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Co-operative Book-keeping      Volumes 1-4

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# *Co-operative Book-keeping*

## **1 Marketing Co-operatives**



Co-operative Education Materials Advisory Service

INTERNATIONAL CO-OPERATIVE ALLIANCE  
11 Upper Grosvenor Street, London W1X 9PA

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# Foreword

It is a common complaint that, in many primary co-operatives, the standard of book-keeping is poor. The need has long been recognised for a basic, simplified system of book-keeping, for use in primary co-operatives in developing countries, in order to help improve that situation. The system described in this manual has been specially designed to meet that need. It makes no claim to be revolutionary, nor to advocate new techniques. On the contrary, it is based on customary double-entry practice; its only claim is that it is simple and that it works, and can easily be adapted to meet particular local requirements.

The system was originally introduced in Botswana, where it has been extensively field-tested and used for many years, with considerable success. In 1970, the British Ministry of Overseas Development, in association with the Intermediate Technology Development Group (ITDG), published three manuals based on the system (one each for Consumer, Marketing, and Thrift and Credit Co-operatives), which have been widely distributed and used in several countries. The ILO International Centre for Advanced Technical and Vocational Training at Turin used these manuals for the book-keeping sections of their Co-operative Management Training Courses. The original manuals have now been substantially revised, to make them more suitable for training purposes, and reissued as CEMAS/ICA publications. A fourth manual, for Industrial Co-operatives, has been added to the original series.

The purpose of book-keeping is *three-fold*:

- 1 to maintain an accurate financial picture of the business, in such a way, that the state of its finances can be simply, clearly and accurately revealed at any time;
- 2 to make it possible for the accuracy of the accounts to be quickly checked, to avoid errors or fraud;
- 3 to serve as a management tool by providing the information required for decision-making and for planning future activities.

This system satisfies those criteria and, in doing so, takes account of the circumstances within which it has to be used, and of the essential need for the book-keeper to know *what* he is doing and *why* he is doing it. The intention is to provide a system which, while fully adequate, in terms of good book-keeping practice, does not make unnecessary demands on the user's time, ability and comprehension.

The manuals have been so designed as to serve both training and operating purposes. They may be used as *handbooks* for co-operative teachers, as *textbooks* for students attending training courses, and as *working manuals* for on-the-job guidance of secretaries and book-keepers. They will be found of most value wherever training courses, based upon them, are provided, and where, after the courses, students are encouraged to use them on return to work.

## ACKNOWLEDGEMENTS

The International Co-operative Alliance gratefully acknowledges the permission of the Ministry of Overseas Development, London, and of the Intermediate Technology Development Group, to revise and reissue these publications.

The major work of revision was undertaken by Mr D W Heffer, former adviser on co-operative accounting in Botswana and the West Indies. The manuals at draft stage were also submitted to the criticism of several other co-operative experts, and in particular, Mr A Böberg, of Sweden, formerly co-operative accountancy expert with the Nordic Co-operative Project in Kenya, and consultant to the Co-operative Department, Zambia, contributed much useful advice. We are grateful for the help of all these colleagues.

Publication of the manuals is made possible by the financial assistance and encouragement of the Swedish Co-operative Centre and the Swedish International Development Authority, which finances the CEMAS project.

## NOTE FOR TEACHERS

This manual describes a book-keeping system concerned with the maintenance of ledger accounts up to trial balance stage. In the final sections, a brief description of control systems and preparation of final accounts is given in order to complete the sequence of operations up to that stage, but these are deliberately not described in detail.

As a follow-up to the present series, CEMAS/ICA is producing a more advanced manual on Co-operative Accountancy, which extends the system to the stage of preparation of final accounts and budgets, to meet the needs of larger co-operatives.

When the manual is used for training purposes, it will normally be desirable for the teacher to prepare and use his own exercises (additional to the three in chapter 7, on page 48), and particularly so when it is necessary to adapt these to the specific requirements of local practice.

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# 1 Introduction

## 1.1 The marketing co-operative book-keeping system

The book-keeping system described in this manual has been prepared for use by agriculture marketing co-operative societies, or other primary societies conducting similar trading activities. This system uses the double-entry method of book-keeping applied to the columnar form of accounts. All the entries for the financial transactions involving the society are posted into a working ledger and all the accounts are controlled in the main ledger. The system is illustrated by practical examples of the typical transactions, forms, accounts and records with which a co-operative society of this type will be involved.

## 1.2 Objectives of marketing co-operatives

The objectives of agricultural marketing co-operatives will be stated in their by-laws. Generally, they operate for the better marketing of members' agriculture produce or livestock. They can also arrange for the supply to members of farm inputs, such as seeds, fertilizers, and implements. Sometimes they even operate small consumer trading outlets as well. Where funds are available, agriculture loans are sometimes made to members.

## 1.3 Operations of marketing co-operatives

### *Marketing*

There are two main ways of conducting the marketing operations:

- 1 The society makes an *outright purchase* of the produce from its members. The price paid to the member will be that which the committee of the society estimates the produce will fetch in the market, *less* (at least) an amount to cover the costs of running the society, including the costs of transporting the goods to the market.

When the society operates in this way, as the owner of the produce, it takes the risks of loss, or damage. If the produce is sold for less than the estimated price, the society will lose money.

This type of operation requires that there is a reasonably certain market for the produce and that the society has considerable amounts of cash available to finance the purchase of the produce.

- 2 In view of the risk of loss and the need for large sums of money involved with the outright purchase of produce, an alternative method of conducting the marketing operations is for the society to *act as an agent* for its members. When the society operates in this way, the member hands his produce to the society and is given a receipt.

Sometimes an *advance payment*, based on an agreed percentage of the expected proceeds of the sale of the produce received, is made to the member. This again depends upon funds being available.

In any case, the *main payment* can only be made to the member after the society has obtained the proceeds of the sale of the produce. The society sells the produce for the best price that can be obtained. An agreed percentage to cover at least the cost of running the society is then deducted as a commission, or levy, from the proceeds of sale and the balance belongs to the member.

### *Farm inputs and consumer goods*

These are purchased from wholesale suppliers, usually on credit terms, and sold for immediate cash to members. Where the society is able to offer loan facilities to members, sometimes loans are advanced in farm inputs rather than as cash.

### *Loans*

Some marketing co-operatives are able to advance loans to their members. This enables the members to bridge the gap between the sowing season, when they need funds to buy seeds, fertilizers and equipment, and the time when the produce has been marketed and the proceeds have been received.

Loans are generally advanced on the security of the expected crop, which the members undertake to market through their society. In this case the society deducts the amount of the loan advanced, together with any interest due, as well as the commission and any

advance, from the money it receives for the produce, and pays the balance to the member.

Loans can, of course, only be available to members when the society itself can obtain the funds for these. Where there is, for example, a co-operative bank or other development bank providing the society with these funds the society can in turn provide this service to members.

#### *General*

The business operations are financed from funds obtained from members, from funds borrowed from outsiders, and by making use of credit facilities available from wholesale suppliers. The society trades as efficiently as possible to cover at least the costs of the operations and to provide for reserves to give financial stability to their independent co-operative enterprise.

When any net surplus remains, rebates are usually made to members in the form of a limited interest on shares and as a bonus on their trade with their society. As the society builds up funds and business skills, so it will develop and expand to provide a wide range of services, farm inputs and other goods to the members. These developments stem from good co-operative business, recorded and controlled by good book-keeping systems.

### **1.4 The book-keeper's job**

This manual is about the work of the book-keeper and how this work can be used in the control of the co-operative business enterprise. The duties of the book-keeper will include:

- (a) keeping complete and accurate records of every financial transaction in which the society is involved
- (b) checking the accuracy of these records at regular intervals
- (c) preparing final accounts and a balance sheet at the end of every financial year, ready for audit and later consideration by the committee and the members
- (d) preparing reports for the manager and the committee on the

### **1.5 Importance of book-keeping**

The members are the owners of the society. They need to know how their business is doing and how their funds are being used. The members elect a committee to direct and control the affairs of their business and a manager is appointed to run the day to day operations. This committee and the manager need information on the operations of the society to be able to make decisions and to take managerial action. Members, committees and managers require that the information they get is complete, accurate and up to date. The book-keeping system in use must therefore show:

- (a) How much the society *owes*. These are its *liabilities* and indicate the source of the funds in use in the society.
- (b) How much the society *owns*. These are its *assets* and show the use being made of these funds.
- (c) Whether the society has *financial stability* and is able to pay its debts as they arise.
- (d) Whether the society is *operating efficiently*, covering its costs and providing a net surplus.

In most countries there are laws which require that co-operatives keep proper books and records. This underlines the importance of a good book-keeping system. In this manual, the system described will meet the needs of members, committees, managers and the main requirements of most co-operative laws.

The examples in this manual will be related to a society marketing the produce of members on an *agency basis*. The society also supplies farm inputs to members and has a small consumer outlet. Agricultural loans are made to members. The basic book-keeping system, using the working ledger and the main ledger, can be expanded or adapted to meet the needs of societies having several trading units or several separate trading activities. In many cases these expansions or adaptations will merely involve the opening of more columns in the working ledger and more pages in the main ledger.



# 2 Book-keeping system

## 2.1 Double-entry system

Book-keeping is concerned with correctly entering permanent written records of *financial transactions* into the books of account of the society.

A *financial transaction* arises in the course of the business when there is a transfer of money, or something having a money value.

These two sentences give a clear definition of what book-keeping is, and it is useful to have them in mind. Examples will be considered later when the working ledger is examined.

In every financial transaction there are two aspects. There is the *imparting* (giving) of the benefit transferred and there is the *receiving* of this benefit. This imparting and receiving takes place between the accounts in the books of the society. The double-entry system of book-keeping is used to record this transfer between the imparting account and the receiving account.

In this system details of the money, or money value, of the benefit transferred are recorded twice into the accounts of the society. The account which imparts or provides is credited (CR) and the account which receives is debited (DR). For every credit entry there must be a corresponding debit entry and, vice versa, for every debit entry there must be a corresponding credit entry.

When there has been corresponding postings made into the books of account they will balance. *The debits will equal the credits.* In this way the balancing of the books is similar to the balancing of a beam-scale. When the goods in one pan of the scale are the same weight as the metal weights in the other pan, the scale will balance.

## 2.2 Trial balances

The book-keeper can check that the books balance by the preparation of a trial balance. These are statements prepared after the posting of the debit and credit entries have been completed for a given period. They show the list and total of all debits and a list and total of all credits. Since all entries of any financial transactions are recorded twice, once as a debit then correspondingly as a credit, the total of all debits on the trial balance must be the same as the total of all the credits. If these totals do not agree with one another then an error has been made. The book-keeper then must check all the additions, then all the postings, for a trial balance *must* balance.

The book-keeper will be concerned with two trial balances:

### 1 Working ledger trial balance

The working ledger, shown in Example 1, contains the debit and corresponding credit entries for all the financial transactions. These entries are made as they arise into the records of original entry, then at the end of every week they are posted from these records into the working ledger. The working ledger is closed off and balanced at the end of every week after these postings have been completed. This is checked by the preparation of a *trial balance* of all the *debit and credit totals of entries* to be made from the working ledger into the main ledger. This trial balance is shown in the working ledger in Example 1.

### 2 Main ledger trial balance

The main ledger shown in Example 2 contains the balances on the various accounts of the society. After the debit and credit entries have been made from the working ledger, the new balances on these accounts in the main ledger are ascertained. Then a trial balance of all the debit and credit balances in the main ledger will be prepared to check that the main ledger balances. This trial balance is shown in Example 23, page 38.

## 2.3 Records of original entry

The essential books and records used in this book-keeping system are outlined in the sections which follow. The entries to be made in them flow from the initial entries made into the records of original entry. These entries are made immediately the financial transactions occur. They become the source of postings to the ledgers. In the marketing co-operative the following documents are used to record the original entries (see list of examples).

- (a) receipts and payment vouchers
- (b) produce receipts and proceeds forms
- (c) invoices and credit notes
- (d) cheque books, bank paying-in books, and the bank statement for bank charges
- (e) cash sales receipts

These original documents can either be specially printed, or standard forms, available from most stationers, can be purchased and adapted to the specific needs of a society. All unused original documents should be kept safely locked away and be consecutively numbered to assist in their control.

The forms and records shown as examples in this manual include entries obtained from the exercises on page 48.

In a society, details of individual transactions are always posted into the records of original entry on the date on which they occur.

## 2.4 Working ledger: Example 1

This ledger combines the functions of the traditional cash book and the journals. It is a summary ledger. Details of all the financial transactions of the society are posted from the records of original entry into the working ledger. This is kept on the double-entry system, so that for every debit entry (DR) there is a corresponding credit entry (CR).

This ledger is a columnar cash analysis book which is usually available from a local bookshop and the columns are headed by the book-keeper as required. Two separate cash ruled columns, one for debit entries, the other for credit entries, are kept for each type of account. The number and type of separate accounts kept by a society will depend upon its own particular needs and circumstances.

This book shows the typical accounts which need to be kept. To avoid this ledger containing many columns for accounts which are not used frequently, two columns headed 'Other Accounts' can be opened. Then debit, or credit entries concerning these accounts can be posted into these columns, but are posted into their separate accounts in the main ledger.

As entries are made into the working ledger from the original records, they show the *date* of the transaction, the *details* and any *reference number* from the original record. Then the appropriate debit and credit entries are made into the columns provided. All of this information is shown on the same line for each transaction. At the end of every week the working ledger is closed off and balanced. The totals of the debit and credit entries then to be posted to the main ledger are first checked by the preparation of a trial balance. See the working ledger (Example 1, page 6).

The working ledger, shown in Example 1, has been posted from the summary of the financial transactions for the whole of 1975, and all of these entries are dated as December 31 (see Exercises, page 48). When used in a society, the working ledger will have daily postings, and it will be closed off, totalled and balanced every week.

Date 1975	Detail	Ref no	1 Cash		2 Bank		3 Produce		4 Farm inputs		5 Consumer trade		6 Expenses		7 Fixed assets		-	
			DR	CR	DR	CR	DR	CR	DR	CR	DR	CR	DR	CR	DR	CR		
Dec	31																	
"	31								600		1700		100		200			
"	31					2700												
"	31												40					
"	31		2650							750		1900						
"	31									50		100						
"	31		140															
"	31			2050	2050													
"	31					20							20					
"	31					50												
"	31													12				
"	31		1000															
"	31					40												
"	31		440															
"	31												40					
"	31			80														
"	31			260									260					
"	31					100							100					
"	31			1000			1000											
"	31							7000										
"	31									200								
"	31			800														
"	31													50				
"	31					500												
"	31												40					
"	31				7000													
"	31		4620			4620												
"	31			4620			4620											
"	31						1030											
"	31													20				
			8850	8810	9050	8030	6650	7000	800	1000	1700	2000	580	102	200			
			TOTALS TO MAIN LEDGER															
			Account no															
			1	1	2	2	3	3	4	4	5	5	6	6	7			

Example 1

**LEDGER**

December 1975 Page no 52

Contribution Distribution		9 Shares		10 Deposits		11 Members' Loans		12 Creditors		13 Debtors		14 Investments		15 Society Loans		16 Surplus		17 Reserve Fund		18 Education Fund		A/c No		Trial balance		
CR	DR	DE	CR	DR	CR	DR	CR	DR	DE	CR	DR	DE	CR	DR	DE	CR	DR	DE	CR	DR	DE	CR	DR	CR	DR	
																						1	8850	8810	CE	
																						2	9050	8030	CE	
																						3	6650	7000	CE	
																						4	800	1000	CE	
																						5	1700	2000	CE	
																						6	580	102	CE	
																						7	200		CE	
																						8	-		CE	
																						9	40	1138	1138	CE
																						10	80	480	480	CE
																						11	1050	1050	CE	
																						12	2740	2800	CE	
																						13	7150	7140	CE	
																						14	62	62	CE	
																						15	500	500	CE	
																						16	238	238	CE	
																						17	200	200	CE	
																						18	80	480	480	CE
																						TOTAL	39690	39690		

## 2.5 Main ledger: Example 2

For the purpose of this manual Example 2 shows the accounts of the society together. In the main ledger of a society a separate page is kept for each account as shown in Example 2(a). This example shows the cash account, included within Example 2, as it would appear on its separate page in the main ledger of the society.

Since they are posted from the working ledger, these accounts will be kept in the same order as they are kept in the cash ruled columns of the working ledger. The pages kept for each account are numbered consecutively and contain columns for the date, the details, the reference number and then three cash ruled columns. In the first cash

CASH ACCOUNT (in main ledger)						No 1
Date 1975	Detail	Ref no	DR	CR	Balance	
Jan 1	Balances from balance sheet	b/f			DR 15 00	
" 7	Entries from working ledger	6	1000 50	950 61	DR 64 89	
" 14	" " " "	7	2002 16	2026 14	DR 40 91	
" 21	" " " "	9	860 29	860 00	DR 41 20	
" 28	" " " "	11	960 00	900 00	DR 101 20	
			und 50 on		DR 55 00	
Dec 31	Asset to balance sheet	c/f		55 00		
1976						
Jan 1	Balances from balance sheet	b/f			DR 55 00	

Example 2(a)

### Example 2

Date 1975		Detail	Ref no	DR	1 Cash CR	Balance	DR	2
Jan	1	Balances from balance sheet	b/f			DR 15		
Dec	31	Entries from working ledger	52	8850	8810	DR 55	9050	80
"	31	Stocks to end	c/f					
"	31	Goods received not invoiced	c/f					
"	31	Credits outstanding	c/f					
"	31	Other expenses prepaid	c/f					
"	31	Property expenses prepaid	c/f					
"	31	Interest accrued	c/f					
"	31	Depreciation charge and provision	c/f					
"	31	<u>Income and expenditure to trading account</u>						
"	31	Transfer net surplus from trading account						
"	31	<u>Assets and liabilities to balance sheet</u>	c/f		55	—		20
1976								
Jan	1	Balances from balance sheet	b/f			DR 55		

ruled column, debit (DR) entries are posted. In the second the credit (CR) entries are posted. The third column contains the running balance, prefixed to show whether it is DR or CR.

At the end of every four weeks the DR and CR balances in the main ledger are separately listed on a trial balance, Example 23 (page 38). This checks that the main ledger balances. Also at the end of every four weeks, after this trial balance is prepared, the monthly report to the committee in Example 26 (page 41) is prepared. At the end of the financial year the trading account for the year together with the surplus disposable account and balance sheet, Example 29 (page 46), will be prepared.

## 2.6 Members' share and deposit ledger: Example 3 (page 10)

Within this ledger a separate page is kept in share number order, for each member. These records can be kept in a loose-leaf ledger or on a card system with separate accounts for each member. The share and deposit transactions are posted to this ledger from the details of their original entries after these have been posted to the working ledger. At the end of every four weeks the individual balances for shares, then deposits, are separately add-listed. The resulting share total then has to be agreed with the CR balance for shares in the trial balance of the main ledger. The resulting balance for deposits is agreed with the CR balance for these in this trial balance. Sometimes a separate *loan ledger* will also be kept for members; this will depend on the volume of loan transactions of the society.

Example 2 continued ►

LEDGER																	
Bank		3 Produce			4 Farm inputs			5 Consumer trade			6 Expenses			7 Fixed assets			
R	Balance	DR	CR	Balance	DR	CR	Balance	DR	CR	Balance	DR	CR	Balance	DR	CR	Balance	
	DR 1020						DR 300			DR 600			CR 20			DR 3000	
	DR 2040	6650	7000	CR 350	800	1000	DR 100	1700	2000	DR 300	580	102	DR 458	200		DR 3200	
						200	CR 100			CR 450							
						50	CR 150		50	CR 400							
		7000	6650	-	1000	850	-	2000	1600	-		50	DR 408				
												50	DR 358				
											2		DR 360				
												360	-				
					200 stocks 50 credit%	250	DR 250	stocks 750	GRNI 50	DR 700	50 other 50 property	2 int	DR 98		3200	-	
	DR 2040						DR 250	750	50	DR 700	100	2	DR 98			DR 3200	



**2.7 Members' trade ledger: Example 4**

Within this ledger a separate page or card is kept in share number order, for each member. Sometimes the members' trade records can be kept within the share and deposit ledger so all the transactions of each member are shown on their own separate page or card. The purpose of this record is to enable all the trade transactions made by the member with the society to be summarised. This enables the trade of a member for a financial period to be totalled for each class of trade (Example 4, page 12).

This will enable the calculations and distributions of any net surplus as a bonus to be properly made. Postings to this ledger for produce sold through the society are made from the *produce proceeds forms* (Example 12, page 21) after their details have been posted to the

working ledger. All entries for farm inputs or consumer goods bought from the society are made from the *cash sales receipts* (Example 17, page 24) made out as these items are sold.

At the end of every financial period all the columns in the trade ledger are added to show the trade of each member. These totals are summarised using the members' trade summary, (Example 21, page 32) which has similar column headings as in the trade ledger, except that the 'date' column will be used for the member's name and share number and columns for the bonus are included. Totals should be agreed with the main ledger totals of trade -- shown in the trial balance and the trading account.

