

ABSTRACT

This research study aimed at identifying the sources of materials purchases at Palestinian industrial organizations, identifying the degree of implementation of scientific inventory policies. The researchers also aimed to identify the materials costing methods used and inventory valuation methods used in those organizations and the reason for selecting certain methods over others. Analysis and research was based on accounting literature in addition to field research made in this respect.

Three industrial segments were considered in this study: food and soft drink manufacturers, rubber manufacturers and producers of chemical products. A questionnaire was designed and distributed to a sample of 120 manufacturers randomly selected. The questionnaire included questions that are management related and also accounting related. This research tool was tested and verified.

The outcome of the research can be summarized in the following points:

- 1) Palestinian manufacturers highly depend on non local suppliers to cover their needs for raw materials used in the production process. The major source of materials as indicated by the study was the Israeli market.
- 2) A perpetual reorder system is used in those industrial organizations. A new order is issued as soon as the quantity on hand goes down to a predetermined level that is the reorder point. Orders are initiated through direct contact with the supplier.
- 3) Ordering materials is the personal responsibility of the general manager of the organization. Internal systems for the purchasing and receipt of goods are used to purchase the quantities needed and the production schedules demand.
- 4) Several payment methods are used in the purchase of materials in local Palestinian organizations. The highest priority is given to the use of post-dated checks for a period of more than one month. Followed by a one month post dated check, then cash purchases. Payment through the use of Letters of Credit and prepayment are the least used methods.
- 5) For costing purposes, the most widely used methods in the Palestinian industry were the weighted average method and the First in First out method. This study revealed that approximately 39.16% of the producers use the weighted average method while 56.50% of them use the FIFO method for

- product costing purposes. The specific identification and the LIFO methods are not used in the Palestinian industry.
- 6) Handling is either done manually or mechanically based on the type of production. Manufacturers depend on categorizing and coding of materials whenever they receive them for storage. Inventory records are kept using advanced computer technology only for keeping records of the in and out movement of materials. Control reports are not produced or analyzed, in addition to the fact that the employees of the storage departments of those organizations are the ones who perform all physical counts.
 - 7) The study revealed that 40% of the Palestinian manufacturers follow the weighted average method for inventory valuation at the end of the accounting period while 57.50% of them use the FIFO method. The specific identification and the LIFO methods are not used in the Palestinian industry although the latter has some tax advantages.
 - 8) Regarding the reasons for using one of the inventory valuation methods and not the other, 40% of the respondents believe that using the weighted average is preferable because it more fairly states inventory. Some 11.67% of the respondents used the FIFO method in order to be comparable to others in that industry. The remaining 45.83% of the manufacturers use FIFO because they believe its results are closer to the actual value of inventory.
 - 9) Palestinian manufacturers do not use the Just In Time method of ordering goods.

RECOMMENDATIONS

Based on the outcome of the study and the personal opinions of the individuals under study, the researcher recommends the following:

- 1- The need to encourage industries that depend on locally produced components. This will positively affect other industries that are willing and can provide those components.
- 2- The use of bids in the purchasing process instead of the personal contact currently in use. In addition to the need to create separate specialized purchasing departments that will be responsible to perform all purchases in an organization through the employment of highly qualified purchasing agents and employees.

- 3- I recommend that manufacturers start using scientific methods for determining the optimal quantity to order and encourage all manufacturers to use advanced computer technology to produce reports needed for control and follow-up purposes.
- 4- I recommend the creation of special committees for inventory taking purposes with the participation of the external auditors.
- 5- It is vital to any organization that auditors clarify the importance of each of the several methods used in the valuation of inventory of different categories and the effect each method has on decision making. It is also important that the organizations work on developing their accounting departments' employees and others in the organization.