payroll sheet with the signature.
- After transferring appropriate funds, transferred funds should be compared with the payroll sheet.

***Accounting entries***

Transferring salaries

**Debit** 71NN gross salaries  
**Credit** 3103 salary payable

Income tax

**Debit** 3103 salary payable  
**Credit** 3301 income tax

Settling liabilities

**Debit** 3103 salary payable  
**Credit** 12XX bank

**Debit** 3301 income tax  
**Credit** 12XX bank

**Debit** 3312 social taxes  
**Credit** 12XX bank

**Social Taxes**

In accordance with Georgian Tax Code, salaries issued by the organization funded by grants are freed from taxation as well as salaries for physical persons.

**FIXED ASSETS**

**Internal Control System**

- Registry of fixed assets
  - Any change in fixed assets will be reflected in the registry.
- Registry of fixed assets indicates:
  - Date of receiving fixed assets;
  - Name and code/identification number of fixed assets;
  - Self-cost of fixed assets;

- Location of fixed assets;
  - Depreciation rate;
  - Accumulated depreciation;
  - Persons materially responsible over fixed assets;
- Maintaining registry of fixed assets is possible in digital manner, by using relevant functions of accounting software of the Association;
- Persons materially responsible over fixed assets should be appointed from the departments using these fixed assets;
- Unique code should be awarded to all fixed assets:
  - Code should be attached to all stationary fixed asset (except for buildings);
- On a regular bases, upon the decision of the management, inventorization of fixed assets should be conducted, for the purpose of re-checking compliance of their completeness and condition with their current value;
- Inventorization of fixed assets procedurally is similar to physical inventorization of inventories:
  - Written instructions will be issued;
  - Inventorization registries will be prepared;
  - Registry for inventorization registries should be maintained;
- Rates for depreciation of fixed assets, as well as its methods should be determined and approved by the management of the Association;
- Discard sales and re-evaluation of fixed assets is allowable only in case of sanctioning it by supreme managing body of the Association.

***Accounting Procedures***

Long-term assets, value of which equals or exceeds 1000 GEL and using period exceed 1 year, are considered to be fixed assets.

Depreciation:

<b>Debt</b>	72NN	Depreciation
<b>Credit</b>	22XX	Accumulated depreciation

Dispatch of Fixed assets (Discard or Sales)

In case of discard and sales of fixed assets, remainders on accounts of relevant fixed assets are cancelled as well as remainders of corresponding accumulated depreciation.

- a) In case of profit

	<b>Credit</b>	21XX	Fixed assets
<b>Debt</b>		22XX	Accumulated Depreciation
<b>Debt</b>		12XX	Bank
	<b>Credit</b>	8XXX	Profit from sales of fixed assets

b) In case of loss

Debt		7XXX	Other expenses (loss)
Debt		12XX	Bank
Credit	21XX		Fixed assets
Credit	22XX		Accumulated Depreciation

The Association uses following service terms for fixed assets:

Type of Assets	Year
Accounting Software	5
Computer Software	4
Computer equipment	3
Office Equipment	5
Communication Equipment	2
Furniture	5

### Re-evaluation of Fixed assets:

Since the Association is non-governmental, non-profit organization, requirement of international accounting standards in regard to re-evaluation of fixed assets is not an essential issue. However, in case of necessity it is allowable based on the permission of the Association's management.

Re-evaluation of certain assets is prohibited. Re-evaluation shall concern whole group of assets to be re-evaluated.

a) Increasing value

<b>Debt</b>	21XX	Fixed assets
<b>Credit</b>	51XX	Reserve for re-evaluating fixed assets

b) Diminishing value

<b>Debt</b>	51XX	Reserve for re-evaluating fixed assets
<b>Credit</b>	21XX	Fixed assets

## Attachment 1

### Registry of Fixed assets

Source project	Name	Group	Date of Purchase	Value	Depreciation Rate	Location	Materially Responsible Person
BP	Computer PII 266 MHZ	Computer Equipment	20/03/01	583.33 GEL	33.33%	Office, Room 24	Name, Last name

Besides this information registry should indicate dates of discard, sales and capital repair of the fixed assets.

Accounting software “ORIS” integrates registry for fixed assets which includes but is not limited with the information indicated above. It must be noted that during the existence of commercial segment, certain types of differences arise between international accounting standards and requirements of Georgian legislature from the point of view of depreciation rates and fixed assets. It would be expedient to place both types of information in one registry, however this is impossible through ORIS registry of fixed assets. Due to this reason it will be necessary to maintain two registries for fixed assets, out of which one will be integrated in accounting software, in order to digitally maintain one type of reporting (financial or tax).

### Grouping Fixed assets

Grouping of fixed assets in accordance with the Tax Code is given below, along with the other tax issues. Grouping assets in the registry according to international accounting standards implies their classification into main categories based on their purpose (for example: building-constructions, automobiles, office equipment, office furniture and etc.)