14 Investments		15 Society loans			16 Surplus			17 Reserve fund			18 Education fund			
DR	CR	Balance	DR	CR	Balance	DR	CR	Balance	DR	CR	Balance	DR	CR	Balance
DR 20		DR 200			CR 1000			CR 240			CR 400			CR 50
DR 30	62	DR 262	500	40	CR 540	238		CR 2		70	CR 470		30	CR 80
-		262	-	540	-	202	200	CR 202	470	-	80	-		-
DR 30		DR 262			CR 540			CR 202			CR 470			CR 80



### Example 4

MEMBERS' TRADE LEDGER								
Name of member: S Anybody				Share no: 22				
Date	Receipt no	PRODUCE		FARM INPUTS				Consumer trade value
		Quantity	Value	Fertilizer		Seeds		
				Quantity	Value	Quantity	Value	
1975								
May 15	16	10	70					100
July 21	27	5	35					20
Dec 19	40			5	10	2	4	
TOTALS TO SUMMARY		15	105	5	10	2	4	120

### 2.8 Creditors' ledger (accounts payable): Example 5

Creditors are suppliers who are owed money by the society for farm inputs, consumer goods or services supplied on credit terms to the society. In this ledger a record of the transactions of the society with these individual suppliers will be kept.

A separate page will be opened for each of these suppliers. These pages will be kept in surname alphabetical order. These pages contain columns for the date of the transaction, the details and the reference number.

There are also three cash ruled columns. The first column is used for debit entries (DR) for cash paid, discounts allowed to the society and credit notes. The second is used for credit (CR) entries for invoices. The third column shows the running balance, prefixed DR when there is a balance due to the society, or CR when there is a balance due to the supplier. Postings are made to this ledger from the original records after their details have been posted to the working ledger.

At the end of every four weeks the balances in this ledger will be add-listed to produce the net credit (CR) balance due to suppliers. This total is then agreed with the CR balance for creditors shown in the trial balance of the main ledger at that date.

### Example 5

CREDITORS' LEDGER					
Name of supplier: HONEST TRADER LTD.				Account no: 16	
Address: Warehouse Rd. Anytown				Credit terms: 2½% discount 14 days	
Date	Detail	Ref no	DR	CR	Balance
1975					
Jan 1	Balance	b/f			CR 845
Dec 31	Invoices	52		2800	CR 3645
" 31	Cheque	52	2700		CR 945
" 31	Discounts	52	40		CR 905

### 2.9 Debtors' ledger (accounts receivable): Example 6

Debtors are customers of the society who owe money to the society for goods or services supplied to them on credit. Generally, they will be the purchasers of the produce, for in the main the members will pay immediate cash for the farm inputs or consumer goods they buy from the society. The balances due from debtors will be kept as low as possible and the society should try to obtain immediate cash even for the sale of produce.

The debtors' ledger contains separate pages for each customer who is given credit by the society. Each page contains columns for the date, details and reference number. There are also three cash ruled columns. The first column is used for debit (DR) entries for invoices issued by the society. The second is used for credit (CR) entries for cash received or credit notes issued. The third column shows the running balance, prefixed DR or, where the society owes money to the customer, prefixed CR.

Postings are made to the accounts in this ledger from the original records after their details have been posted to the working ledger.

At the end of every four weeks, the balances in this ledger are added to produce the net debit (DR) balance due to the society. This is agreed with the (DR) balance for debtors, shown in the trial balance of the main ledger at that date.

*Example 6*

DEBTORS' LEDGER						
Name of customer: J Goodpayer			Account no: 4			
Address: 14 Bank St. Anytown			Credit terms: cash 7 days			
Date		Detail	Ref no	DR	CR	Balance
1975						
Jan	1	Balance	b/f			DR 20
Dec	31	Sales	52	150		DR 170
"	31	Cash	52		140	DR 30
"	31	Produce invoice	52	7000		DR 7030
"	31	Cheque	52		7000	DR 30

**2.10 Other books and records**

There are other books and records in use in the society in which are entered the many details connected with the business operations and controls. These will be described one by one as the accounts are considered from section 3 onwards.

**2.11 Other book-keeping terms**

Book-keeping is a technical subject. Technical book-keeping terms are used in this manual as follows:

- (a) *Financial, or accounting, period*  
This is the period of time covered by the final accounts. This period is often of one year ending on a date stated in the by-laws of the society.
- (b) *Final accounts*  
These are prepared at the end of the financial period. This marketing co-operative uses two final accounts.
- (c) *Trading account*  
This is one of the final accounts. It is a summary of all the income and expenditure for the financial period. This summary reveals the surplus or loss.
- (d) *Surplus disposal account*  
This account shows the proposed disposal of any net surplus. It contains the recommendations of the committee on the allocations for reserves, education, share interest and bonus.
- (e) *Balance sheet*  
This is a list of the liabilities and of the assets on a given date. A balance sheet is prepared after the final accounts have been completed at the end of the financial period.
- (f) *Surplus and loss*  
The *income* of the society is earned from the sale of produce on behalf of members and from the sale of farm inputs and consumer goods to members. The expenditure includes the payments made to the members for their produce and the costs of purchasing and selling the inputs and goods. There is a net *surplus* when income is greater than expenditure. There is a net *loss* when expenditure is greater than income.

(g) *Liabilities and assets*

*Liabilities* show what the society *owes*. They include members' shares and deposits, reserve funds, surplus not distributed and balances owed to creditors. They indicate the source of the funds in use in the society.

*Assets* show what the society *owns*. They include land, buildings, fixtures, equipment, stocks, investments, cash and balances owed by debtors. They show the use being made of the funds of the society.

*Fixed assets* are held permanently to be used to earn income and include land, buildings, fixtures and equipment.

(h) *Interest and bonus*

*Interest* is the distribution of net surplus that is based on the share capital. In some by-laws this is called *dividend*.

*Bonus* is the distribution of any net surplus based on the trade of the members. In some places this is called 'patronage refund'.

(i) *Auditors*

The auditor is a skilled accountant whose responsibility it is to check and verify the accounts of the society at the end of the financial year and at any other time as the registrar of co-operatives may consider necessary. The auditor is independent of the society and reports to the registrar and the members.

*Internal auditors* are elected under some by-laws by the members at their annual general meeting. They are elected to conduct regular checks for the members on the books, assets and activities of their society. They report to the members at the annual general meeting.

# 3 The working ledger

The working ledger is shown in Example 1 (page 6). This ledger is posted at the end of every week from original records which are prepared immediately the financial transactions occur. The entries to be posted into this ledger are outlined as follows:

## 3.1 Cash account

### (a) Security

Cash must be handled with the utmost care and wherever possible only one person should be responsible for receiving and paying all cash. This person should not be the book-keeper. At all times cash, other than that which is in use in the cash register (till), must be placed in the safe. The safe must be kept locked and only the person so instructed by the committee should hold the key.

The cash in hand should be checked from time to time by the committee and the internal auditors appointed by the members. The auditor appointed by the registrar of co-operatives will also check this on his visits to the society.

Apart from the cash float, or other cash held to make expected payments, all cash should be banked as soon after receipt as possible. The cash float is a set sum held back in the society for change.

### (b) Cheques received

For book-keeping purposes all cheques, postal orders or money-orders received by the society are treated as cash. Cheques should only be accepted if prior arrangements have been made with the manager of the society. Generally, post-dated cheques (cheques with a date in the future) should not be accepted.

### (c) Cash receipts

A receipt as shown in Example 7 must be issued whenever cash is received.

#### Example 7

CASH RECEIPT		Number: 15
RECEIVED FROM: .....	<i>S. Smith</i>	
.....	<i>One</i> dollars and <i>five</i> cents	<i>\$1.05</i>
IN PAYMENT OF: .....	<i>Share contribution A/c no 77</i>	
DATE: <i>20.12.75</i>	FOR: MARKETING CO-OPERATIVE SOCIETY LTD	
<i>(New balance in past book \$9.61)</i>	Signed: <i>H. Jones</i>	<i>Cashier</i>
	Posted to working ledger page no <i>50</i>	

The receipt will show the following details:

- 1 Cash receipt number
- 2 Name of co-operative society
- 3 Name of person paying the cash
- 4 Purpose for which cash received
- 5 Amount of cash received in words and figures
- 6 Date cash received
- 7 Signature of person receiving the cash

Usually the receipt is made out in duplicate using a carbon paper. The *top copy* is issued to the person paying the cash. The *bottom copy* is kept by the society as the record of original entry from which the working ledger will be posted as follows:

*Date* ..... received  
*Detail* ..... from receipt book  
*Ref no* ..... receipt number  
*DR* ..... *cash account* – with amount received  
*CR* ..... *impairing account* e.g. debtors, shares or other impairing account with amount received.

(d) *Cash payments*

A receipt, similar to Example 7 must be obtained, or a *payments voucher* be made out, in support of all cash paid out. On the receipt, or payments voucher, the person receiving the cash from the society will sign his name. From the receipt, or payments voucher, which forms the record of original entry, the working ledger is posted as follows:

*Date* ..... paid  
*Detail* ..... from receipt or voucher obtained  
*Ref no* ..... receipt or voucher number  
*DR* ..... *receiving account* ie bank, expenses or other receiving account with amount paid  
*CR* ..... *cash account* – with amount paid

**3.2 Bank account**

(a) *Current account*

A current account should be opened at the nearest bank. The bank will issue a *paying-in book* and a *cheque book* after they have received a copy of the resolution of the committee to open the account. The committee will also inform the bank of the officers authorised to sign cheques on behalf of the society. The bank will require specimen signatures from these officers. The person appointed to handle the cash of the society will make the deposits to this current account at the bank.

(b) *Bank deposits*

Pages in the bank paying-in book are made out in duplicate and the cash is taken to the bank. The bank will keep the top copy and will stamp the bottom copy as the receipt for the society. From this record of original entry, entries to be made into the working ledger are:

*Date* ..... taken to bank  
*Detail* ..... from the paying-in slip, stamped and received by the bank  
*Ref no* ..... number of paying-in slip  
*DR* ..... *bank* – with amount deposited  
*CR* ..... *cash* – with amount deposited

(c) *Bank payments*

Payments will be made using cheques from the cheque book which should be kept locked in the safe. The book-keeper will present the bills to be *paid by cheque* to the manager. The manager should make out the cheques. The officers of the society authorised to sign the cheques should only do so after they have compared the cheques with the bills for payment. The cheques are sent off to the creditors concerned. The working ledger is posted from the cheque book stubs:

*Date* ..... of cheque as shown in the stub retained in the cheque book  
*Detail* ..... name of creditor (payee) from the stub  
*Ref no* ..... number of cheque  
*DR*..... *payee* – creditor or other receiving account with amount of cheque  
*CR*..... *bank* – with amount of cheque

(d) *Bank statements and reconciliation statement*

From time to time the bank will send a statement showing all the transactions posted to the account of the society by them, with the used cheques. When these are received the following procedure is undertaken:

- 1 The balance to begin on the statement is checked to ensure that it is the same amount as shown on the previous statement as the balance to end.
- 2 The cheque entries on the statement are ticked (✓) to ensure that all cheques posted on the statement have been enclosed.
- 3 Items then remaining as withdrawals on the bank statement are for such items as commission, interest, or cheque books, as will be seen by checking the prefix number of the posting with the number code shown at the bottom of the statement.
- 4 These *bank charges* are added and the total is posted to the working ledger as follows:

*Date* ..... posted to working ledger  
*Detail* ..... bank statement – charges  
*Ref no* ..... number of bank statement  
*CR* ..... bank  
*DR* ..... expenses – bank charges

- 5 When this entry and all entries in the working ledger have been posted to the main ledger, the last balance shown on the bank statement has to be reconciled with the last balance shown on the bank account in the main ledger.
- 6 Cheques are sorted into their numerical order and ticked against the entries which were made in the working ledger when the cheques were drawn.
- 7 Deposits as shown on the statement are ticked against the entries which were made in the working ledger when the deposit was made.
- 8 The bank columns of DR – Deposits, and CR – Payments, now show ticked entries indicating they have been posted by the bank to the statement.

9 The reconciliation is then prepared as follows:

Example 8

<b>BANK RECONCILIATION STATEMENT</b>		
<i>as at 31<sup>st</sup> December 1975</i>		
	\$	
<i>Balance in bank on bank statement</i>	1750	61
<i>ADD deposits in transit</i> <i>(deposit entries in working ledger not ticked / as having been shown on bank statement)</i>	650	25
<b>TOTAL</b>	<b>2400</b>	<b>86</b>
<i>DEDUCT cheques not presented</i> <i>(cheque entries in working ledger not ticked / as having been shown on bank statement)</i>	360	86
<i>TOTAL – being balance in bank account in main ledger</i>	<u>2040</u>	<u>00</u>

- 10 Where an overdraft (red) is shown as the balance on the statement, cheques not presented are added and deposits in transit are deducted to produce the balance on the bank account in the main ledger.
- 11 Overdrafts arise when cheques have been paid from the account with the bank in excess of the funds held in the account. The bank has then in fact made a loan to the society. Overdrafts should first be arranged with the bank manager. They should only be used for short periods, since the rate of interest charged by the bank for an overdraft is very high.

### 3.3 Produce account

This account is concerned with the transactions arising from the sale by the society as an agent of the members for their produce.

(a) *Receipt of produce*

A produce receipt must be issued as the society takes possession of the produce being sold after this has been checked, graded and weighed.

*Example 9*

PRODUCE RECEIPT				
Date: .....		Receipt no: <u>164</u> .....		
Name of member: .....		Membership no: .....		
Number of bags	Description	Grade	Advance per bag	Total advanced
1000			1 00	1000 00
1000	Bags total		TOTAL	\$ <u>1000.00</u>
Received: The above produce: signed: .....				
				Manager
Received: The above advance: signed: .....				
				Member

Members must be fully advised by the committee on the terms of agency sale before they hand possession of their crops to the society. The terms must in any case be in accordance with the by-laws of the society.

Where the society has the funds and is making *advance payments*, these are also shown on the produce receipt. See Example 9. These receipts are made out in duplicate. The top copy is issued to the member. From the bottom copy, the book-keeper posts the working ledger with the details of the

advance: DR *produce account*, CR *cash* with amount advanced. Then the book-keeper enters the details from the produce receipt to the *produce summary*, as shown in Example 10.

The entries in the produce summary are made as follows:

- 1 The number and name of every member are entered from the membership records.
- 2 The number of the receipt issued to each member is recorded from the produce receipt.
- 3 The amount of produce received is recorded from the same receipt.
- 4 The price per bag will have been agreed with the buyer of the produce and the proceeds per bag will be calculated when the total proceeds are received.
- 5 The amount of money owing to each member can now be calculated and will be distributed when the sale proceeds have been received.
- 6 From this amount commission is deducted at an agreed rate.
- 7 Any balance on loans owing to the co-operative are entered from the loan ledger or record.
- 8 Any advances made to the member are entered from the produce receipt.
- 9 The balance owing to the member is calculated. This is the proceeds of the produce he has marketed through the co-operative, less commission, less any loan balance owing and less any advances made.
- 10 On the appointed day the member will bring his produce receipt to the co-operative. The details are checked on the produce summary and the member is paid.
- 11 The member signs the produce proceeds form, acknowledging that he has received his money (Example 12, page 21).

Example 10

PRODUCE SUMMARY									
Date: 31.12.75									
Share no	Name of member	Receipt no	Number of bags	Proceeds per bag	Total owing to member	Less commission at 5%	Less loans owing	Less advances owing	Net cash due to member
1	A Masinge	4	10	7	70	3 50	10 50	10	46
2	L Wong	10							
3	Z Sikorski	16							
4	C Smith	18							
5									
6									
7									
8									
9									
TOTAL			1000	7	7000	350	1030	1000	4620

(and so on)

(b) Sale of produce

When the society sells the produce, the instructions given by the buyer as to delivery must be rigidly followed.

In all cases of sale an *invoice* in duplicate, from an *invoice book* kept by the society, is made out to show the following details as in Example 11, page 20:

Name and address of society

Date

Buyer and address

Description of produce

Weight: number of bags

Price per bag



Example 11

INVOICE		No: 62	
BOUGHT FROM: MARKETING CO-OPERATIVE SOCIETY LTD THE STREET ANYTOWN Telephone number: 246			
SOLD TO: <i>Co-operative Union Ltd</i> <i>The Warehouse</i> <i>Anytown</i>			
Date: <i>5.1.75</i>			
Description	Weight or number	Price	Total value
<i>A1 Sorghum 100kg bags</i>	<i>20</i>	<i>5 00</i>	<i>100 00</i>
Total due:			<i>100 00</i>
Terms: <i>Cash within 14 days of invoice</i>			

The top copy is sent to the buyer for payment. From the bottom copy the book-keeper posts the working ledger to show:

- Date* ..... of invoice
- Details* ..... name of buyer
- Ref no* ..... invoice number
- DR* ..... *debtors* – with total of invoice
- CR* ..... *produce account* – with total of invoice

The details of the invoice will also be posted to the individual account for the buyer kept in the debtors' ledger (Example 6, page 13).

(c) *Receipt of proceeds of produce*

As soon as the payment for the produce has been obtained from the buyer, the proceeds are *banked*. Entries in the working ledger are:

- Date* ..... of receipt of proceeds
- Details* ..... name of buyer
- Ref no* ..... receipt number
- DR* ..... *bank* – with amount of proceeds received and banked
- CR* ..... *debtor* – with amount of proceeds received and banked

The details of the payment are also entered in the account of the buyer, kept in the debtors' ledger.

(d) *Payment to members*

As soon as the proceeds have been received, the produce summary is completed by the book-keeper. From this summary, *produce proceeds forms* (shown in Example 12) are made out for the members concerned and arrangements are made for payments to be made to members. Cash is obtained from the bank for these payments to be made.

The produce proceeds forms are made out in duplicate. The members take the top copies with their cash. From the bottom copies the book-keeper posts the working ledger as follows:

- Date* ..... of payment
- Details* ..... name of member
- Ref no* ..... produce proceeds form number
- DR* ..... *produce account* – with net cash paid to member
- CR* ..... *cash* – with net cash paid to member

Example 12

PRODUCE PROCEEDS FORM				
				No: 91
Name of member: .....		Share no: .....		
Number of bags	Weight/grade	Description	Unit proceeds	Total proceeds
1000			7 00	7000 00
			GROSS TOTAL	7000 00
<b>LESS DEDUCTIONS:</b>				
Commission at 5 %		350		
Loan repayments		1 030		
Advance repayments		1 000		
			TOTAL DEDUCTIONS	2380 00
			NET CASH	4620 00
CASH RECEIVED BY: .....				
			Member	Date: .....

Any loan balance owing is cleared by posting the working ledger from the produce proceeds form as follows:

- Date ..... of payment
- Details ..... name of member
- Ref no ..... produce proceeds form
- DR ..... *produce account* – with amount of loan repayment deducted
- CR ..... *members' loans* – with amount of loan repayment deducted

The detail of the repayment will also be posted to the account for the member concerned in the *members' loan record* shown in Example 22 (page 34). The *members' trade ledger* (Example 4, page 12) is posted with the details of the sale of the individual members of their produce through the society.

(e) *Balance in the produce account*

After all the proceeds have been received and all the payments made to members, the credit balance on this account in the main ledger should equal the commission charged to members by the society. See calculation below referring to Example 12.

CR Entries = income from sales of produce	7000	
LESS:		
DR Entries = Advances	1000	
Loan repayments transferred	1030	
Net cash to members	4620	6650
= CR balance = commission charged by society		350

3.4 Farm inputs account

(a) *Ordering inputs*

These can include seeds, fertilizers, pesticides, empty bags, twine, etc and farm implements. The advice of the agricultural department officers should be obtained to ensure that the most suitable inputs are available for sale to members at the time required. The demand for most of the inputs will be seasonal. Before the appropriate season begins, the manager should try to obtain firm orders for, or reasonable estimates of, the inputs required by members. The manager in consultation with the committee must decide:

- 1 What is to be ordered
- 2 When the order should be made
- 3 Where the inputs should be purchased
- 4 The price range of the inputs.

After these decisions have been made, the manager writes out the order for the inputs in duplicate in the *order book* in Example 13 (page 22). After he has signed the order, the top copy is sent to the supplier by the manager.

Example 13

ORDER BOOK						
From: Name: <u>Marketing Co-operative Society Ltd</u>						Order no: <u>59</u>
Address: <u>The Street, Anytown</u>						
To: Name: <u>Co-operative Union Ltd</u>						
Address: <u>The Warehouse, Anytown</u>						
Please supply:						
Quantity	Description	Catalogue no	Cost price \$			
			Unit	Total		
40	20 kg bags seeds type 3	41	10	00	400	00
20	100 kg bags fertilizer type 4	19	12	00	240	00
32	50 kg " " " 6	21	5	00	160	00
TOTAL \$						800 00
Special delivery instructions: <u>Deliver Fridays before 3pm</u>						
Date: <u>29.12.75</u>		Signed: <u>P. Maribe</u> Manager				
Date received: <u>31.12.75</u>		Delivery note no: <u>147</u>				

Example 14

DELIVERY NOTE						
From: Name: <u>Co-operative Union Ltd</u>						Number: <u>147</u>
Date of despatch: <u>31.12.75</u>						
Address: <u>The Warehouse, Anytown</u>						
To: Name: <u>Marketing Co-operative Society Ltd</u>						
Address: <u>The Street, Anytown</u>						
Please receive order number: <u>59</u>						
Quantity	Description	Catalogue no	Cost price \$			
			Unit	Total		
40	20 kg bags seeds type 3	41	10	00	400	00
20	100 kg bags fertilizer type 4	19	12	00	240	00
32	50 kg " " " 6	21	5	00	160	00
TOTAL \$						800 00
Received in good order and condition						
<i>except 10 x 50 kg bags fertilizer type 6 appear to be damaged</i>						
Date: <u>31.12.75</u>		Signed: <u>A. Maribe</u> Manager				
		Signed: <u>P. Mayo</u> Driver				
ANY CLAIMS FOR SHORT DELIVERY, DAMAGES ETC TO BE MADE WITHIN 3 DAYS OF DELIVERY						

(b) Receipt of inputs

When the inputs are received from the supplier, they are checked against their *delivery note* at Example 14 and against the bottom copy of the order which is then marked to indicate that the order has been completed. Any claims against the supplier for short delivery or damage are made immediately in the *claim for credit book* in Example 15. A copy of the claim is sent to the supplier. After the inputs delivered have been checked, their details are entered in the *goods received book* kept in the farm inputs section as shown in Example 16.

Example 15

CLAIM FOR CREDIT BOOK		Claim number: 16	
From: Name: <u>Marketing Co-operative Society Ltd</u>			
Address: <u>The Street, Anytown</u>			
To: Name: <u>Co-operative Union Ltd</u>			
Address: <u>The Warehouse, Anytown</u>			
Delivery note no	Details of claim	Amount claimed \$	
147	10 x 50 kg bags fertilizer type 6 found damaged after further checking & returned.	50	00
Date: <u>31.12.75</u>		Signed: <u>A. Moxike</u> Manager	

Example 16

GOODS RECEIVED BOOK								Page 6
								Section: Farm inputs
Date received	Supplier	Quantity of goods	Description of goods	Cost value	Selling value	Delivery note no	Invoice no	Working ledger page/date
1975								
Dec 31	Co-operative Union	40	20 kg bags seeds type 3					
		20	100 kg " fertilizer " 4					
		32	50 Kg " " " 6					
				800	900	147	67	52, 31 Dec 75

(c) Charge for inputs

The supplier will send his *invoice* for the despatched goods. This will be consecutively numbered by the book-keeper. The invoice will show details of the inputs sent, together with their cost prices and their total cost value charged by the supplier. These details will be checked against the entry made in the 'goods received' book when the inputs were received. The entry in the *goods received book* will be marked-off to show the invoice number and details of the entry made for the invoice in the working ledger.

When *credit notes* are received they too will be given a separate consecutive number. Their details will be checked against the bottom copy of the *claim for credit* which will be marked-off to show that the credit note has been received. From the accepted invoices, or credit notes, the working ledger will be posted as follows:

- |  |   |
|--|---|
| <p>(i) Charges from invoices</p> <p>Date ..... of invoice</p> <p>Details ..... name of supplier</p> <p>Ref no ..... invoice number</p> <p>DR ..... farm inputs – with total cost from invoice</p> <p>CR ..... creditors – with total cost from invoice</p> | <p>(ii) Credits from credit notes</p> <p>Date ..... of invoice</p> <p>Details ..... name of supplier</p> <p>Ref no ..... credit note number</p> <p>DR ..... creditors – cost value of credit note</p> <p>CR ..... farm inputs – cost value of credit note</p> |
|--|---|

After these entries have been made in the working ledger, their details will be posted into the individual account of the supplier, kept in the creditors' ledger. The invoices and credit notes will then be separately filed in their society number order ready for audit.

Later when a creditor is paid, the entries from the cheque sent to him will be posted into the working ledger as a DR to *creditors* and a CR to *bank*. The details of the payment will also be posted to the supplier's account in the creditors' ledger.

Should the supplier allow any *cash discounts*, these will be deducted from the amount owed to him and the cheque will be made out for the net amount. Entries for *cash discount* in the working ledger will be DR *creditor*, CR *expenses* with the cash discount taken. The details of the cash discount would also be posted to the supplier's account in the creditors' ledger.

(d) *Pricing of inputs*

To calculate the selling price of the inputs, a *mark-up* is added to their cost prices. This mark-up is usually expressed as a percentage rate of the cost price. The rates of mark-up to be applied to cost prices will depend upon at least the following:

- 1 Pricing policy of the society
- 2 Local prices set by competitors
- 3 Estimated expenses of the society
- 4 The type of goods – quick selling items like seeds will have a lower mark-up than higher priced, slower selling items like plough parts.

The manager will calculate the selling prices and these will be marked on the inputs or displayed on a notice to members.

(e) *Sale of inputs*

*Cash control.* One person should receive and control the cash for the sale of inputs. Sales are recorded using *sales receipt books*. Receipts will be made out in duplicate to show the following as in Example 17:

- the name and share number of the member
- the date of the sale
- description and quantity of inputs sold

- selling prices of inputs
- total value of the sale.

Example 17

CASH SALES RECEIPT				No: 40	
SOLD TO: <i>S. Anybody</i> .....				Share no: <i>22</i> .....	
Quantity	Description	Unit price	Value		
5	<i>Fertilizer (type)</i>	2 00	10	00	
2	<i>Seeds (type)</i>	2 00	4	00	
TOTAL			14	00	
Received <i>fourteen</i> ..... dollars and <i>no</i> ..... cents					
Date <i>19.12.75</i> ..... FOR MARKETING CO-OPERATIVE SOCIETY LTD					
<i>A. Suno</i> ..... <i>Cashier</i> .....					

The member pays the cash, takes the inputs, and is given the top copy of the sales receipt.

At the end of the day the total sales are obtained by add-listing the total value of each sale as shown on the bottom copies of the sales receipts. The cash is counted, agreed with this total and paid over to the manager. The entries to be made in the working ledger are:

- DR: *Cash* – with total cash
- CR: *Farm inputs* – with total sales.

*Loan advances.* Where loans are advanced as inputs, instead of cash, the manager will authorise this. A sales receipt will be used but will be marked to show 'loan advanced'. The member will sign a *loan agreement form* acknowledging receipt of the loan in this way. The contents of these forms will depend upon local needs and conditions.

The entries to the working ledger for these items will be:

DR: *members' loans* – with selling value of these items

CR: *farm inputs* – with selling value of these items.

Details will also be posted to the *loan record* of the member concerned.

*Members' trade record.* After the daily sales have been balanced, details of the sales made to the members concerned will be posted to their records in the members' trade ledger. The value of inputs advanced as loans will be treated as sales.

(f) *Control*

*Management.* As far as possible one member of the staff will be in charge of the farm inputs section under the direction and control of the manager.

*Stock control.* Details of *receipts* of inputs will be posted from the goods received book to the *weekly stock control record* shown under section 5.3 *Stock control accounts* (page 42).

Details of *sales* of inputs are posted to this control record from the cash sales receipts.

(g) *Stocks*

The total cost value of stocks to begin the financial period is shown as a debit in the farm inputs account in the main ledger. After stock to end has been listed and valued at the end of the financial period, this account will be credited on the last day of the financial period with the total cost value of stock to end. The corresponding debit will be shown in this account on the first day of the new financial period. This value will also be shown under 'stocks' in the balance sheet as an asset.

(h) *Balance on account*

The credit balance on the account for farm inputs in the main ledger at the end of the financial period will be the *gross surplus* on this trade as follows:

Credit entries		\$
Sales	1000	
+ Stock to end	<u>200</u>	
		1200
LESS		
Debit entries		
Stock to begin	300	
Purchases (– any credit notes)	<u>750</u>	
		<u>1050</u>
Credit balance being gross surplus		<u><u>150</u></u>

### 3.5 Consumer trade

(a) *Records*

The purchase, pricing and sales records used in this trading section are similar to those used in the farm input section.

Book-keeping records are kept in a similar manner as well:

*Debits* to this account are made for stock to begin and purchases.

*Credits* to this account generally are made for sales and stock to end.

*Credit balance* remaining will be the *gross surplus*.

(b) *Stock controls*

Where the leakage control account is kept as shown under section 5.3, *Stock control accounts*, a separate record would need to be kept of all consumer goods purchased at their selling values as well as their cost. Stocks would also be valued at their selling value for leakage control purposes and reduced to cost for the trading account and balance sheet.

(c) *Goods used in the society*

Whenever any goods are taken from stock for authorised use in the society, a record of them will be kept. These goods are usually cleaning materials and similar items. The entry for them in the working ledger will be made as follows:

DR: *expenses* – with the cost value of these goods.

CR: *consumer trade* – with the cost value of these goods.

### 3.6 Expenses account

(a) *Analysis*

Expenses are incurred in operating the society. They include wages, transport charges, property expenses, insurance, repairs, stationery, stamps, interest charges, etc. A separate account is shown in the main ledger, and separate columns are kept in the working ledger for expenses in the examples shown. Debit entries will be made for charges made for expenses from invoices or cash receipts. Some credits are made to 'expenses' for interest received on members' loans, interest on investments and entrance fees received, unless these fees are credited direct to the reserve fund.

To enable some control over expenses, some system of analysis is essential. For example, expenses could be grouped as follows:

- Wages* ..... payments to employees
- Property expenses* ... repairs, insurance, rates
- Transport* ..... hire of transport
- Interest*..... interest charges less interest received
- Other expenses* ..... all other expenses

The analysis could then be obtained by opening separate columns in the working ledger and separate pages in the main ledger for each of these groups.

Example 18 shows another method of keeping an analysis of expenses. Separate columns are kept in the working ledger for 'expenses'. All charges concerned with expenses would be debited in the DR column, and any credits would be entered in the CR column.

The analysis would be kept in the main ledger for 'expenses'. On the left hand page of the open main ledger the normal record is kept, showing the debit and credit entries posted from the working ledger together with the running debit or credit balance. Then, on the right hand page, columns are ruled and headed with the groups within which expenses are to be analysed.

Details of the financial transactions concerning expenses are posted to the working ledger from their records of original entry:

*Charges*      DR: *expenses*      CR: *cash, bank or creditors*

*Credits*      DR: *receiving account*      CR: *expenses*

These details would then be posted to the main ledger in the normal way and analysed within the columns provided.

Example 18

EXPENSES (left hand page)						No 6	ANALYSIS (right hand page)				
Date 1975	Detail	Ref no	DR	CR	Total	Wages	Property expenses	Transport	Interest	Other expenses	
Jan 1	Balance accrued	b/f			CR 20	-20					
Dec 31	Invoices	52	100		DR 80		+100				
" 31	Cash discounts	52		40	DR 40					-40	
" 31	Bank charges	52	20		DR 60					+20	
" 31	Investment income	52		12	DR 48				-12		
" 31	Deposit interest	52	40		DR 88				+40		
" 31	Cash	52	260		DR 348	+200		+60			
" 31	Cheques	52	100		DR 448					+100	
" 31	Members' loan interest	52		50	DR 398				-50		
" 31	Society loan interest	52	40		DR 438				+40		
" 31	Members' loans-bad debts	52	20		DR 458					+20	
" 31	Other expenses-prepaid	52		50	DR 408					-50	
" 31	Property expenses-prepaid	52		50	DR 358		-50				
" 31	Interest accrued	52	2		DR 360				+2		
" 31	Transfer to trading A/c	-		360	-	180	50	60	20	50	
<hr/>											
1976											
Jan 1	Balances: prepaid	b/f	100		DR 100		+50			+50	
	accrued	b/f		2	DR 98				-2		



(b) *Wages*

The payments to employees usually form the greatest part of the total expenses. There should be a written *contract of employment* for each employee. A page will be kept for each employee in the *wages book* in Example 19 showing their personal and their wages details.

The manager should pay the cash due to each employee on the agreed dates at the agreed rates of pay. Receipts should be obtained from the employees by their signing in the columns provided in the wages book. Deductions made from the gross wages for tax, etc should be paid over to the authorities as these will instruct.

Example 19

WAGES BOOK					
Name of employee:		Date started:		Position:	
Salary: \$				Date left:	
Date	Gross wages	Less: tax	Less: other deductions	Net cash	Signature of employee
1975					
Dec 31	200	10	5	185	

(c) *Apportionment of expenses*

At the end of each financial period the expenses should be apportioned over the various trading sections of the society. As far as possible, expenses should be charged *direct* to the section for which the expense was incurred.

For example, the analysis column for wages kept in the expenses account in the main ledger would be examined. The wages for the consumer trade section staff could be extracted and charged direct to this section by a debit to their trading account.

Those expenses which cannot be directly charged to a particular section of the business will need to be *apportioned* over the sections. This spreading of the expenses can be done on the *trade ratio basis*, as in this example:

Manager's wages	\$500		
Section	Trade \$	Total trade %	Apportionment of wages \$
Produce	7000	70	350
Farm inputs	1000	10	50
Consumer trade	2000	20	100
TOTALS	10000	100	500

This apportionment was based on the relationship of the trade of each section to the total trade, then this ratio was applied to the expenses to be apportioned, ie produce 70%, farm inputs 10%, consumer trade 20%.

The actual basis of apportionment in a society for the total, or each, expense will depend upon particular circumstances. For example, depreciation of buildings and other property could be apportioned based on the floor space used by each section.

Whatever basis is decided upon should be fair and be applied consistently.

After the apportionment of expenses has been completed, using the agreed basis of apportionment, the details of the charges to be made to each trading section are shown in the columns of the sections concerned in the trading account at the end of the financial period (CR: *expenses*, DR: *trading account*).

### 3.7 Fixed assets and depreciation

#### (a) Purchase of fixed assets

Fixed assets are acquired and held permanently for the purpose of earning income and include land, buildings, fittings, fixtures, equipment and machinery. This is called *capital expenditure* and acquires these fixed assets for use by the society in more than one financial period. From the invoices obtained when the items were purchased, the following entries will be made into the working ledger:

Date ..... of purchase  
Detail ..... supplier/fixed assets  
Ref no ..... invoice number  
DR ..... *fixed assets* – with cost (capital expenditure)  
CR ..... *creditor* – with cost

Details of all fixed assets are also entered into the *fixed assets inventory and schedule of depreciation* in Example 20 (page 30). This inventory can also be kept on a card system in which the details of each fixed asset are kept on a separate card.

An *inventory* should also be kept of all brooms, brushes, buckets and similar items purchased. These are usually small items and their cost would have been charged to expenses. However, a check should be kept on them and their whereabouts always be known to the manager.

#### (b) Depreciation

Cash has to be paid for wages, property expenses and similar expense items. Depreciation is called a *non-cash* expense, since charges made for depreciation in the accounts of the society are internal entries, representing the allocation of the cost of the fixed asset over its estimated working life. The years of useful working life will depend upon the type of asset and local conditions. The charge for depreciation is made each financial year. These depreciation charges are aggregated year by year so that the book value of the fixed asset is correspondingly reduced by the total charge for depreciation.

The *equal instalment method of depreciation* is recommended here. This method spreads the cost of the fixed asset equally over its years of useful working life. The annual charge for depreciation will be calculated as follows:

$$\frac{\text{cost of fixed asset}}{\text{estimated years of useful working life}} = \text{annual charge}$$

As a guide the cost of buildings could be depreciated over 20 years and the cost of fixtures, fittings, etc over 5 years. In some societies land is not considered to be a wasting asset and no depreciation charge is made; however in this manual depreciation has been charged at the same rate as for buildings.

After the calculations of the charges have been made, at the end of the financial year, the details are posted into their inventory. The working ledger is posted:

Date ..... last day of financial year  
Detail ..... depreciation fixed assets  
Ref no ..... inventory page number  
DR ..... *depreciation provision* – with annual charge for depreciation from inventory to be included in the trading account  
CR ..... *depreciation provision* – with annual charge for depreciation from inventory to be shown in the balance sheet

#### (c) Insurance

There are many risks of loss or damage to the property of the society. The society can be covered against some of these risks by taking out insurance cover with reputable companies. The full replacement value of the fixed assets rather than their cost or book value should be covered. The society will pay an annual premium, and receive a policy. These premiums are charged as *property expenses* and the policies are safely kept in a separate file.



### 3.8 Shares and deposits

#### (a) Entrance fees

An *application for membership form* should be completed by applicants wishing to join the society. After acceptance into membership the applicant pays an entrance fee to the society as may be required by the by-laws. A receipt for the fee is issued.

A new member is issued with a *pass-book* showing the member's share number. These numbers run consecutively. The details of the new member are entered into the *share and deposit ledger* shown in Example 3 (page 10) and the *members' trade ledger* in Example 4 (page 12).

The pass-book will be held by the member. It will contain pages ruled in the same way as the *members' share and deposit ledger* in Example 3. The pass-book can also contain pages on which details of the trade of the member can be recorded. These pages will be ruled in the same way as the pages of the *members' trade ledger* in Example 4. Entries will be made on these pages as the share, deposit or trade transactions occur.

From the copy of the receipt issued for the entrance fee, the working ledger is posted:

*Date* ..... of receipt of fee  
*Detail* ..... name of member  
*Ref no* ..... share number  
*DR* ..... *cash* – with amount of entrance fee  
*CR* ..... *expenses* (or reserve fund if so stated in the by-laws) – with amount of entrance fee

The *membership register* consists of the completed and accepted *application for membership forms*, duly filed in surname alphabetical order.

#### (b) Share contributions

Contributions of at least the minimum share holding shown in the by-laws should be paid in by each member. Receipts as shown in Example 7 (page 15) are issued and the details will be posted to the working ledger as follows:

*Date* ..... of receipt  
*Detail* ..... name of member  
*Ref no* ..... share no/receipt no  
*DR* ..... *cash* – with amount of contribution  
*CR* ..... *shares* – with amount of contribution

Entries are also made for share contributions into the pass-book of the member and the share and deposit ledger account for that member.

#### (c) Share withdrawals

Share capital is in the nature of the permanent capital of the society. Withdrawals can only be made in accordance with the provisions in the by-laws. When withdrawals are paid, the entries into the working ledger will be made from the cheque drawn or receipt obtained. The *bank account* will be *credited* (CR) and the *share account* will be *debited* (DR). Entries will also be made into the member's pass-book and share and deposit ledger account.

#### (d) Share interest

At the end of the financial year, should there be any net surplus and an interest on shares be declared, it can be distributed by credit to the share accounts of the members. After the annual general meeting the interest due to each member will be calculated based on the lowest balance of shares held by the member for each complete three months.

After a separate calculation has been made for each account, the total interest due is ascertained by add-listing the amount calculated for each member. The individual share accounts will be posted and the total interest entered into the working ledger as a *debit* (DR) to *surplus* and a *credit* (CR) to *shares*. The entries to be made into the pass-books will be made when the members bring these in for audit.

Example 21

MEMBERS' TRADE SUMMARY										
year ended: 31.12.75										
Name of member	No	PRODUCE			FARM INPUTS			CONSUMER TRADE		Total bonus (1+2+3)
		Quantity	Value	Bonus 1	Quantity	Value	Bonus 2	Value	Bonus 3	
A Masinge	1	10	70	3.50	5	10	0.20	30	1.20	4.90
L Wong	2									
Z Sikorski	3									
C Smith	4									
		and so on								
TOTAL		1000	7000		500	1000		2000		
Note: totals of value columns are to be agreed with trade totals as shown in the trading account.										

(e) Bonus

Should there be any net surplus at the end of the financial year, and a bonus be declared, it will be distributed in relation to the trade of the members during the period in which the surplus was earned. The trade record of each member kept in the members' trade ledger (Example 4, page 12) will be totalled. Then the *members' trade summary*, Example 21, will be prepared. This is the summary of the total trade of the members with each of the separate sections of the business.

Where separate trading accounts are prepared, the trading results of each of the separate sections will be revealed. The society will then be able to decide whether to distribute a bonus

at one rate on all the trade, or at different rates for each trading section based on their results. For example:

	Total	Produce	Farm inputs	Consumer goods
Net surplus for bonus:	500	400	20	80
Trade: from members' trade ledger	11000	8000	1000	2000
Rates of bonus net surplus x 100 trade	say 4.5%	5%	2%	4%

The society could in this case, either distribute bonus at an overall rate of 4.5%, or at 5% on produce trade, 2% on farm inputs and 4% on consumer goods trade.