## ANNUAL FINANCIAL REPORTING OF THE ASSOCIATION

### *Composition of Annual Financial Reporting*

Annual Financial Reporting of the Association consists of:

1. Reporting on financial condition of the Association;
2. Reporting on revenues, expenses and changes in net assets;
3. Reporting on flow of monetary funds

Down below is provided simplified and abbreviated exemplary package of annual financial reporting of the Association:

### **The Association for the Protection of Landowners' Rights**



## Reporting on Financial Condition

By December 31, 200X

(in GEL)

**Assets** **200X-1**

**200X**

*Current Assets:*

- Money and Monetary Equivalents
- Net Receivables
- Liabilities
- Product-Material Values
- Other current assets

*Total Current Assets*

*Long-term Assets*

- Fixed assets (Net)

*Total Long-term Assets*

**TOTAL ASSETS**

**LIABILITIES AND NET ASSETS**

*Current Liabilities:*

- Liabilities to be paid
- Deferred Grant Income
- Other short-term liabilities

*Other Current Liabilities*

*Net assets:*

- Surplus of accumulated revenue (expenses)

*Total net assets:*

**TOTAL LIABILITIES AND NET ASSETS**

The Association for the Protection of Landowners' Rights

**Calculating changes in revenues, expenses and net assets**

By the end of 12 month period, completed on December 31, 200X

(Gel)

*Revenue:*

- Revenues received through grants
- Revenues received through commercial activity
- Other revenues

*Total revenue:*

*Expenses:*

- Expenses related to commercial activity
- Other expenses

Total expenses:

CHANGES IN NET ASSETS

Net assets in the beginning of the year

NET ASSETS BY THE END OF THE YEAR

The Association for the Protection of Landowners' Rights

**Reporting on the flow of monetary funds (direct method)**

By the end of 12 month period, completed on December 31, 200X

(Gel)

*Cash flows from operational activity:*

- Revenue received through grants
- Revenue received through commercial activity
- Expenses borne within the frame of grant
- Expenses related to commercial activities

*Net cash flows from operational activity*

*Cash flows from investment activity:*

- Disposal of fixed assets
- Obtaining fixed assets

*Net monetary flows from investment activities:*

*Monetary funds from financial activity:*

- Revenues received from long term loans
- Paid financial lease liabilities

*Net monetary flows from the financial activity:*

NET GROWTH (FALL) OF MONETARY FUNDS

Monetary funds in the end of the year

MONETARY FUNDS BY THE END OF THE YEAR

## *Preparing financial reports*

### **Reporting on the changes in revenues, expenses and net assets**

Reporting on the revenue, expenses and net assets can be prepared and presented in accordance with the functional and economic classification of expenses. In any case, compiling of reports comprises totaling of relevant expense subaccounts. Since existence of remainders on these subaccounts depends on specifics of the operations carried out during the reporting period, the manual does not discuss the example of their totaling, in order to avoid incorrect interpretation.

By means of the accounting entries, given below, is calculated the net result of the reporting period (profit/loss, same change in net assets) from operational and other activity.

a) Closing of expenses

<b>Debit</b>	52000		Result of the reporting period
		<b>Credit</b>	7XXX
			Expenses
		<b>Credit</b>	73XX
			Other expenses

b) Closing of revenues

<b>Debit</b>	6100	Operational revenue
<b>Debit</b>	6200	Grant revenue
<b>Debit</b>	8000	Other revenue
	<b>Credit</b>	5200
		Result of the reporting period

Finally, according to whether the financial year result is positive or negative, we will consequently have:

<b>Debit</b>	5200	Result of the reporting period
	<b>Credit</b>	5100
		Unlimited own financial means

or

<b>Debit</b>	5100	Unlimited own financial means
	<b>Credit</b>	5200
		Result of the reporting period

It is noteworthy that there arises a difference between profit for tax purposes and financial profit, entering of which is regulated by International Accounting Standard 12 – “Taxes from profit”. Due to large extent of the topic, the manual does not discuss provisions and practical interpretation of this Standard.

## **Reporting on flow of monetary funds**

In accordance with international accounting standards, reporting on the flow of monetary funds must reflect flowing of monetary funds during the reporting period, which will be grouped into operational, investment and financial activities.

### **Submission of flow of monetary funds related to operational activities**

Organization must submit flows of monetary funds related to operational activities:

- a) Through direct method, which shows complete flows of incoming and outgoing monetary funds, according to main categories; or
- b) Through indirect method<sup>2</sup>, according to which net result of the reporting period are corrected with results of non-monetary operations, while taking into account postponement or accrual of revenues or payments of the past or future period, as well as those revenues and expenses, which are related to investment or financial activity money flow.

### **Submission of flow of monetary funds related to investment and financial activities**

Organization must separately submit complete flows of incoming and outgoing monetary funds, related to investment and financial activities, according to main categories.

P.S. Regularly, once a month, database of the accounting software has to be backed up on CDs or the Association server.

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<sup>2</sup> Reporting on flow of money through indirect method is not given in the manual, since content of reporting submitted through this method is constantly changing, on a case-by-case basis.