The amount of surplus available to be distributed as a bonus will be divided by the amount of trade on which the bonus is to be distributed. This result will be multiplied by 100 to produce the percentage rate of distribution. Individual members will receive their bonus calculated as follows:

$$\frac{\text{trade of member} \times \% \text{ rate of bonus}}{100} = \text{bonus to that member}$$

The *members' trade summary* (Example 21) will be used to calculate and distribute the bonus. The distribution can be made by transfer to the share accounts of the members. The entries to be made in the working ledger would be:

*Date* ..... of transfer  
*Detail* ..... bonus  
*Ref no* ..... trade summary page no  
*DR* ..... *surplus account* – with total bonus transferred  
*CR* ..... *shares account* – with total bonus transferred

Entries would be also made in the *individual share ledger* pages and *pass-books* of the members. Any later cash withdrawals of bonus, or interest, will be treated in the same way as any other withdrawals of shares.

(f) *Deposit accounts*

Since share holdings are not easy to withdraw, members could be encouraged to invest with their society in deposit accounts. Withdrawals are easier, and interest on deposits is at a rate agreed when the deposit is accepted. Such interest is treated as an expense rather than as an allocation of surplus.

As an expense the interest is calculated and distributed by credit to the deposit accounts before the final accounts are closed. The *deposit columns* in the *working ledger* are *credited* (CR) when deposits are *received* and *debited* (DR) when *withdrawals* are paid. When the *interest* has been calculated, the total is *credited* (CR) to *deposits* and *debited* (DR) to *expenses*.

### 3.9 Members' loans account

(a) *Loans to members*

When a co-operative makes a loan to a member to buy seeds or fertilizers, pesticides or farm implements, the member enters into an agreement with the co-operative, promising to repay the loan plus interest. This *agreement* or *bond* has to be carefully prepared to ensure that it is a legal and binding document and its contents will depend upon local needs and conditions. In agricultural co-operatives it is normal to grant loans in the planting season and to receive the repayment when the produce proceeds are distributed. Loans can be repaid at any time before the repayment date if the member wishes.

(b) *Making loans*

- 1 The member applies for a loan to the co-operative committee.
- 2 The committee will consider the application.
- 3 A loan will be granted only if the committee think that the member will be able to repay the amount within a stipulated period.
- 4 The member enters into a bond (or written agreement) to repay the loan.
- 5 The member undertakes to market his produce through the society. This acts as the security for the loan.
- 6 The loan is made to the member, it might be in cash or in the form of seeds or fertilizer supplied by the co-operative (in kind).
- 7 The advance of the loan is recorded in the working ledger and in the member's loan record, kept on the back of the loan agreement, or in a separate loan ledger.
- 8 Interest is added to the loan at an agreed rate. The interest is recorded in the working ledger and added to the member's loan record.
- 9 The member may repay part or all of the loan at any time.
- 10 In practice the loan will probably be repaid on an agreed date. This will usually be when the member's crop has been marketed and the proceeds are distributed. The loan will be repaid including any interest added.

When a loan is made to a member, the working ledger entries are:

DR ..... *members' loans account* – with the amount of loan advanced

CR ..... *cash or bank account* – with the amount of loan advanced *in cash*  
or

CR ..... *farm inputs* – when the loan is advanced *in farm inputs* (in kind)

When loan repayments are made, the reverse entries are made to *members' loans account*:

DR ..... *cash* – with the amount of loan and interest repaid *in cash*  
or

DR ..... *produce account* – where the repayment is made by deduction from *produce proceeds*

CR ..... *members' loans account*

(c) *Loan interest*

When a loan is advanced, a charge is made by way of an interest at the rate agreed in the loan agreement or bond. Interest is added at regular intervals to the amount owing. This will probably be done monthly and will be calculated on the balance outstanding of the amount advanced. The working ledger entries are:

DR ..... *members' loans account* – with interest

CR ..... *expenses*

(d) *Members' loans records*

Where the number of loan accounts so justifies, a separate *members' loans ledger* will be opened and kept. Otherwise this record can be kept on the reverse side of the loan agreement or bond. These forms should be kept safely on a separate file. The separate page for the member in the loan ledger or the account kept on the back of the loan agreement would be as shown in Example 22.

Example 22

MEMBERS' LOANS RECORDS					
Name of member:			Share no:		
Loan agreement / bond no					
Date	Receipt	Loan advanced	Interest	Repayments	Balance
1975	no	DR	DR	CR	DR
Dec 31	(Farm inputs)	200			200
" 31	(Cash)	800			1000
" 31	(Interest)		50		1050
" 31	(Produce proceeds)			1030	20
" 31	(Bad debt)			20	—

Details of loans advanced, interest charged and repayments received will be posted from the original entry records to the working ledger, and then to the individual accounts of the members concerned. At the end of every four weeks the balances in the members' loans records will be add-listed and their total agreed with the DR control total for members' loans kept in the main ledger.

(e) *Bad debts*

When loans are made, there are unfortunately sometimes people who do not repay the money they owe. This might be because they have wasted the money, because their crop has failed, they could be dishonest or they might have died. This means that the co-operative can be owed money which it knows that it will never receive.

In the balance sheet money owed by debtors, including members with loans, appears as an asset. This can be misleading if the co-operative knows that the money will never be recovered. When it is quite certain that a loan is not going to be repaid, it is written out of the books. The working ledger entries are:

DR: *expenses*

CR: *members' loans*

with the amount of the loan, including the interest, written off. The members' loans record is also entered to show the details of this transaction.

### 3.10 Creditors and debtors

#### (a) *Creditors*

Entries concerning creditors are made in these columns in the working ledger, and then into the creditors' ledger. When goods or services are obtained by the society on credit, the creditors accounts are *credited* (CR). When the creditors are paid, their accounts are *debited* (DR).

Should the society obtain a cash discount from the creditor, the entries to be made in the working ledger are:

DR: *creditors* – with discount

CR: *expenses* – with discount.

When statements are received from creditors, the entries they contain are checked against the entries in the account kept for the creditor concerned in the creditors' ledger. In some cases a reconciliation statement has to be prepared in a similar way as is done when the bank statement is received.

#### (b) *Debtors*

Entries concerning debtors are made in these columns in the working ledger, and then into the debtors' ledger. Any bad debts written off are debited (DR) to *expenses* and credited (CR) to *debtors*, and the details are shown in the debtors' ledger.

### 3.11 Investments

#### (a) *Approved investments*

Generally all the funds of the society will be used within the business in providing the inputs, goods and services required by the members. Sometimes there may be funds available not immediately required for the trading or development needs of

the society. These funds should not be left idle in the bank current account but should be put to work as investments in other co-operative organisations, banks or other bodies approved by the registrar and authorised under the by-laws, to earn interest income for the society.

The society could be a member of a co-operative union. In accordance with the requirements of the by-laws of such a secondary co-operative, the society would be required to invest some funds in this union as share capital. The union would then be able to provide the inputs, goods and services required by its member primary co-operatives financed by these investments.

As an added safeguard to the financial stability of the society, funds representing the reserve funds, if not being used in trade, should be invested *outside the society*.

Funds invested outside the society should be invested with care to give security, interest income and ease of withdrawal.

Usually the longer the initial period for which the funds can be invested, the higher the rate of interest which can be earned.

For example, banks may be offering interest at 4% on investments which can be withdrawn at short notice and 8% for investments made for a complete year. The book-keeper should make known to the committee the amounts which may be available for investment and indicate the periods for which these funds could be invested. Wherever possible, investments should be made in other co-operative organisations. In any case, places of investment must be approved and authorised.

#### (b) *Deposit of investments*

When funds are deposited as investments in approved organisations, deposit slips issued by these bodies are completed, usually in duplicate. The funds are paid over and the society is issued with a receipt which is usually the bottom copy of the deposit slip. The society may also be issued with an investment pass-book or certificate showing details of the investment.



These pass-books, or certificates, will be kept in the safe of the society. From the receipt the book-keeper will post the entries into the working ledger:

*Date* ..... of deposit  
*Detail* ..... name of approved organisation  
*Ref no* ..... receipt number  
*DR* ..... *investments* – with amount of deposit  
*CR* ..... *cash* – with amount of deposit

A society will not have many separate investments. Where there is more than one, a separate page for each investment will be kept in the main ledger. These pages will be headed to show the name of the approved organisation together with the interest rates, withdrawal and the other terms of the investment.

(c) *Withdrawal of investments*

Withdrawals can only be made in accordance with the terms agreed when the investment was made. Proper notice would need to be given to the approved organisation. Details of the withdrawal would be shown in the investment pass book. When the cheque for the withdrawal is received by the society, entries would be made into the working ledger as follows:

*Date* ..... cheque received  
*Detail* ..... name of approved organisation  
*Ref no* ..... cheque number  
*DR* ..... *cash* – with amount of withdrawal  
*CR* ..... *investments* – with amount of withdrawal

(d) *Interest on investments*

Generally interest on investments is a minor source of income to the society. Since interest charged to the society for overdrafts and interest paid by the society on members' deposits are debited to *expenses*, interest income will be credited to *expenses*.

*Interest* paid to the society is posted into the working ledger by *debit* (DR) to *cash* and a *credit* (CR) to *expenses* with the amount of the interest received. Where the *interest is distributed by being added to the investment account* by the approved organisation, the entries are posted from the details in the investment pass book to the working ledger as follows:

DR: *investments account* – with interest earned  
CR: *expenses* – with the interest earned.

### 3.12 Society loans account

For some developments, and to be able to make loans to members, the society may need to borrow funds from outside sources. These may be from other co-operative organisations, agricultural development banks or even commercial banks. The society will enter into an agreement with these lending organisations for any loans obtained.

Separate columns are opened in the working ledger and separate accounts are opened in the main ledger for each loan obtained.

When the loan is received, the society loan columns in the working ledger and the account in the main ledger will be *credited* (CR). When repayments are made, the society loan columns and account will be *debited* (DR). Interest charges on loans owed by the society will be posted as a *credit* (CR) to *society loans* and as a *debit* (DR) to *expenses*.

At the end of the financial year the lender will be requested by the society to send a statement of the loan account, showing the balance, including interest, due at that time.

### 3.13 Surplus account

At the end of the financial year any net surplus from the trading account would be transferred as a *credit* to this account.

After the annual general meeting, the allocations from surplus to reserves, education or for share interest or bonus would be made, in accordance with the co-operative law, the by-laws and the resolutions of members, by *debit (DR) to the surplus account and credit (CR) to the reserve fund, education fund, share or other account concerned.*

### **3.14 Reserve fund**

The reserve fund is created, held and used in accordance with the by-laws of the society. Allocations are made to *reserves (CR) from surplus (DR)*. The society should build up its reserves to provide a source of operating funds and to give greater financial stability to the society.

### **3.15 Education fund**

Allocations are made to this *fund (CR) from surplus (DR)*. These funds should be increased from year to year so that eventually the society can take a more active part in member and staff training and education.

### **3.16 Balancing**

At the end of every week the working ledger is ruled off and balanced. The entries in each of the columns are separately totalled and shown at the bottom of each column. This is checked by the preparation of a trial balance of these totals, (see working ledger, Example 1, page 7). When this balances, the main ledger is posted.

# 4 The main ledger

## 4.1 Posting

The main ledger is kept as a control record of all the accounts of the society. It contains separate pages for each of the accounts for which columns are kept in the working ledger. An example of the accounts of the main ledger is shown (Example 2, page 8). The opening balances in the main ledger will be the assets and liabilities brought down from the previous financial year and shown in the last balance sheet of the society.

At the end of every week the debit and credit entries in the working ledger are posted to the main ledger. The number of each account so posted is entered into the working ledger underneath the total of entries posted to facilitate checking and ease of reference. The new running balance of each account posted in the main ledger will be ascertained and prefixed DR or CR as the case may be.

## 4.2 Balancing

At the end of every four weeks a trial balance will be prepared from the balances in the main ledger. An example is shown (Example 23). The cash balance will be checked with the actual cash-in-hand. The bank balance will be checked with the bank statement. The share balance, the members' loan balance, the deposit balance, the debtors' balance and the creditors' balance shown on the trial balance will be checked with the totals of lists made from the individual accounts for these kept in the various ledgers and so on. The actual results of the trading activities will be ascertained and compared with the forecasted results shown in the annual budget.

This trial balance shows the balances on each of the accounts in the main ledger. Where, for example, the total income from consumer trade is required to be known for the preparation of reports or final accounts all the relevant credit entries on the consumer trade account will be added together. In a similar manner other debit, or credit, entries on other accounts can be 'grossed up' in this way to give other totals rather than balances, eg total purchases of farm inputs, total share contributions.

Example 23

TRIAL BALANCE OF MAIN LEDGER at 31.12.75			
Detail	Ref no	DR	CR
Cash	1	55	
Bank	2	2040	
Produce	3		350
Farm inputs	4	100	
Consumer trade	5	300	
Expenses	6	458	
Fixed assets	7	3200	
Depreciation provision	8		600
Shares	9		2498
Deposits	10		1000
Members' loans	11	-	-
Creditors	12		905
Debtors	13	30	
Investments	14	262	
Society loans	16		540
Surplus	16		2
Reserve fund	17		470
Education fund	18		80
TOTAL		6445	6445

# 5 Control systems and final accounts

The business operations of the society need to be controlled and summarised. The sections which follow outline some control systems, as well as the preparation of the final accounts and balance sheet. These are explained in greater detail in the next manual in this series: *Accounting for consumer and marketing co-operatives.*

## 5.1 Annual budget

The annual budget is a forecast of what the committee hopes to achieve from its management of the society. It is prepared by the manager in consultation with the book-keeper and the committee at least one month before the beginning of the financial year to which it relates. The annual budget is prepared in two parts. The first part is the operating budget; the second is the cash budget.

### (a) Operating budget: Example 24

This part contains the forecasts of the income and expenditure of the society. The expected allocations of net surplus are also shown. The books and ledgers will reveal the actual current results, which will be measured against the results anticipated in the budget. The book-keeper, by keeping the records of the financial transactions up to date, takes a full and active part in the preparation and use of the budget.

### (b) Cash budget: Example 25 (page 40)

The forecasts made of the income and expenditure in the operating budget must be related to the funds available to finance the operations of the society. A forecast is then made of the flow of *cash in* and of *cash out*. This will enable the committee to be prepared to seek loans, or overdrafts, when required or to invest funds revealed as not being immediately required for the operations of the society.

Both the operating and cash budgets can be prepared for shorter periods than a complete financial year. In particular, the cash budget is made for often only one month ahead.

Example 24

OPERATING BUDGET			
for financial year ending .....			
Detail	Budget this year	Actual this year	Actual last year
Number of bags of produce			
Sales of farm inputs			
Sales of consumer goods			
<b>INCOME</b>	<b>\$ %</b>	<b>\$ %</b>	<b>\$ %</b>
Commission on produce			
Gross surplus on farm inputs			
Gross surplus on consumer goods			
<b>TOTAL GROSS SURPLUS</b>			
<b>EXPENDITURE</b>			
Wages			
Property expenses			
Transport			
Interest			
Other expenses			
<b>TOTAL CASH EXPENSES</b>			
Depreciation			
<b>TOTAL EXPENSES</b>			
<b>NET TRADING SURPLUS</b>			
ADD: Balance brought forward			
<b>TOTAL SURPLUS FOR DISPOSAL</b>			
<b>PROPOSED ALLOCATIONS</b>			
Reserve fund			
Education fund			
Interest on shares			
Bonus on trade			
Balance carried forward			
<b>TOTAL</b>			

Example 25

CASH BUDGET FOR PERIOD ENDING .....		
Detail	Budget this period	Actual this period
<b>FUNDS AVAILABLE b/f</b>		
<b>ADD</b> Share contributions		
Deposits		
Produce proceeds from buyers		
Sales: Farm inputs		
Consumer goods		
Investment withdrawals		
Loans: Society (received)		
Members' (repayments)		
TOTAL (1)		
<b>LESS</b> Share withdrawals		
Deposit withdrawals		
Produce proceeds to members		
Creditors (purchases)		
New fixed assets		
Expenses (excluding non-cash items eg depreciation)		
Investment deposits		
Loans: Society (repayments); Members' (granted)		
TOTAL (2)		
<b>FUNDS AVAILABLE c/f (1 - 2)</b>		

5.2 Monthly report to committee

The members are the owners of their co-operative society. At their annual general meeting they elect a committee who shall conduct the business and be responsible for the general direction and control of the affairs of the society. A manager is appointed to run the day-to-day business under their direction. The manager is often required to submit his report to the committee at the end of every four weeks, when the trial balance of the main ledger has been prepared by the book-keeper. This report is shown in Example 26. In a society which may do most of its trade in a few months of the year and for the rest is not very active, these reports could be prepared quarterly.

Example 26

**MONTHLY REPORT OF MANAGER TO COMMITTEE**

Page 1

..... weeks ended .....

**1 Membership**

To date this year \_\_\_\_\_

To date last year \_\_\_\_\_

Increase or decrease \_\_\_\_\_

**2 Share capital balance**

To date this year \$ \_\_\_\_\_

To date last year \$ \_\_\_\_\_

Increase or decrease \$ \_\_\_\_\_

**3 Trade to date**

	Number of bags			Value (\$)		
	This period	Last period	Increase (+) Decrease (-)	This period	Last period	Increase (+) Decrease (-)
Produce:						
Farm inputs:						
Seeds						
Fertilizer						
Other						
Consumer:						
goods						
<b>TOTALS</b>						

**4 Estimated net surplus to date** \$ %

Commission on produce \_\_\_\_\_

Gross surplus: on farm inputs \_\_\_\_\_

                  on consumer goods \_\_\_\_\_

**TOTAL GROSS SURPLUS**

**LESS: Wages** \_\_\_\_\_

Property expenses \_\_\_\_\_

Transport \_\_\_\_\_

Other expenses \_\_\_\_\_

Depreciation \_\_\_\_\_

**TOTAL EXPENSES** \_\_\_\_\_

**ESTIMATED NET SURPLUS \$ %**

**MONTHLY REPORT (continued)**

Page 2

\$

**5 Cash balances**

Cash in hand \_\_\_\_\_

Cash at bank \_\_\_\_\_

**TOTAL \$** \_\_\_\_\_

Creditors due for payment \$ \_\_\_\_\_

**6 Members' loans**

Advanced this month \$ \_\_\_\_\_

Balances outstanding \$ \_\_\_\_\_

Loans overdue for repayment \$ \_\_\_\_\_

**7 Report on staff matters including average trade per employee**

**8 Report on action taken on committee instructions**

**9 Report on educational activities**

**10 Other matters requiring attention of committee**

**11 Trial balance of main ledger attached**

Date ..... Signed .....  
Manager

### 5.3 Stock control accounts

#### (a) Produce and farm inputs

The range of produce and farm inputs handled by the society is not very wide. Therefore their stock control system is based on the recording and controlling of separate units, eg bags of produce, packets of seeds.

The control system in use must clearly show that the *stock to begin the week* (balance brought forward) plus *stock received* (total of produce received or total inputs from goods received book) less *sold* (total of invoices or cash sales receipts) equals *the stock to end the week*. Checking of the actual stock is done at the end of every week, and where possible, during the week as well. Any differences between the actual stock and the book stock must be located and a *weekly stock control record* must be kept (Example 27).

#### Example 27

WEEKLY STOCK CONTROL RECORD			
week ending .....			
	Number of units (bags, packets)		
	Produce	FARM INPUTS	
		Seeds	Fertilizers
Stock to begin (from last week's control)	-	30	10
+ Received (from produce receipts; goods received book)	1000	350	130
TOTAL	1000	380	140
- Sales (invoices or cash sales receipts)	1000	360	125
Stock to end c/f (to be agreed with actual stock)	-	20	15

#### (b) Consumer goods

The stock control system in use in the consumer goods section would depend upon the size of the operations.

- 1 Where this section is selling a limited range of basic goods (tea, sugar, flour, rice) generally only one rate of mark-up will be applied to their cost price to calculate their selling price. In this case some control is possible by comparing the actual rate of gross surplus earned from their sale with the expected rate of gross surplus expected from their sale.

The rate of gross surplus expected on sales would be calculated from the rate of mark-up being applied to cost. The actual rate of gross surplus earned, as revealed for this section in the trading account, would be compared with the expected rate, and any differences explained. For example:

$$\text{Rate of mark-up on cost} = 12.5\%$$

Therefore where cost price is \$100 the selling price will be

$$\$100 + \frac{12.5 \times 100}{100} = \$112.50$$

Selling price - cost price = gross surplus

$$\$112.50 - \$100.00 = \$12.50$$

Rate of gross surplus on sales

$$= \frac{\text{gross surplus} \times 100}{\text{sales}}$$

$$= \frac{12.50 \times 100}{112.50} = 11.1\%$$

In this example where the rate of *mark-up on cost* was 12.5%, the expected rate of *gross surplus on sales* will be 11.1%. Where, after stocktaking, the actual rate of gross surplus earned was different from 11.1%, a full explanation would be required from the person in charge of this section.

- 2 Where a wide range of consumer goods is being sold and different rates of mark-up are in use, a *leakage control account* (Example 28) would be prepared after each stock-taking. This control uses selling values throughout the system. Therefore *separate records of the selling values* of goods purchased and stocks have to be kept, because in the working ledger, the main ledger and the trading accounts all stocks are recorded at their cost values.

*Example 28*

LEAKAGE CONTROL ACCOUNT for 52 weeks ended 31.12.75		
	\$	\$
Stock to begin (at selling values from last stock sheets)		756
ADD purchases (at selling values from separate records)		2200
TOTAL		2956
LESS sales (from main ledger)	2000	
Stock to end (at selling values from present stock sheets)		920
<u>Leakage (or surplus)</u>		36
$\frac{36 \times 100}{2000} = 1.8\% \text{ of sales}$		

The leakage is expressed as a percentage of sales:

$$\frac{\text{amount of leakage} \times 100}{\text{sales}} = \text{leakage in percent}$$

Should this rate be above that anticipated to cover expected natural leakage, a full explanation would be required from the person in charge of the section.

**5.4 Final accounts and balance sheet**

(a) *Sectional accounts*

At the end of the financial year the *final accounts and balance sheet* (Example 29, page 46) are prepared. Since the society dealt with here is involved in three separate trading activities, the books of account and the trading account have been set-up to enable the trading results of each of these sections to be revealed.

This separation is important for two main reasons. The first reason being that each separate section can be better controlled. The second is that where there are wide differences in the rates of net surplus earned from each section, different rates of bonus can be distributed on each class of trade. This could help to avoid an unfair situation like the following example from an imagined society:

Rates of net surplus earned	
Produce	3%
consumer trade	3%
farm inputs	0%
<i>Farm inputs</i>	
These were sold at a price set to just recover their costs. This was decided upon by the committee to help encourage better farming by the use of approved seeds and fertilizer.	
<i>Members' trade</i>	
Because of these low prices many members purchased seeds and fertilizers. But some of these members sold their produce and bought their consumer goods elsewhere.	
Unless separate rates of bonus are declared, these members will gain a further reduction on the cost of the farm inputs by way of a bonus. But they would have contributed nothing to the earning of this bonus from the produce and consumer sections.	

(b) *Preparation of final accounts and balance sheet*

The following is a short outline of the procedure to be followed in the preparation of the final accounts and balance sheet. This procedure is explained in more detail in the manual on *accounting for consumer and marketing co-operatives*.



### 1 Stocktaking

The trading stock should be listed and valued after the close of business on the last day of the financial year. Generally stock will be valued at cost prices. Since, even in the consumer section, the range of goods and inputs is generally not wide, the cost prices are easily obtained from the invoices concerned.

Where there is a wide range of goods in the consumer section stocks could be valued at selling price and an agreed deduction made to reduce their total selling value to 'cost' value. This agreed deduction would take into consideration the rates of 'mark-ups' applied to calculate selling prices. Separate stock sheets will be prepared for each section in a duplicate book ruled to show:

Date of stock taking..... Section ..... Page no .....

Description of goods/inputs	Number of units 1	Unit cost price 2	Total cost value 1 x 2
-----------------------------	----------------------	----------------------	------------------------

Only stock which the society owns should be included as part of the total value. For example, produce only being stored for members is not included.

### 2 Purchases adjustments

*Goods/inputs received not invoiced.* Any goods or inputs delivered on, or before, the day the financial year ended for which no debit has been made to the books of the society will be listed at cost values. These will be listed from entries not cleared in the goods received books of the farm inputs and the consumer section. The entries into the main ledger in respect of this adjustment would be:

- DR Account of trading section concerned to be included in the trading account
- CR Account of trading section concerned to be included in the balance sheet.

*Credits outstanding.* Any credits outstanding in the claims for credit book will be listed at cost value. Adjustment entries to be made are:

- CR Account of trading section concerned to be included in the trading account
- DR Account of trading section concerned to be included in the balance sheet.

The *net purchases* at cost value for the trading account for each section will be calculated as follows:

	Farm inputs	Consumer goods
Purchases from main ledger (before adjustment)	800	1700
ADD goods/inputs received not invoiced	—	50
	TOTAL	800      1750
LESS credits outstanding	50	—
	NET PURCHASES	\$750      \$1750

### 3 Expenses adjustments

*Expenses prepaid.* The full benefit of expenses that have been debited may not be received until the next financial period. In these cases credit adjustments are made to carry forward part of the debit charged to the next financial period. Adjustment entries to be made are:

- CR Expenses account to be included in the trading account
- DR Expenses account to be included in the balance sheet.

*Expenses accrued.* The benefit of an expense may have been obtained during the financial period, but no charge has been made in the accounts. In these cases adjustments are made for these expenses accrued, or owing, by making an adjustment of a debit charge in the financial period in which the benefit was obtained. Adjustment entries to be made are:

- DR Expenses account to be included in the trading account
- CR Expenses account to be included in the balance sheet.

*Expenses apportionment.* Each trading section would be charged with their portion of the expenses of the society on the bases agreed in the society.

4 *Fixed assets and depreciation*

The charge for depreciation will be calculated and the inventory of fixed assets and schedule of depreciation will be completed and balanced off. The actual fixed assets will be checked against the inventory. Adjustment entries to be made for the depreciation charge are:

DR Depreciation provision – with total charge to be included in the trading account

CR Depreciation provision – to be included in the balance sheet.

5 Deposit interest will be calculated and posted through the working ledger to the deposit accounts. Adjustment entries to be made are:

CR Deposits to be included in the balance sheet

DR Expenses to be included in the trading account.

6 The cash in hand will be checked and certified.

7 The bank statement will be obtained and a bank reconciliation statement will be prepared.

8 Investment balances will be checked.

9 Share, deposit, loan, creditors' and debtors' balance in their ledgers will be add-listed and agreed with their control balances in the main ledger.

10 The trial balance of the main ledger will be prepared.

11 Any adjustments will be posted into the main ledger.

12 The income and expenditure accounts in the main ledger will be closed and their balances will be transferred to the trading account for the year. The entries in the produce, farm inputs and consumer trade accounts will be separately 'grossed up' by adding the appropriate debit or credit entries in the main ledger accounts concerned together so that the entries for stocks, trade income, purchases and produce proceeds payments will be separately shown in the trading account.

13 The surplus disposal account will be prepared.

14 The balance sheet will be prepared from the balances of assets and liabilities remaining in the accounts in the main ledger.

15 The audit will be completed.

16 The annual return will be prepared and sent to the registrar.

17 The annual general meeting will be held.

18 Any net surplus will be distributed as resolved by the annual general meeting.

Example 29

FINAL ACCOUNTS AND BALANCE SHEET					
(note: figures for the previous year are usually included for comparison purposes)					
I Trading account for financial year ended 31.12.75.....					
	Produce	Farm	Consumer	Society totals	
	\$	inputs \$	trade \$	\$	%
<b>TRADE</b>	7000	1000	2000	10000	100.0
Stocks to begin	-	300	600	900	
ADD: Purchases and produce payments	6650	750	1750	9150	
<b>TOTAL</b>	6650	1050	2350	10050	
LESS: Stocks to end		200	750	950	
Cost of goods and produce	6450	850	1600	9100	91.0
<b>GROSS SURPLUS</b>	350	150	400	900	9.0
LESS: Wages	126	18	36	180	1.8
Property expenses	35	5	10	50	0.5
Transport	42	6	12	60	0.6
Interest	14	2	4	20	0.2
Other expenses	35	5	10	50	0.5
Depreciation	80	40	220	340	3.4
<b>TOTAL EXPENSES</b>	332	76	292	700	7.0
<b>NET SURPLUS TO ACCOUNT II</b>	\$ 18	\$ 74	\$ 108	\$ 200	2%
II Surplus disposable account at 31.12.75.....				\$	
Balance b/f from previous period				2	
ADD: Surplus from A/c I				200	
<b>TOTAL SURPLUS FOR DISPOSAL</b>				202	
LESS: Proposed allocations:					
Reserve fund	100				
Education fund	10				
Interest on shares	21				
Bonus on trade	70				
Balance c/f to new period				201	
				\$ 1	

Example 29 continued

	This year \$	Last year
III Balance sheet at 31.12.75.....		
<b>Source of funds (liabilities)</b>		
Share capital	2496	
Deposits	1000	
Reserve fund	470	
Education fund	80	
Surplus for disposal	202	
<b>Total funds of members</b>	4250	
Creditors (A/c 5+6+12)	957	
Society loans	540	
<b>TOTAL \$</b>	5747	
<b>Use of funds (assets)</b>		
Fixed assets		
Cost	3200	
LESS: Depreciation provision	940	
<b>Book value</b>	2260	
Investments	202	
Stocks (A/c 4+5)	950	
Members' loans	-	
Debtors (A/c 4+6+13)	180	
Cash at bank	2040	
Cash in hand	55	
<b>TOTAL \$</b>	5747	

# 6 Summary

## 6.1 Book-keeping system

The outline of the book-keeping system for marketing societies is now completed. The system can be summarised as follows:

- 1 All transactions are immediately recorded in records of original entry.
- 2 Details of these are posted into the *working ledger* which is ruled off and balanced at the end of every week.
- 3 The working ledger total of entries are posted every week into the *main ledger*.
- 4 A *trial balance* of the main ledger is prepared at the end of every four weeks.
- 5 At the end of the financial period the *final accounts and balance sheet* are prepared.
- 6 Any *surplus* revealed is distributed.

## 6.2 Control systems

Within the book-keeping system control systems operate as follows:

### 1 *Efficiency*

The actual business performance of the society is compared from time to time with the forecasted results in the annual budget.

### 2 *Stocks*

All stocks are checked as soon as received. All sales are recorded. Stock control records are kept.

### 3 *Cash*

Receipts are issued for all cash received. Receipts are obtained for all cash paid. Cash is banked as soon as possible. Cash in hand is checked frequently.

### 4 *Reports*

Regular reports are submitted to the committee. The auditor and the internal auditors examine the records and report on the business.

### 5 *The book-keeper*

The book-keeper is the key person in the efficient maintenance of these systems and controls.

# 7 Exercises

To illustrate the book-keeping procedures outlined, the information from the following five exercises has been posted into the examples of the forms, books and ledgers shown in this manual. Teachers can change the figures given in these exercises and in that way prepare exercises for further teaching purposes. Naturally other changes and additions can be made in order to adapt the exercises to local conditions.

## Exercise A

In this exercise the main ledger for the new financial year beginning 1.1.75 was opened from the details shown in the trial balance. The balances in the accounts for the assets and the liabilities shown were posted to their pages in the main ledger (Example 2, pages 8-11).

## Exercise B

From the summary of the financial transactions for 1975 the working ledger (Example 1, page 6) was posted and the trial balance was prepared. The main ledger Example 2 was posted and the trial balance (Example 23, page 38), was prepared.

As far as is possible the other examples within this manual show the entries and balances included in the working ledger and the main ledger.

## Exercise C

The closing entries for the stocks and the other adjustments were posted to the main ledger. Then the final accounts and balance sheet (Example 29, page 46) were prepared.

## Exercise D

The weekly stock control record (Example 27, page 42) and the leakage control account (Example 28, page 43) were completed from the information shown in this exercise.

## Exercise E

This exercise shows the preparation of the bank reconciliation statement (Example 8, page 17).

## Exercise A

### Opening balances from balance sheet at 31.12.74

1.1.75. Post to main ledger the following opening balances:

Detail	Ref no	DR \$	CR \$
Cash	1	15	
Bank	2	1020	
Farm inputs – stocks	4	300	
Consumer trade – stocks	5	600	
Expenses – wages accrued b/f	6		20
Fixed assets	7	3000	
Depreciation provision	8		600
Shares	9		1400
Deposits	10		600
Creditors	12		845
Debtors	13	20	
Investments – Co-operative Union	14	200	
Society loans	15		1000
Surplus	16		240
Reserve fund	17		400
Education fund	18		50
<b>TOTALS</b>		<b>\$5155</b>	<b>\$5155</b>

### Notes

- 1 Round dollars (\$) are given in the exercise here. In the books of the society the exact amounts are recorded.
- 2 To show the use of as many ledgers and records as possible, the totals of transactions have been posted to the examples given of these. In the books of the society, individual transactions and accounts are posted.

**Exercise B**

**Summary of financial transactions for 1975 from records of original entry**

31.12.75 (a) Post and balance working ledger  
(b) Post and balance main ledger

		\$
Allocation of 1974 surplus:		
Bonus transferred to shares	98	
Interest transferred to shares	40	
Transfer to reserve fund	70	
Transfer to education fund	<u>30</u>	
TOTAL		238
Invoices from creditors:		
Farm inputs purchases	800	
Consumer goods purchases	1700	
Property expenses	100	
New scale	<u>200</u>	
TOTAL		2800
Paid creditors by cheque		2700
Cash discounts allowed by creditors		40
<i>Sales: Cash sales</i> Consumer trade		1900
Farm inputs		750
<i>Credit sales</i> Consumer trade		100
Farm inputs		50
Received cash from debtors		140
Cash paid into bank		2050
Bank charges		20
Investment in Co-operative Union by cheque		50
Interest added to investment		12
Received share contribution		1000
Paid share withdrawal by cheque		40
Received deposits from members		440

	\$
Deposit interest	40
Paid deposit withdrawal in cash	80
Paid expenses in cash: wages and tax	200
transport	60
Paid expenses by cheque: Other expenses	100
Produce advances to members paid in cash	1000
Invoices to debtors for produce	7000
Loans advanced to members in farm inputs	200
Loans advanced to members in cash	800
Members' loan interest	50
Society loan repaid by cheque	500
Society loan interest added to account	40
Produce proceeds received from debtors deposited in bank	7000
Cashed own cheque to pay produce proceeds	4620
Produce proceeds paid to members in cash	4620
Produce proceeds deducted to repay members' loans	1030
Members' loans – bad debts written off	20

**Exercise C****Stocks and adjustments at 31.12.75**31.12.75 (a) *Post main ledger*(b) *Prepare final accounts and balance sheet*

	\$
1 Stocks at cost: Farm inputs	200
Consumer goods	750
2 Consumer goods received not invoiced (GRNI)	50
3 Credit outstanding for farm inputs	50
4 Other expenses prepaid	50
5 Property expenses prepaid	50
6 Interest accrued	2
7 <i>Depreciation:</i> Land and buildings 5% 100	
Fixtures and fittings 20% 200	
Equipment 20% <u>40</u>	
TOTAL	340

The committee have instructed that this be charged to the trading sections, based on the floor space they use, as follows, produce \$80, farm inputs \$40, consumer \$220

8 Apportion the remaining expenses to the trading sections on the sales ratio basis.

9 Proposed allocations of net surplus for disposal:	\$
Reserve fund	100
Education fund	10
Interest on shares	21
Bonus	70

**Exercise D****Stock and leakage controls**

Complete the *Weekly Stock Control Record* in Example 27 from the following details:

	<i>Stocks to begin</i>	<i>Received</i>	<i>Sold</i>
Produce – bags	–	1000	1000
Seeds – packets	30	350	360
Fertilizers – bags	10	130	125

Complete the *Leakage Control Account* in Example 28 from the following details:

*Consumer goods at selling values*

Sales	\$2000
Purchases	\$2200
Stocks to begin	\$756
Stocks to end	\$920

**Exercise E**  
**Bank reconciliation statement**

Complete the *Bank Reconciliation Statement* in Example 8 from the following details:

	\$
Balance on bank statement	1750.61
Balance in main ledger	2040.00
Deposits in transit 30.12.75.	500.00
31.12.75.	150.25
Cheques not presented number 2458	300.00
number 2461	60.86





# *Co-operative Book-keeping*

## **2 Consumer Co-operatives**



Co-operative Education Materials Advisory Service

INTERNATIONAL CO-OPERATIVE ALLIANCE  
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# Foreword

It is a common complaint that, in many primary co-operatives, the standard of book-keeping is poor. The need has long been recognised for a basic, simplified system of book-keeping, for use in primary co-operatives in developing countries, in order to help improve that situation. The system described in this manual has been specially designed to meet that need. It makes no claim to be revolutionary, nor to advocate new techniques. On the contrary, it is based on customary double-entry practice; its only claim is that it is simple and that it works, and can easily be adapted to meet particular local requirements.

The system was originally introduced in Botswana, where it has been extensively field-tested and used for many years, with considerable success. In 1970, the British Ministry of Overseas Development, in association with the Intermediate Technology Development Group (ITDG), published three manuals based on the system (one each for Consumer, Marketing, and Thrift and Credit Co-operatives), which have been widely distributed and used in several countries. The ILO International Centre for Advanced Technical and Vocational Training at Turin used these manuals for the book-keeping sections of their Co-operative Management Training Courses. The original manuals have now been substantially revised, to make them more suitable for training purposes, and reissued as CEMAS/ICA publications. A fourth manual, for Industrial Co-operatives, has been added to the original series.

The purpose of book-keeping is *three-fold*:

- 1 to maintain an accurate financial picture of the business, in such a way, that the state of its finances can be simply, clearly and accurately revealed at any time;
- 2 to make it possible for the accuracy of the accounts to be quickly checked, to avoid errors or fraud;
- 3 to serve as a management tool by providing the information required for decision-making and for planning future activities.

This system satisfies those criteria and, in doing so, takes account of the circumstances within which it has to be used, and of the essential need for the book-keeper to know *what* he is doing and *why* he is doing it. The intention is to provide a system which, while fully adequate, in terms of good book-keeping practice, does not make unnecessary demands on the user's time, ability and comprehension.

The manuals have been so designed as to serve both training and operating purposes. They may be used as *handbooks* for co-operative teachers, as *textbooks* for students attending training courses, and as *working manuals* for on-the-job guidance of secretaries and book-keepers. They will be found of most value wherever training courses, based upon them, are provided, and where, after the courses, students are encouraged to use them on return to work.

## ACKNOWLEDGEMENTS

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The major work of revision was undertaken by Mr D W Heffer, former adviser on co-operative accounting in Botswana and the West Indies. The manuals at draft stage were also submitted to the criticism of several other co-operative experts, and in particular, Mr A Boberg, of Sweden, formerly co-operative accountancy expert with the Nordic Co-operative Project in Kenya, and consultant to the Co-operative Department, Zambia, contributed much useful advice. We are grateful for the help of all these colleagues.

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## NOTE FOR TEACHERS

This manual describes a book-keeping system concerned with the maintenance of ledger accounts up to trial balance stage. In the final sections, a brief description of control systems and preparation of final accounts is given in order to complete the sequence of operations up to that stage, but these are deliberately not described in detail.

As a follow-up to the present series, CEMAS/ICA is producing a more advanced manual on Co-operative Accountancy, which extends the system to the stage of preparation of final accounts and budgets, to meet the needs of larger co-operatives.

When the manual is used for training purposes, it will normally be desirable for the teacher to prepare and use his own exercises (additional to the three in chapter 7, on page 25), and particularly so when it is necessary to adapt these to the specific requirements of local practice.

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# 1 Introduction

## 1.1 The consumer co-operative book-keeping system

The book-keeping system described in this manual has been prepared for use by consumer co-operative societies, or other primary societies with a retail outlet. This system uses the double-entry method of book-keeping applied to the columnar form of accounts. All the entries for the financial transactions are posted into a working ledger and all the accounts are controlled in the main ledger.

## 1.2 Objectives and operations of consumer co-operatives

The objectives of consumer co-operatives will normally be stated in their by-laws. Basically they strive to ensure that their members obtain the right consumer goods, at the right places, at the right times and at the right prices.

Their main function is to bulk-buy consumer goods and resell them to their members. Members own and control their own business which operates in their service. The business operations are financed from funds obtained from members, from funds borrowed from outsiders, and by making use of credit facilities available from wholesale suppliers. The co-operatives trade as efficiently as possible to cover at least the costs of their operations and to provide for reserves to give financial stability to their independent co-operative enterprises.

Traditionally when any net surplus remains, rebates are made to members in the form of a limited interest on shares and as a bonus on their purchases from their society. As co-operatives build up funds and business skills, they develop and expand to provide a wide range of goods and services to their members. These developments stem from good co-operative business practices, controlled by the use of good book-keeping systems.

### 1.3 The book-keeper's job

This manual is about the work of the book-keeper and how this work can be used in the control of the co-operative business enterprise.

The duties of the book-keeper will include:

- (a) keeping complete and accurate records of every financial transaction in which the society is involved;
- (b) checking the accuracy of these records at regular intervals;
- (c) preparing final accounts and a balance sheet at the end of every financial year, ready for audit and later consideration by the members;
- (d) preparing reports for the committee on the financial position of the society during the financial year.

### 1.4 Importance of book-keeping

Book-keeping control of the operations of a society is essential. The members are the owners of the society. They need to know how their business is doing and how their funds are being used. The members elect a committee to direct and control the affairs of their business and a manager is appointed to control the day-to-day operations. This committee and the manager need information on the operations of the society to be able to make decisions and to take managerial action. It is essential that the information required by the members, committee and manager is complete, accurate and up-to-date. The book-keeping system in use must therefore show:

- (a) How much the society *owes* (its *liabilities*).
- (b) How much the society *owns* (its *assets*).
- (c) Whether the society has *financial stability* and is able to pay its debts as they arise.
- (d) Whether the society is *operating efficiently*, covering its costs and providing a net surplus.

All societies therefore need to keep books of account so that they can provide the members, the committee and the manager with the information they need. In most countries there are laws which require that co-operatives keep proper books and records. This underlines the importance of a book-keeping system.

The system described in this manual will meet the needs of members, committees and managers. The examples in this manual will be related to a society with only one trading outlet. However, the basic system, using the working ledger and the main ledger, can be expanded to meet the needs of societies which have several branches. Each of these branches would keep a working ledger, from which postings would be made to the main ledger of the society in which all the accounts would be consolidated.



# 2 Book-keeping system

## 2.1 Double entry system

Book-keeping is concerned with correctly entering permanent written records of *financial transactions* into the books of account of the society.

A *financial transaction* arises in the course of business, when there is a transfer of money, or something having a money value. Examples will be considered later when the working ledger is examined.

In every financial transaction there are two aspects. There is the *imparting* (giving) of the benefit transferred and there is the *receiving* of this benefit. This imparting and receiving takes place between the accounts in the books of the society.

The double-entry system of book-keeping is used to record this transfer between the imparting account and the receiving account. In this system, details of the money, or money value, of the benefit transferred are recorded twice into the accounts of the society.

The account which imparts or provides, is credited (CR) and the account which receives is debited (DR). For every credit entry there must be a corresponding debit entry and vice versa, for every debit entry there must be a corresponding credit entry. When there has been corresponding postings made into the books of account, they will balance. *The debits will equal the credits.*

The balancing of the books is similar to the balancing of a beam-scale. When the goods in one pan of the scale are the same weight as the metal weights in the other pan, the scale will balance.

## 2.2 Trial balances

The book-keeper can check that the books balance by the preparation of a trial balance. These are statements prepared after the posting of the debit and credit entries has been completed for a given period. They show the list and total of all debits and the list and total of all credits. Since all entries of any financial transaction are recorded twice, once as a debit and then correspondingly as a credit, the total of all debits on the trial balance must be the same as the total of all the credits. If these totals do not agree with one another, then an error has been made. The book-keeper must then check all the additions and all the postings, for a trial balance *must* balance.

The book-keeper will be concerned with two trial balances:

### 1 Working ledger trial balance

The working ledger (Example 1, page 6), contains the debit and corresponding credit entries for all the financial transactions. These entries are made as they arise into the records of original entry. At the end of every week they are posted into the working ledger from these records. The working ledger is closed off and balanced every week after these postings have been completed. This is checked by the preparation of a trial balance of *all the debit and credit totals of entries* to be made from the working ledger into the main ledger. Example 1 (page 7) includes a trial balance.

### 2 Main ledger trial balance

The main ledger (Example 2, page 8) contains the balances on the various accounts of the society. After the debit and credit entries are made from the working ledger, the new balances on these accounts in the main ledger are ascertained. Then a trial balance of *all the debit and credit balances* in the main ledger will be prepared to check that the main ledger balances. Example 16 (page 29) shows this type of trial balance.

### 2.3 Records of original entry

The essential books and records used in this book-keeping system are outlined in the sections which follow. The entries to be made in them flow from the initial entries made into the *records of original entry*. These entries are made immediately the financial transactions occur. They become the source of postings to the ledgers. In the consumer co-operative the following records of original entry are used:

- (a) Receipt books (Example 6, page 13)
- (b) Payment vouchers
- (c) Invoices (Example 9, page 16) and credit notes
- (d) Cheque-books, bank paying-in books and the bank statements for bank charges
- (e) Cash sales receipts (Example 10, page 18) and cashing-up slips (Example 11, page 19).

Generally, either these primary documents can be specially printed, or standard books, which are available from most stationers, can be adapted to meet most local needs. They should be numbered consecutively and new documents should be kept locked away to ensure they are controlled.

Entries obtained from the exercises on page 37 have been used to illustrate the posting of the ledgers, forms and records used as examples in this manual. In the books of a society, individual transactions are posted into the records on the dates on which they occur.

### 2.4 Working ledger: Example 1 (pages 6-7)

This ledger combines the functions of the traditional cash book and the journals. It is a summary ledger. Details of all the financial transactions of the society are posted from the records of their original entries into the working ledger. This is kept on the double-entry system, so that for every debit entry (DR) there is a corresponding credit entry (CR).

This ledger is a columnar cash analysis book which can usually be purchased from the local book-shop and the headings are written in by the book-keeper as required. Two separate columns, one for debit entries, the other for credit entries, are kept for each type of account. The number and type of separate accounts kept by a society will depend upon its own particular needs and circumstances. However, our example shows the typical accounts which need to be kept. To avoid opening many columns for accounts which are not often used, two separate columns can be opened, headed 'Other Accounts' and entries for these infrequent transactions can be posted into these columns. They are posted separately into the accounts concerned in the main ledger.

As entries are made into the working ledger from the original records they show the *date* of the transaction, the *details* and any *reference number* from the original entry. Then the appropriate debit and credit entries are made into the columns provided. All this information is shown on the same line for each transaction. At the end of every week the working ledger is closed off and balanced. The totals of the debit and credit entries then to be posted to the main ledger are first checked by the preparation of a trial balance (see Example 1, page 7).

The working ledger, shown in Example 1, has been posted from the summary of the financial transactions for the whole of 1975 and all of these entries are dated as December 31 (see Exercises, page 37). When used in a society, the working ledger will have daily postings and it will be closed off, totalled and balanced every week.

**WORKING**

Week no 52 Ending 31<sup>st</sup> December

Date	1975	Detail	1 Cash		2 Bank		3 Purchases		4 Sales		5 Cash differences		6 Wages		7 Property expenses		8 Other		
			DR	CR	DR	CR	DR	CR	DR	CR	DR	CR	DR	CR	DR	CR	DR	CR	
Dec 31		Transfer of 1974 surplus		30															
" 31		Invoices from creditors				18500													
" 31		Cheque to creditors																	
" 31		Cash discounts from creditors																	
" 31		Cash sales	19510																
" 31		Credit sales to debtors								19510									
" 31		Cash from debtors	460			500													
" 31		Bad debts written off																	
" 31		Cash banked			20300	20300													
" 31		Bank charges				30													
" 31		Investment in Regional Union				50													
" 31		Investment interest																	
" 31		Goods used for cleaning	1000				10												
" 31		Share contributions																	
" 31		Share withdrawals				50													
" 31		Deposits received	400																
" 31		Deposit interest		200															
" 31		Deposit withdrawal		30															
" 31		Cash shortages																	
" 31		Cash Oves	20																
" 31		Expenses paid in cash		800															
" 31		Expenses paid by cheque				191													
		TOTALS TO MAIN LEDGER	21390	21360	20300	18821	18010	10	20010	20010	30	20	20	530	40	61	270	90	
		Account no		1	2	2	3	3	4	4	5	5	5	6	6	7	7	8	8
Dec 31		Adjustments:																	
		Stocks: to begin to trading account																	
		to end from "																	
		Purchases: goods received not invoiced (trading account)					340												
		" " " (balance sheet)																	
		Wages: accrued - trading account												50					
		" - balance sheet																	
		Property expenses: prepaid - trading account																	
		" - balance sheet																	
		Depreciation: charge - trading account																	
		Provision - balance sheet																	
		Transfer of cash differences																	
		TOTALS TO MAIN LEDGER					340	340	10	10	10	10	10	50	50	30	30	30	7
		Account no					3	3	4	4	5	5	6	6	7	7	7	7	7



## 2.5 Main ledger: Example 2

In this example the accounts are shown together. In the main ledger of a society a separate page is kept for each account as shown in Example 2(a). Since they are posted from the working ledger, these accounts will be kept in the main ledger in the same order as they are kept in the columns of the working ledger. The pages kept for each account are numbered consecutively and contain columns for the date, the details, the reference number and then three additional columns.

In the first of these three columns debit entries (DR) are posted. In the second column the credit entries (CR) are posted. The third column contains the running balance, prefixed to show whether it is DR or CR.

At the end of every four weeks the DR and CR balances in the main ledger are separately listed on a trial balance, shown in Example 16, (page 29). This checks that the main ledger balances. Also at the end of every four weeks, after this trial balance has been prepared, the monthly report to the committee shown in Example 19 (page 31) is prepared. At the end of the financial year the trading account for the year, together with the surplus disposable account and balance sheet, all shown in Example 21 (page 35) will be prepared.

### Example 2(a)

1 CASH ACCOUNT (in main ledger)						
Date		Detail	Ref no	DR	CR	Balance
1975						
Jan	1	Balance from balance sheet	b/f			DR 10 00
"	7	Entries from working ledger	2	2000 10	1960 70	DR 49 40
"	14	" " " "	9	2215 16	2040 56	DR 224 00
"	21	" " " "	16	2196 20	2396 00	DR 24 20
"	28	" " " "	17	1740 29	1744 19	DR 20 30
				and so on		DR 40 00
Dec	31	Asset to balance sheet	c/f		40 00	—
1976						
Jan	1	Balance from balance sheet	b/f			DR 40 00

This example shows the cash account, included in Example 2, as it would appear on its separate page in the main ledger of the society.

### Example 2

Date	1975	Detail	Ref no	1 Cash		Balance	2 Bank		MAIN 3 Pur	
				DR	CR		DR	CR	Balance	DR
Jan	1	Balances from balance sheet	b/f			DR 10				
Dec	31	Entries from working ledger	52	21390	21360	DR 40	20300	18821	DR 2499	18010
"	31	Adjustments - trading account	52							340
"	31	<u>Transfer income &amp; expenditure to trading a/c</u>								
"	31	Adjustments - balance sheet	52							
"	31	" - transfer of net surplus from trading a/c								
"	31	<u>Assets &amp; liabilities to balance sheet</u>	c/f			DR 40			DR 2499	
1976										
Jan	1	Balances from balance sheet	b/f			DR 40			DR 2499	

**2.6 Members' share and deposit ledger: Example 3**

Within this ledger a separate page is kept in share number order, for each member. These records can also be kept in a loose-leaf ledger or on cards, with a separate page or card being kept for each member. The share and deposit transactions are posted to this ledger from the details of their original entries, after these have

been posted to the working ledger. At the end of every four weeks the individual balances for shares and deposits are separately added. The resulting share total then has to be agreed with the CR balance for shares in the trial balance of the main ledger. The resulting balance for deposits is agreed with the CR balance for these in this trial balance.

Example 3

MEMBERS' SHARE AND DEPOSIT LEDGER										
Name of member: Address:								Share no:		
Date	Ref no	SHARES					DEPOSITS			
		Contributions CR	Interest CR	Bonus CR	Withdrawals DR	Balance CR	Deposits CR	Interest CR	Withdrawals DR	Balance CR
1975										
Jan 1	1					1400				600
Dec 31		1000	40	68	50	2458	400	40	200	840

LEDGER															
1 Balance		4 Sales		5 Cash differences			6 Wages			7 Property expenses			8 Other expenses		
DR	CR	DR	CR	DR	CR	Balance	DR	CR	Balance	DR	CR	Balance	DR	CR	Balance
CR 240									CR 20			DR 5			
DR 17760		20010	CR 20010	30	20	DR 10	570		DR 550	411		DR 416	460	111	DR 349
DR 18100	10		CR 20000		10	-	50		DR 600		30	DR 386			
-	20000							600	-		386				349
CR 340								50	CR 50	30		DR 30			
CR 340									CR 50			DR 30			
CR 340									CR 50			DR 30			

Example 2 continued ►

## 2.7 Creditors' ledger (accounts payable): Example 4

Creditors are suppliers who are owed money by the society for goods or services supplied on credit terms to the society. In this ledger, a record of the transactions of the society with these individual suppliers of goods and services will be kept. A separate page will be opened for each of these suppliers. These pages will be kept in surname alphabetical order.

These pages contain columns for the date of the transaction, the details and reference number. There are also three other columns. The first column is used for debit entries (DR) for cash paid, discounts allowed to the society, and credit notes. The second is used for credit entries (CR) for invoices. The third column shows the running balance, prefixed DR when there is a balance due to the society, or CR when there is a balance due to the supplier. Postings are made to this ledger from the original records after their details have been posted to the working ledger.

At the end of every four weeks the balances in this ledger will be add-listed to produce the net credit balance (CR) due to suppliers.

This total is then agreed with the CR balance for creditors shown in the trial balance of the main ledger at that date.

Example 4

CREDITORS' LEDGER						
Name of supplier:			Account no:			
Address:			Credit terms:			
Date		Detail	Ref no	DR	CR	Balance
1975						
Jan	1	Balance	b/f			CR 905
Dec	31	Invoices	52		18660	CR 19565
"	31	Cheques	52	18500		CR 1065
"	31	Discounts	52	96		CR 969

9 Fixed assets			10 Depreciation provision			11 Shares			12 Deposits			13 Creditors			14 D	
DR	CR	Balance	DR	CR	Balance	DR	CR	Balance	DR	CR	Balance	DR	CR	Balance	DR	
		DR 2000			CR 600			CR 1400			CR 600			CR 905		
300		DR 2300			CR 600	50	1108	CR 2458	200	440	CR 840	18596	18660	CR 969	500	4
			265	265	CR 600											
				<u>265</u>	CR 865											
		<u>DR 2300</u>			<u>CR 865</u>			<u>CR 2458</u>			<u>CR 840</u>			<u>CR 969</u>		
		DR 2300			CR 865			CR 2458			CR 840			CR 969		

**2.8 Debtors' ledger (accounts receivable): Example 5**

Debtors are customers of the society who owe money to the society. The society will generally obtain immediate cash for sales of goods. Sometimes limited credit terms may be allowed (for example, to welfare or similar organisations trading with the society). Any credit terms given must be authorised in the by-laws. The balances due from debtors will be kept as low as possible.

The debtors' ledger contains separate pages for each customer who is given credit by the society. Each page contains columns for the date, details and reference number. There are also three other columns. The first column is used for debit entries (DR) for invoices issued by the society. The second is used for credit entries (CR) for cash received, and credit notes. The third column shows the running balance, prefixed DR or, where the society owes money to the customer, prefixed CR.

Postings are made to the accounts in this ledger from the original records, after their details have been posted to the working ledger.

At the end of every four weeks the balances in this ledger are added to produce the net debit (DR) due to the society. This is agreed with the balance for debtors shown in the trial balance of the main ledger at that date.

Example 5

DEBTORS' LEDGER					
Name of customer: Address:			Account no: Credit terms:		
Date	Detail	Ref no	DR	CR	Balance
1975					
Jan 1	Balance	b/f			DR 20
Dec 31	Goods - invoices	52	500		DR 520
" 31	Cash	52		460	DR 60
" 31	Bad debts - written off	52		20	DR 40

Debtors	15 Investments		16 Surplus		17 Reserve fund		18 Education fund		19 Stock account			
Balance	DR	CR	Balance	DR	CR	Balance	DR	CR	Balance	DR	CR	Balance
DR 20			DR 200			CR 400			CR 50			DR 1200
DR 40	65		DR 265	238		CR 470		30	CR 80			DR 1700
					800	CR 802				1700	1200	DR 1700
<u>DR 40</u>			<u>DR 265</u>			<u>CR 802</u>			<u>CR 80</u>			<u>DR 1700</u>
DR 40			DR 265			CR 802			CR 80			DR 1700



## 2.9 Other books and records

There are other books and records in use in the society, in which are entered the numerous details connected with the business operations and controls. These will be outlined when the accounts are considered later.

## 2.10 Other book-keeping terms

Book-keeping is a technical subject. Technical book-keeping terms are used in this manual as follows:

(a) *Financial, or accounting, period*

The financial period is the period of time covered by the final accounts. This period is often of one year, ending on a date stated in the by-laws of the society.

(b) *Final accounts*

These are prepared at the end of the financial period. This consumer co-operative uses two final accounts.

(c) *Trading account*

This is one of the final accounts. It is a summary of all of the income and expenditure for the financial period. This summary reveals the surplus or loss.

(d) *Surplus disposal account*

This account shows the proposed disposal of any net surplus. It contains the recommendations of the committee on the allocations for reserves, education, share interest and bonus.

(e) *The balance sheet*

This is a list of the liabilities and the assets of the society on a given date. A balance sheet is prepared after the final accounts have been completed at the end of the financial period.

(f) *Surplus and loss*

The *income* of the society is earned from the sale of goods. The *expenditure* includes the cost of purchasing and selling the finished goods. There is a net *surplus* when income is greater than expenditure. There is a net *loss* when expenditure is greater than income.

(g) *Liabilities and assets*

*Liabilities* show what the society *owes*. They include members' shares and deposits, reserve funds, surplus not distributed, and balances owed to creditors.

*Assets* show what the society *owns*. They include land, buildings, fixtures, fittings, stocks, investments, cash, and balances owed by debtors.

*Fixed assets* are held permanently to be used to earn income and include land buildings, fixtures and fittings.

(h) *Interest and bonus*

*Interest* is that part of any net surplus which is distributed to members in relation to their share capital. In some countries the term *dividend* is used instead.

*Bonus* is that part of any net surplus distributed to members in relation to their trade with their society. This is sometimes called *patronage refund*.

(i) *The auditor*

The *auditor* is a skilled accountant whose responsibility it is to check and verify the accounts of the society at the end of the financial year and at any other time as the registrar of co-operatives may consider necessary. The auditor is independent of the society and reports to the registrar and the members.

*Internal auditors*, where they exist, are elected under the by-laws by the members at their Annual General Meeting. They are elected to conduct regular checks for the members on the books, assets and activities of their society. They report to the members at the Annual General Meeting.

# 3 The working ledger

The working ledger is shown in Example 1, (pages 6-7). This ledger is posted at the end of every week from original records which are made immediately the financial transactions occur. The entries posted in this ledger are outlined as follows:

## 3.1 Cash account

### (a) Security

Cash must be handled with the utmost care and, wherever possible, only one person should be responsible for receiving and paying all cash. This person should not also be the book-keeper. At all times cash, other than that which is in use in the cash register (till), must be placed in the safe. The safe must be kept locked and only the person instructed by the committee should hold the key.

The cash in hand should be checked from time to time by the committee and by the internal auditors appointed by the members. The auditor appointed by the registrar of co-operatives will also check the cash in hand on his visits to the society.

Apart from the cash float, or other cash held to make expected payments, all cash should be banked as soon after receipt as possible. The *cash float* is a set sum held back in the store for change.

### (b) Cheques received

For book-keeping purposes all cheques, postal orders or money orders received by the society are treated as cash. Cheques should only be accepted if prior arrangements have been made with the manager of the society. Generally, cheques bearing a date in the future (post-dated) should not be accepted.

### (c) Cash receipts

A receipt similar to Example 6 must be issued whenever cash is received.

## Example 6

<u>CASH RECEIPT</u>	
	Number: 15
RECEIVED FROM: <i>Frank PULE</i>	
..... <i>one</i> ..... dollars and <i>fourteen</i> ..... cents	\$ <i>1-14</i> .....
IN PAYMENT OF: <i>Share contribution A/c no 70</i>	
DATE: <i>5-1-75</i> .....	FOR: <i>Anywhere</i> Co-operative Society Ltd
<i>(new balance in pass book \$8 96)</i>	SIGNED: <i>J. Brown</i> ..... <i>Secretary</i> .....
	Posted to working ledger page no ..... <i>9</i> .....

The receipt will show the following details:

- 1 Cash receipt number
- 2 Name of co-operative society
- 3 Name of person paying the cash
- 4 Purpose for which cash is received
- 5 Amount of cash received in words and figures
- 6 Date cash received
- 7 Signature of person receiving the cash

Usually the receipt is made out in duplicate using carbon paper. The *top copy* is issued to the person paying the cash. The *bottom copy* is kept by the society as the record of original entry from which the working ledger will be posted as follows:

*Date* ..... received  
*Detail* ..... from receipt book  
*Ref no* ..... receipt number  
*DR* ..... *debit cash account* – with amount received  
*CR* ..... *credit imparting account* eg debtors, shares or other imparting account with amount received

(d) *Cash payments*

A receipt must be obtained, or a payments voucher be made out, in support of all cash paid out. These will contain similar details as shown in Example 6. On the receipt, or payments voucher, the person receiving the cash from the society will sign his name. From the receipt or payments voucher, which forms the record of original entry, the working ledger is posted as follows:

*Date* ..... paid  
*Detail* ..... from receipt or voucher obtained  
*Ref no* ..... receipt or voucher number  
*DR* ..... *debit receiving account* ie bank, expenses or other receiving account with amount paid  
*CR* ..... *credit cash account* – with amount paid

**3.2 Bank account**

(a) *Current account*

A current account should be opened at the nearest bank. The bank will issue a *paying-in book* and a *cheque book* after they have received a copy of the resolution of the committee to open the account. The committee will also inform the bank of the officers who are authorised to sign cheques on behalf of the society. The bank will require specimen signatures from these officers. The person appointed to handle the cash of the society will make the deposits to this current account at the bank.

(b) *Bank deposits*

A page in the bank paying-in book is made out in duplicate and the cash is taken to the bank. The bank will keep the *top copy* and will stamp the *bottom copy* as the receipt for the society. From this record of original entry, entries to be made into the working ledger are:

*Date* ..... taken to bank  
*Detail* ..... from the paying-in slip, stamped and receipted  
*Ref no* ..... number of paying-in slip  
*DR* ..... *debit bank* – with amount deposited  
*CR* ..... *credit cash* – with amount deposited

(c) *Bank payments*

Payments will be made using cheques from the cheque book, which should be kept locked in the safe. The book-keeper will present the bills to be paid to the manager who should make out the cheques. The officers of the society authorised to sign the cheques should do so only after they have compared the cheques with the bills for payment. The cheques are sent off to the creditors concerned. The working ledger is then posted from the cheque book stubs as follows:

*Date* ..... of cheque as shown on the stub retained in the cheque book  
*Detail* ..... name of creditor (payee) from the stub  
*Ref no* ..... number of cheque  
*DR* ..... *debit payee* – creditor or other receiving account with amount of cheque  
*CR* ..... *credit bank* – with amount of cheque

(d) *Bank statements and reconciliation statement*

From time to time the bank will send a *statement* showing all transactions posted to the account of the society by them, together with the used cheques. When these are received the following procedure is undertaken:

- 1 The balance to begin on the statement is checked to ensure that it is the same amount as shown on the previous statement as the balance to end.
- 2 The cheque entries on the statement are ticked (✓) to ensure that all cheques posted on the statement have been enclosed.
- 3 Items remaining as withdrawals on the bank statement, if any, are for such items as commission and interest as will be seen by checking the prefix number of the posting with the number code shown at the bottom of the statement.
- 4 These *bank charges* are added and the total is posted to the working ledger as follows:

*Date* ..... posted to working ledger  
*Detail* ..... bank statement — charges  
*Ref no* ..... number of bank statement  
*CR* ..... *credit bank*  
*DR* ..... *debit other expenses* — bank charges

- 5 When this entry and all entries in the working ledger have been posted to the main ledger, the last balance shown on the bank statement has to be *reconciled* with the last balance shown on the bank account in the main ledger (see Example 7 below).
- 6 Cheques are sorted into their numerical order and ticked against the entries which were made in the working ledger when the cheques were drawn.
- 7 Deposits as shown on the statements are ticked against the entries which were made in the working ledger when the deposit was made.
- 8 The bank columns of DR — deposits, and CR — payments, now show ticked entries, indicating that they have been posted by the bank to the statement.

9 The reconciliation is then prepared as follows:

*Example 7*

<i>BANK RECONCILIATION STATEMENT</i>		
		\$
<i>Balance in bank on bank statement</i>	2610	50
<i>ADD deposits in transit</i> <i>(deposit entries in working ledger not ticked as having been shown on bank statement)</i>	500	00
<i>TOTAL</i>	3110	50
<i>LESS cheques not presented</i> <i>(cheque entries in working ledger not ticked as having been shown on bank statement)</i>	611	50
<i>TOTAL - being balance in bank account in main ledger</i>	2499	00

- 10 Where an overdraft (normally in red print) is shown as the balance on the statement, cheques not presented are added and deposits in transit are deducted to produce the balance on the bank account in the main ledger.
- 11 Overdrafts arise when cheques have been paid from the account with the bank in excess of the funds held in the account. The bank has then in reality made a loan to the society. Overdrafts should first be arranged with the bank manager. They should only be used for short periods since the rate of interest charged by a bank for an overdraft is very high.

**3.3 Purchases**

(a) *Suppliers*

The society will purchase goods for resale to members from wholesalers, manufacturers or producers. Often primary co-operatives come together to form a co-operative union which acts as their main supplier. By consolidating their buying power,

the primary societies, through their union, buy in bulk and obtain better prices and terms than they could obtain when buying alone.

Suppliers usually give *credit terms* to co-operatives after they are satisfied that the society is stable and creditworthy. To continue to enjoy these terms and to develop the confidence of others in co-operatives, the society must ensure that it keeps within the terms of credit granted, including the terms of payment.

Most of the goods purchased for resale will thus be paid for some time after delivery. Some goods will still be purchased for immediate cash. For example, produce purchased from producers for resale in the store is often paid by immediate cash on delivery: DR purchases: CR cash.

(b) *Ordering and receiving goods*

The manager should prepare the *written orders* to the suppliers in duplicate. The order is signed by the manager and the *top copy* is sent to the supplier.

Usually the goods ordered will be sent to the society with a *delivery note*. The delivery note, sent by the supplier, shows the quantity and description of the goods despatched.

When the goods are received at the society, they are checked against the delivery note and the *bottom copy* of the order kept by the manager.

Where, because of damage or short delivery, a credit is due from the supplier, it should be claimed at once in writing. A copy of the *claim for credit* will be kept by the manager. After the goods, which have been delivered, have been checked and accepted, their details will be entered in the *goods received book* as shown in Example 8.

Where a society purchases goods from a few suppliers and delivery notes are always received, these can be filed separately and this file can be used instead of a 'goods received' book. In particular, the delivery notes issued by a co-operative union supplying the society can be filed separately and kept as the 'goods received' record for these supplies.

Example 8

GOODS RECEIVED BOOK								
								Page no: 6
Date received 1975	Supplier	Descrip. of goods	Quan. of goods	Cost value	Selling value	Delivery note no	Invoice no	Working ledger page no
Jan 28	Wholesaler	Barley	2 Sacks	1 00	1 20	160	262	4/28/1/75
		Sugar	12 Cartons	10 80	12 00			
				11 80	13 20			

(c) *Book-keeping entries for purchases*

The supplier will send his *invoice* showing the cost prices and total value of the goods despatched. A typical invoice is shown in Example 9.

Example 9

INVOICE			
			Suppliers no: 147
FROM: Co-operative Wholesale Ltd, 1, The Docks, Anywhere.			
TO: Anywhere Consumer Co-op Society Ltd.		Date: 1/2/75	
Main Street, Anywhere			
Your order no:	Date ordered:	Date sent:	
333	3.1.75	27.1.75	
Number	Description	Price	Cost
2	Sacks of barley	0.50	1.00
12	Cartons of sugar	0.90	10.80
		TOTAL	11.80
Terms: net cash 7 days			
<i>Society invoice no 262</i>			

Since the cost of transporting the goods for resale to the society will be directly recovered from their selling prices, any charges made for transport will be treated in the same way as charges made for the goods and will be *debited* to the purchases account.

When the invoice for goods or transport is received by the society, it will be given a *consecutive number*. The details on the invoice will be checked against the entry made in the 'goods received' book which was made when the goods concerned were received. The entry in the 'goods received' book will be marked off to show the invoice number and the date of the entry made for the invoice in the working ledger.

When *credit notes* are received they too will be given a separate consecutive number. Their details will be checked against the bottom copy of the claim for credit, which will be marked off to show that the credit note has been received.

From the accepted invoice, or credit notes, the working ledger will be posted as follows:

<i>Charges from invoices</i>		<i>Credits from credit notes</i>	
<i>Date</i> .....	<i>of invoice</i>	<i>Date</i> .....	<i>of credit note</i>
<i>Detail</i> .....	<i>name of supplier</i>	<i>Detail</i> .....	<i>name of supplier</i>
<i>Ref no</i> .....	<i>invoice number</i>	<i>Ref no</i> .....	<i>credit note number</i>
<i>DR</i> .....	<i>purchases – with total cost value on invoice</i>	<i>DR</i> .....	<i>creditors – with total cost value on credit note</i>
<i>CR</i> .....	<i>creditors – with total cost value on invoice</i>	<i>CR</i> .....	<i>purchases – with total cost value on credit note</i>

After these entries have been made in the working ledger, their details will be posted into the individual account of the supplier kept in the creditors' ledger. The invoices and credit notes will be separately filed in their society number order ready for audit.

(d) *Pricing*

The *cost price* of the goods includes their purchase price as shown on the invoice, together with their cost of transport to the society, and any other direct costs charged, such as import

duty. To calculate the *selling price* of the goods a *mark-up* is added to their cost price. This mark-up is usually expressed as a *percentage rate of the cost price*. The rates of mark-up to be applied to cost prices will depend upon at least the following:

- 1 pricing policy of the society
- 2 local prices set by competitors
- 3 the estimated expenses of the society
- 4 the type of goods: quick selling items like sugar have a lower mark-up than higher-priced, slower selling items like clothing.

The selling price will be calculated by the manager and will be entered in red on the bottom of the invoice. The goods concerned will be individually price marked with their selling prices. Since delays in the receiving of invoices can occur, selling price calculations are often made by using the information shown on the delivery notes.

(e) *Payment for purchases*

Where goods for resale are purchased for *immediate cash*, no entries are made in the creditors' ledger. The entries to be made in the working ledger will be:

<i>Date</i> .....	<i>of purchase</i>
<i>Detail</i> .....	<i>of goods</i>
<i>Ref no</i> .....	<i>cash receipt/payment voucher number</i>
<i>DR</i> .....	<i>purchases – with amount of cash paid</i>
<i>CR</i> .....	<i>cash – with amount of cash paid</i>

Where goods for resale are purchased on *credit terms*, the supplier will send his *statements for payment* by the society at regular intervals, usually monthly. These statements will show the balance owed from previous months together with details of invoices, credit notes, payments received, discounts allowed during the current period, and the balance remaining due. These details will be checked against the individual account for the supplier kept in the creditors' ledger in a similar way as the bank statement is checked.

After the balance claimed by the supplier has been agreed, payment is made in accordance with the agreed credit terms. Sometimes suppliers allow a *cash discount* for payment

within a stated period. Deductions for any discounts are made from the agreed balance on the statement, and the cheque will be made out for the net balance. Entries are made from the cheque stubs into the working ledger as follows:

- Date ..... of cheque
- Detail ..... name of supplier
- Ref no ..... cheque number
- DR ..... creditors – with amount of cheque plus discount allowed
- CR ..... bank – with amount of cheque
- CR ..... other expenses – with amount of cash discount

These details will also be posted into the individual account of the supplier kept in the creditors' ledger. The statement will be sent with the cheque to the supplier. When the receipted statement is returned to the society, it will be filed ready for audit.

(f) *Goods for own use*

Any goods taken from the stocks to be used in the shop for cleaning or other authorised purposes are to be recorded. Entries are made for these in the working ledger as follows:

- DR: *Other expenses*
- CR: *Purchases* with the cost value of these goods

**3.4 Sales**

The main source of income to the society is from the sale of consumer goods to members. The book-keeper is involved with two main aspects of the financial transactions concerned with sales. These are the *control of cash* and the *recording of the trade of the individual members* with their society.

(a) *Cash control*

Whether the store operates on counter service or self-service, as few people as possible should handle cash. In the counter service store one cashier is usually sufficient. The number of cashiers in a self-service store will depend upon the number of

check-outs required to handle the volume of business. Each cashier will be responsible for the cash he or she handles.

Sales can be recorded by using cash registers (tills) which produce a sales slip for the customer and an audit list for cash control purposes. However, where the volume of business does not justify the expenditure on a cash register, cash sales receipt books with numbered pages which are made out in triplicate, using carbon papers, are used. The pages are completed as shown in Example 10.

Example 10

CASH SALES RECEIPT					
					Number: <u>87</u>
Sold to: <u>F. Pule</u>					Share no: <u>70</u>
Description of goods	Quantity	Selling price	Total value		
<u>Brown sugar</u>	<u>5 Kilo</u>	<u>28</u>	<u>1</u>	<u>40</u>	
<u>Bread flour</u>	<u>10 Kilo</u>	<u>16</u>	<u>1</u>	<u>60</u>	
CASH RECEIVED: <u>Three</u> dollars			\$	<u>3</u>	<u>00</u>
and <u>no</u> cents					
DATE: <u>21.6.75</u>		FOR <u>Anywhere</u> CO-OPERATIVE SOCIETY LTD			
Signed <u>M. Shan</u> Cashier					

The manager issues and controls all the sales receipt books or the till rolls. The cashiers are issued with a set amount of change as a cash float for change *at the start of each working day*.

During the day customers are issued with the top copy of the sales receipt or a cash register slip as they buy from their society. Where any petty cash payments are made from the till, the cashier will obtain a signed receipt.

At the end of each day the following *Cashing-up procedure* will be followed:

- 1 Cashier takes out the cash float which is checked and locked in the safe by the manager.
- 2 The remaining cash is counted and listed with any petty cash payments receipts on the cashing-up slip (Example 11). The manager gives the cashier a receipt for this cash which he then locks in the safe.
- 3 Where a cash register is in use, the total sales for each day will be obtained from the audit list kept in the cash register. If no cash register is used, the amounts of sales shown on the bottom copies of the sales receipts are add-listed to produce this total. The sales total is entered on the cashing-up slip.
- 4 Any difference between the cash and the sales total is recorded on the cashing-up slip. The cashier will be required to locate or explain any differences.
- 5 From the cashing-up slips the working ledger will be posted by the book-keeper as follows:

*Date* ..... of sales  
*Detail* ..... number of cashing-up slip  
*DR* ..... *cash* – with actual 'cash' total  
 (including any petty cash payments)  
*CR* ..... *sales* – with total of sales from sales receipts or slips  
*DR/CR* ..... *cash differences* – with any shortages (DR) or any overs (CR)

Where the 'cash' total includes any amount paid out as 'petty cash', a further entry into the working ledger will need to be as follows:

*Date* ..... of payment  
*Detail* ..... from petty cash payment receipt  
*Ref no* ..... receipt number  
*DR* ..... *receiving account* eg expenses – with amount paid  
*CR* ..... *cash* – with amount paid

Example 11

CASHING-UP SLIP	
	No: <u>141</u>
Cashier: <u>M Jane</u>	Date: <u>24.12.75</u>
Cash:	\$
\$100 notes	300.00
\$10 notes	150.00
\$1 notes	200.00
Coins	5.62
Cheques	10.18
Postal Orders	1.21
Petty Cash Payments:	
.....	
.....	
.....	<u>1.46</u>
TOTAL CASH	\$ <u>668.47</u>
Sales: from sales receipt books or cash register lists	\$ <u>669.57</u>
Cash difference: short/over	\$ <u>1.10</u>
Reason for difference: <u>I made a mistake in giving change</u>	
Signed: <u>M Jane</u>	Cashier
Signed: <u>J Moore</u>	Manager
Posted to working ledger – page no <u>51</u>	



(b) *Members' trade records*

Where the society is using *sales receipt books*, receipts will be made to show the name and share number of the members as well as the details and prices of the goods sold. After the total daily sales have been determined, the middle copies of the sales receipts will be separately torn out from the sales receipt book. They will be sorted into share number order and the receipts for each member will be separately filed. This will be done throughout the financial period. At the end of each financial period the receipts for each member will be add-listed to produce the total trade of each member during the period. These totals will be used to distribute any bonus due.

Since this system is very expensive to operate and can result in considerable delays, it is recommended that a *bonus stamp system* be operated. These stamps are similar to postage stamps. They are issued at the time of the purchase of the goods by the member for a fixed unit of purchase (eg one stamp represents five cents of purchases). Books are provided for the members to stick their stamps in. At the end of the financial year, should there be a bonus distribution, the members will present their stamp books and the bonus they receive will depend on the number of stamps in their books, which represent their trade with the society.

(c) *Credit sales*

Generally all sales will be made for immediate cash. Sometimes, if approved by the committee and authorised under the by-laws, some credit sales will be allowed. In these cases the society will issue invoices. These invoices will be made out in duplicate at the time of the credit sale. The customer will sign the invoice and take the top copy. The book-keeper will post the working ledger from the bottom copy as follows:

*Date* ..... of credit sale  
*Detail* ..... name of customer  
*Ref no* ..... invoice number  
*DR* ..... *debtors* – with amount of credit sale  
*CR* ..... *sales* – with amount of credit sale

When the debtor pays the account, a receipt will be issued by the society. From the bottom copy of this receipt the working ledger will be posted as follows:

*Date* ..... of receipt  
*Detail* ..... name of customer  
*Ref no* ..... receipt number  
*DR* ..... *cash* – with amount received  
*CR* ..... *debtors* – with amount received

The details of the credit sale and the receipt of the cash will also be entered into the individual account for the customer kept in the debtors' ledger.

### 3.5 Cash differences

In this account will be recorded any cash differences revealed at the end of each day when the sales are balanced. The working ledger will be posted, as previously indicated, from the cashing-up slips. *Debit* (DR) entries in this account will represent cash shortages, and *credit* (CR) entries will indicate cash overs. Whenever any cash differences are revealed explanations will be obtained from those responsible for the cash. At the end of each financial period the balance on this account will be cleared by transfer to the sales account, eg.

*Cash differences balance* DR \$5.60 Clear by transfer to sales account:  
*CR*: cash differences and DR: sales with \$5.60.

### 3.6 Wages

(a) *Employees*

There should be a written *contract of employment* made between the society and each employee, including the manager. Each employee should also be issued with a *job description* outlining his duties. When an employee is engaged, a page will be opened for him or her in the wages book shown in Example 12. The wages will be at the rate (and paid at the time) stated in the contract of employment. Deductions for tax and similar

items will be made from the gross wages, as required and instructed by the government or other authorities.

*Example 12*

WAGES BOOK					
Name of employee:		Date started:		Position:	
Salary: \$		Date left:			
Date	Gross wages	Less tax	Less other deductions	Net cash	Signature of employee
1975					
Dec 31	570	40	-	530	

(b) *Payments*

Separate cheques can be made out for the net cash due for wages to each employee. However, since most employees have no bank account of their own, they usually require cash. Therefore one cheque is made out and cashed for the total net wages due. The manager pays the cash due to each employee and as they receive their cash, each employee signs in the wages book as a receipt. Cheques are also drawn to pay the tax or other deductions to the authorities.

From the cheque stubs the working ledger is posted to show:

Date ..... of cheques  
 Detail..... wages, tax, etc  
 Ref no ..... cheque number  
 DR ..... wages – with net cash and deductions paid to the authorities equals gross wages  
 CR ..... bank – with net cash and deductions paid to the authorities equals gross wages

**3.7 Property expenses**

Property expenses are concerned with land, buildings and other property of the society. They will include property insurance premiums, any rents, repairs or rates. Payments for these expenses will be made by immediate cash or cheque in some cases, and by payment against invoices in others. Where payment is made by immediate cash or cheque, the working ledger will be posted from the receipt obtained as follows:

Date ..... of payment  
 Detail ..... detail of expense  
 Ref no ..... receipt number  
 DR ..... property expenses – with amount paid  
 CR ..... cash or bank – with amount paid

When an invoice is received for expenses to be paid later, the entries into the working ledger would be DR *Property expenses*: CR *creditors* with the amount charged on the invoice. When the payment is made to the creditor, the entries will be DR *creditors*: CR *bank* with the amount of the payment. The details of the charge on the invoice and the payment made by cheque will also be posted to the individual account kept for the creditor concerned in the creditors' ledger.

**3.8 Other expenses**

Wages and property expenses are recorded in separate accounts. All other expenses can be recorded in this account headed 'other expenses'. However, where a society requires to analyse the expenses in greater detail, separate columns can be kept in the working ledger, and separate pages opened in the main ledger for the individual classes of expenses. Another method of keeping the different types of expenses separate, to help in their comparison and control, is shown in Example 13 (page 22) for *other expenses analysis*.

This example shows that double-pages are kept in the main ledger for other expenses. On the *left hand page* of the open main ledger the usual record is kept showing the debit and credit entries posted from the working ledger together with the running debit or

credit balance. On the *right hand page* columns are ruled and headed for the classes of expenses for which the analysis is to be kept. Details of the financial transactions concerning these expenses are posted to the working ledger. The *debit entries* are made to other expenses for charges. These will then be posted and analysed in the main ledger.

### 3.9 Fixed assets and depreciation

(a) *Purchase*

These are acquired and held primarily for the purpose of earning income. They include land, buildings, fittings, fixtures, equipment and machinery. Money spent as *capital expenditure* acquires these fixed assets for use by the society for more than one financial period.

From the invoices obtained when the items are purchased the following entries will be made into the working ledger:

- Date ..... of purchase
- Detail ..... supplier/fixed assets
- Ref no ..... invoice number
- DR ..... fixed assets – with cost (capital expenditure)
- CR ..... creditor – with cost

Example 13

OTHER EXPENSES (left hand page)						ANALYSIS (right hand page)					
Date 1975	Detail	Ref no	DR	CR	Balance	Stationery	Water	Travel	Postage	Interest	Sundry
Dec 31	Bad debts	52	20		DR 20						20
" 31	Bank charges	52	30		DR 50						30
" 31	Cleaning materials	52	10		DR 60						10
" 31	Deposit interest	52	40		DR 100					40	
" 31	Cash	52	270		DR 370	100			40		130
" 31	Cheques	52	90		DR 460		50	40			
" 31	Cash discounts	52		96	DR 364						- 96
" 31	Investment interest	52		15	DR 349					-15	
" 31	To trading account	52		349	—	100	50	40	40	25	94

Details of all fixed assets are also entered into the *fixed assets inventory* and *schedule of depreciation* in Example 14. This inventory could also be kept on a card system with each fixed asset having a separate card.

An inventory should also be kept of all brooms, brushes, buckets and similar items purchased. These are usually for small amounts and their cost would have been charged to *other expenses*. However, a check should be kept on them, and their whereabouts always be known to the manager.

Example 14

**FIXED ASSETS INVENTORY AND SCHEDULE OF DEPRECIATION**  
for financial year ended: 31.12.75

Date purchased	Detail	b/f	+ Purchased - sold or written off this year	c/f	b/f	+ Charge this year	- Written off	c/f	Book value (cost - deprec)
	<u>Land &amp; buildings</u>								
1972	Land	500		500	70	25		95	405
1972	Shop	800		800	150	40		190	610
	<b>TOTAL</b>	1300		1300	220	65		285	1015
	<u>Fixtures &amp; fittings</u>								
1972	Shelves	300		300	180	60		240	60
1972	Counter	200		200	120	40		160	40
1973	Cash register	200		200	80	40		120	80
1975	New scales		300	300		60		60	240
	<b>TOTAL</b>	700	300	1000	380	200		580	420
	<b>TOTAL FIXED ASSETS</b>	1420	300	2300	600	265		865	1435
				(Balance sheet = cost)		(Trading A/c = charge)			(Balance Sheet = book value)

(b) *Depreciation*

Wages and property expenses involve *payments to staff or other organisations*. Depreciation is a *non-cash expense*. The charges made for depreciation in the accounts of the society are internal entries representing the allocation of the cost of the fixed asset over its estimated working life. The years of useful working life will depend upon the type of fixed asset and local conditions.

The charge for depreciation is made each financial year. These depreciation charges are aggregated year by year so that the book value of the fixed asset is correspondingly reduced by the total charge for depreciation.

The *equal instalment method of depreciation* is recommended here. This method spreads the cost of a fixed asset equally over its years of useful working life. The annual charge for depreciation will be calculated as follows:

$$\frac{\text{cost of fixed asset}}{\text{estimated years of useful working life}} = \text{annual charge for depreciation}$$

As a guide the cost of buildings could be depreciated over 20 years and the cost of fixtures, fittings, etc over 5 years. In some areas depreciation is not applied to land, since this can be considered not to be a wasting fixed asset.

After the calculations of the charges have been made at the end of the financial year, the details are posted into their inventory. The working ledger is posted as follows:

*Date* ..... last day of financial year  
*Detail* ..... depreciation fixed assets  
*Ref no* ..... inventory page number  
*DR* ..... *depreciation (charge)* – with annual charge for depreciation from inventory (transferred to trading account)  
*CR* ..... *depreciation (provision)* – with annual charge for depreciation from inventory (included in balance sheet)

(c) *Insurance*

There are many risks of loss or damage to the property of the society. The society can be covered against some of these risks by taking out insurance cover with reputable companies. The full replacement value of the fixed assets rather than their cost or book value should be covered. The society will pay an annual premium, these premiums being charged as *property expenses*. The insurance company will issue a policy which is to be safely kept in a separate file.

### 3.10 Shares and deposits

(a) *Entrance fees*

An *application for membership form* should be completed by applicants wishing to join the society. After acceptance into membership, the applicant pays an entrance fee to the society as may be required by the by-laws. A receipt for the fee is issued.

A new member is issued with a *pass-book* showing the member's share number. These numbers run consecutively. The details of the new member are entered into the *share and deposit ledger* shown in Example 3 (page 9).

From the copy of the receipt issued for the *entrance fee* the working ledger is posted:

*Date* ..... of receipt of fee  
*Detail* ..... name of member  
*Ref no* ..... share number  
*DR* ..... *cash* – with amount of entrance fee  
*CR* ..... *other expenses* (or *reserve fund* if so stated in the by-laws)

The *membership register* can consist of the completed and accepted membership application forms duly filed in surname alphabetical order.

(b) *Share contributions*

Contributions of at least the minimum share holding shown in the by-laws should be paid in by the member. Receipts are issued and the details will be posted to the working ledger as follows:

Date ..... of receipt  
Detail ..... name of member  
Ref no ..... share number/receipt number  
DR ..... cash – with amount of contribution  
CR ..... shares – with amount of contribution

The details required to be shown on the receipt include a note of the new balance in the pass-book of the member. This is shown in Example 6 (page 13). Entries are also made for share contributions into the pass-book of the member and the share and deposit ledger account for that member.

(c) *Share withdrawals*

Share capital is in the nature of a permanent capital of the society. Withdrawals can only be made in accordance with the provisions in the by-laws. When shares are paid back, the entries into the working ledger will be made from the cheque drawn or receipt obtained. *The bank account* will be credited (CR) and the *share account* will be debited (DR). Entries will also be made into the member's pass-book and share and deposit ledger account.

(d) *Share interest*

Should there be any net surplus at the end of the financial year, and an interest on shares be declared, it could be distributed by credit to the share accounts of the members. After the annual general meeting, the interest due to each member will be calculated based on the lowest balance of share capital held by the member for each complete three months. After a separate calculation has been made for each account, the total interest due is ascertained by add-listing the amount calculated for each member. The individual share accounts will be posted and the total interest entered into the *working ledger* as a *debit (DR) to surplus* and a *credit (CR) to shares*.

(e) *Bonus*

Should there be any net surplus at the end of the financial year, and a bonus be declared, it will be distributed according to the trade of the members with their society as seen from the totals of the sales receipts, or based on the number of bonus stamps issued. Where the *bonus stamp system* is in operation, the amount of bonus to be distributed to each member will be calculated on the stamps presented by the members on days declared as bonus days. Members would indicate on the bonus distribution forms in Example 15 if they want their bonus in cash or by transfer to their share accounts.

Example 15

BONUS DISTRIBUTION FORM	
Name of member: .....	Share no: .....
	Bonus value
Number of full books .....	.....
Number of additional full pages .....	.....
Number of additional stamps .....	.....
	TOTAL BONUS \$ .....
Please transfer my bonus to my share account	
	Signed ..... Member
OR	
I acknowledge receipt in cash of my bonus	
	of \$ .....
Date .....	Signed ..... Member

From lists made from the bonus distribution forms, entries would be made as follows into the working ledger for the total bonus distributed:

- (a) DR: surplus, CR shares: with bonus transferred
- (b) DR: surplus, CR cash: with bonus paid in cash

Entries would also be made into the individual pages of the share ledger and in the pass-books of members for the bonus transferred. Where the *sales receipt system* is in operation, similar bonus distribution forms, without the bonus stamp details, can be used. The bonus due to each member, calculated from the totals of their sales receipts, will be entered on a separate bonus distribution form, made out for each member before the bonus days. Then the members would come to collect their cash, or authorise the transfer of their bonus to their share accounts.

(f) *Deposit accounts*

Since share holdings are not easy to withdraw, members could be encouraged to invest with their society in deposit accounts. Withdrawals are easier and interest on deposits is at a rate agreed when the deposit was accepted. Such interest is treated as an expense rather than an allocation of surplus. As an expense, the interest is calculated and distributed by credit to the deposit accounts before the final accounts are closed. The *deposit columns* in the *working ledger* are *credited (CR)* when deposits are received and *debited (DR)* when *withdrawals* are paid. When the interest has been calculated, the total is *credited (CR) to deposits* and *debited (DR) to other expenses*. Details of these transactions will also be posted to the individual accounts of the members concerned in the *share and deposit ledger*.

### 3.11 Creditors and debtors

(a) *Creditors*

Entries concerning creditors are made in creditors' columns in the working ledger and then into the individual account of the creditor concerned in the creditors' ledger. When goods or services are obtained by the society on credit, the *creditors' accounts* are *credited (CR)*. When the creditors are paid, their accounts are *debited (DR)*.

Should the society obtain a cash discount from the creditor, the entries to be made in the working ledger are: *debit (DR) creditors* and *credit (CR) other expenses*.

(b) *Debtors*

Entries concerning debtors are made in debtors' columns in the working ledger, and then into the individual account of the debtor concerned in the debtors' ledger. Any *bad debts* written off are *debited (DR) to other expenses* and *credited (CR) to debtors*, and the details are shown in the debtors' ledger.

### 3.12 Investments

(a) *Approved investments*

Generally all the funds of the society will be used within the business for providing the goods and services required by the members. However, there may sometimes be funds which are not immediately required for the trading or development needs of the society. These funds ought not be left idle in the bank current account, but should be put to work as investments in other co-operative organisations, banks or other bodies approved by the registrar and authorised under the by-laws, to earn interest income for the society.

The society will normally be a member of a co-operative union. In accordance with the requirements of the by-laws of such a secondary co-operative, the society would be required to invest some funds in this union as share capital. The union would then be able to provide the goods and services required by its member primary societies, financed by these investments.

As an added safeguard to the financial stability of the society, funds representing *the reserve funds*, if not being used in trade, should be invested outside the society.

Funds invested outside the society should be invested with care, to give security, interest income and ease of withdrawal. Usually the longer the initial period for which the funds can be invested, the higher the rate of interest which can be earned. For example, banks may be offering interest at 4% on investments which can be withdrawn at short notice and 8% on investments made for a complete year. The book-keeper should make recommendations to the committee on the amounts which may be available for investment and as to the periods for

which these funds can be invested. Wherever possible, investments should be made in other co-operative organisations.

(b) *Deposit of investments*

When funds are deposited as investments in approved organisations, deposit slips issued by these bodies are completed, usually in duplicate. The funds are paid over and the society is issued with a receipt which is usually the bottom copy of the deposit slip. The society may also be issued with an *investment pass-book* or *certificate* showing details of the investment. These pass-books, or certificates, will be kept in the safe of the society. From the receipt the book-keeper will post the entries into the working ledger:

*Date* ..... of deposit  
*Detail* ..... name of approved organisation  
*Ref no* ..... receipt number  
*DR* ..... *investments* – with amount of deposit  
*CR* ..... *cash* – with amount of deposit

The society would usually not have many separate investments. However, where there is more than one, a separate page for each investment will be kept in the main ledger. These pages will be headed to show the name of the approved organisation together with the interest rates, withdrawal and the other terms of the investment.

(c) *Withdrawal of investments*

Withdrawals can only be made in accordance with the terms agreed when the investment was made. Proper notice would need to be given to the approved organisation. Details of the withdrawal would be shown in the investment pass book. When the cheque for the withdrawal is received by the society, entries would be made into the working ledger as follows:

*Date* ..... cheque received  
*Detail* ..... name of approved organisation  
*Ref no* ..... cheque number  
*DR* ..... *cash* – with amount of withdrawal  
*CR* ..... *investments* – with amount of withdrawal

(d) *Interest on investments*

Generally interest on investments is a minor source of income to the society. Because interest charged to the society for overdrafts and interest paid by the society on members' deposits are debited to *other expenses*, interest income will be credited to *other expenses*.

Interest paid to the society is posted, *when received*, into the working ledger by *debit (DR) to cash* and *credit (CR) to other expenses* with the amount of the interest received. Where the interest is *distributed by being added to the investment account* by the approved organisation, the entries are posted from the details in the investment pass book to the working ledger as follows:

*DR Investment account*  
*CR Other expenses – with the interest earned*

### 3.13 Surplus

At the end of the financial year any net surplus from the trading account would be transferred as a *credit* to this account.

After the annual general meeting, the allocations from surplus to reserves, education, interest or bonus would be made in accordance with the resolutions of the meeting by *debit (DR) to the surplus account* and *credit (CR) to the reserve fund, education fund, share* or other account concerned.

### 3.14 Reserve fund

The reserve fund is created, held and used in accordance with the by-laws of the society. Allocations are made to *reserves (CR)* from *surplus (DR)*. The society should build up its reserves to provide a source of operating funds and to give greater financial stability to the society.



### 3.15 Education fund

Allocations are made to this *fund* (CR) from *surplus* (DR). These funds ought to be increased from year to year, so that eventually the society can take a more active part in member training and education.

### 3.16 Stock account

The *stock to begin* at cost value is shown as a debit balance in the main ledger to begin the financial period. On the last day of each financial period this *stock to begin* balance will be transferred as a debit to the trading account. The *stock to end* will be listed and valued and shown in the trading account as a credit and in the balance sheet as an asset. This balance will then be brought down in the main ledger in the new financial period.

### 3.17 Balancing

At the end of every week the working ledger is ruled off and balanced. The entries in each of the columns are separately totalled and shown at the bottom of each column. This is checked by the preparation of a trial balance of these totals. When this balances, the main ledger is posted.



# 5 Control systems and final accounts

The business operations of the society need to be controlled and summarised. The sections which follow outline some control systems and present in brief the preparation of the final accounts and balance sheet. These are explained in greater detail in the next book in this series (see Note for teachers, page iv).

## 5.1 Annual budget

The annual budget is a forecast of what the committee and the manager hope to achieve from their management of the society in the coming financial year. It is prepared at least one month before the beginning of the financial year to which it relates. The annual budget is prepared in two parts. The first part is the operating budget; the second is the cash budget.

### (a) Operating budget: Example 17

This part contains forecasts of the income and expenditure of the society. The expected allocations of net surplus are also shown. The books and ledgers will gradually reveal the actual current results, which can be measured against the results estimated in the budget. The book-keeper, by keeping the records of the financial transactions up to date, takes a full and active part in the preparation and use of the budget.

### (b) Cash budget: Example 18 (page 31)

The forecasts made of the income and expenditure in the operating budget must be related to the funds available to finance the operations of the society. A forecast is therefore made of the flow of *cash in* and *cash out*. This will enable the committee to be prepared to seek loans or overdrafts when required, or to invest funds revealed as not being immediately required for the operations of the society. Both the operating and cash budgets can be prepared for shorter periods than a complete financial year. In particular, the cash budget is sometimes made for short periods of only one month ahead.

Example 17

OPERATING BUDGET						
for financial year ending .....						
Detail	Budget		Actual		Actual	
	This year	This year	This year	Last year		
	\$	%	\$	%	\$	%
INCOME						
Sales						
GROSS SURPLUS						
EXPENDITURE						
Wages						
Property expenses						
Other expenses						
TOTAL CASH EXPENSES						
Depreciation						
TOTAL EXPENSES						
NET TRADING SURPLUS						
SURPLUS AVAILABLE FOR DISPOSAL						
Balance brought forward						
ADD: Net trading surplus						
TOTAL						
PROPOSED ALLOCATIONS						
Reserve fund						
Education fund						
Interest on shares						
Bonus on trade						
Balance carried forward						
TOTAL						

Example 18

CASH BUDGET for period ending .....		
Detail	Budget This period	Actual This period
<b>FUNDS AVAILABLE b/f</b>		
Cash at bank		
Cash in hand		
TOTAL		
<b>ADD</b>		
Share contributions		
Deposits		
Sales		
Investment withdrawals		
TOTAL (1)		
<b>LESS</b>		
Share withdrawals		
Deposit withdrawals		
Creditors – purchases		
Expenses		
New fixed assets		
Investment deposits		
TOTAL (2)		
<b>FUNDS AVAILABLE c/f (1 – 2)</b>		

### 5.2 Monthly report to committee

The members are the owners of their co-operative society. At their annual general meeting they elect a committee which will conduct the business and be responsible for the general direction and control of the affairs of the society. The manager is appointed to run the day-to-day business under the direction of the committee. The manager is required to submit his report to the committee at the end of every four weeks, when the trial balance of the main ledger has been prepared by the book-keeper. An example of this report is shown in Example 19 below.

Example 19 (continued next page)

MONTHLY REPORT OF MANAGER TO COMMITTEE		Page 1								
..... weeks ended										
<b>1 Membership</b>	To date this year To date last year Increase or decrease:	No ..... %								
<b>2 Shares and deposits</b>	To date this year To date last year Increase or decrease:	<table border="1" style="width: 100%;"> <thead> <tr> <th>Shares</th> <th>Deposits</th> </tr> </thead> <tbody> <tr> <td>\$ ...%...</td> <td>\$ ...%...</td> </tr> </tbody> </table>	Shares	Deposits	\$ ...%...	\$ ...%...				
Shares	Deposits									
\$ ...%...	\$ ...%...									
<b>3 Trade (to date)</b>	To date this year To date last year Increase or decrease:	<table border="1" style="width: 100%;"> <tbody> <tr> <td>\$</td> <td></td> </tr> <tr> <td>\$</td> <td></td> </tr> <tr> <td>\$</td> <td>% .....</td> </tr> </tbody> </table>	\$		\$		\$	% .....		
\$										
\$										
\$	% .....									
<b>4 Estimated net surplus to date</b>	Gross surplus at .....% on trade LESS: Wages Property expenses Other expenses Depreciation  TOTAL EXPENSES Estimated net surplus	<table border="1" style="width: 100%;"> <thead> <tr> <th>\$</th> <th>%</th> </tr> </thead> <tbody> <tr> <td>\$</td> <td></td> </tr> <tr> <td>\$</td> <td></td> </tr> <tr> <td>\$</td> <td>% .....</td> </tr> </tbody> </table>	\$	%	\$		\$		\$	% .....
\$	%									
\$										
\$										
\$	% .....									



## 5.4 Final accounts and balance sheet

At the end of the financial year, the final accounts and balance sheet shown in Example 21, page 35, are prepared. The following is a short outline of the procedure to be followed in this preparation (more details are given in the manual on accounting, see Note for teachers, page iv).

### 1 Stock taking of goods for resale

The stock of goods purchased for resale not yet sold will be listed and valued in a duplicate book ruled to show:

Date of stock taking ..... Page no .....

Description of goods	Number of units 1	Unit selling price 2	Total selling value 1 x 2

The total selling value of goods in stock will be used to complete the leakage control account. The total selling value of goods in stock will be reduced to 'cost' by deducting an agreed percentage (mark-down). This agreed percentage will depend upon local conditions *including the rates of mark-ups* used to calculate selling prices. This 'cost' value will be shown in the trading account (CR) and in the balance sheet as an asset.

## 2 Purchases adjustments

### (a) Goods received not invoiced

Any goods delivered on, or before, the day the financial year ended, for which no debit has been made to purchases, will be listed at cost and selling values. These goods will be listed from entries not cleared in the 'goods received' book. The entries into the working ledger, and further into the main ledger, in respect of this adjustment, are:

DR *Purchases* to be included in the trading account  
CR *Purchases* to be included in the balance sheet

### (b) Credits outstanding

Any credits outstanding in the 'claims for credit' book will be listed at cost and selling values:

CR *Purchases* to be included in the trading account  
DR *Purchases* to be included in the balance sheet

### (c) Net purchases

The net purchases at cost value for the trading account and at selling value for the leakage control account will be calculated as follows:

	\$	\$
<i>Purchases</i> – from main ledger	Cost	Selling (from separate record)
+ Goods received not invoiced	.....	.....
– Credits outstanding	.....	.....
	Total to trading account	Total to leakage control account

### 3 Expenses adjustments

#### (a) Expenses prepaid

The full benefit of expenses that have been debited may not be received until the next financial period. In these cases credit adjustments are made to carry forward part of the debit charged, to the next financial period.

CR *Expenses* to be included in the trading account

DR *Expenses* to be included in the balance sheet

#### (b) Expenses accrued

The benefit of an expense may have been obtained during the financial period but no charge has been made in the accounts. In these cases adjustments are made for these expenses accrued, or owing, by making an adjustment of a debit charge in the financial period in which the benefit was obtained.

DR *Expenses* to be included in the trading account

CR *Expenses* to be included in the balance sheet

### 4 Fixed assets and depreciation

The charge for depreciation will be calculated and the inventory of fixed assets and schedule of depreciation will be completed and balanced off. The actual fixed assets will be checked against their inventory.

DR *Depreciation (charge)* – with charge to be included in the trading account

CR *Depreciation (provision)* to be included in the balance sheet

5 Deposit interest will be calculated and posted through the working ledger to the deposit accounts:

CR *Deposits* with interest to be included in the balance sheet

DR *Other expenses* to be included in the trading account

6 The cash in hand will be checked and certified.

7 The bank statement will be obtained and a bank reconciliation statement will be prepared.

8 Investment balances will be checked.

9 Share, deposit, creditors' and debtors' balances in their ledgers will be add-listed and agreed with their control balances in the main ledger.

10 The trial balance of the main ledger will be prepared.

11 Any adjustments will be posted through the working ledger.

12 The income and expenditure accounts in the main ledger will be closed and their balances will be transferred to the trading account for the year.

13 The surplus disposal account will be prepared after the committee has made its recommendations on the disposal of any surplus.

14 The balance sheet will be prepared from the balances of assets and liabilities remaining in the accounts in the main ledger.

15 The audit will be completed.

16 The annual return will be prepared and sent to the Registrar.

17 The annual general meeting will be held.

18 Any net surplus will be distributed as resolved by the annual general meeting.

Example 21

FINAL ACCOUNTS AND BALANCE SHEET			
I Trading account for year ended ...31.12.75			
Last year (comparisons)		\$	%
\$	Sales	20000	100
	Stock to begin	1200	
	ADD purchases and inwards transport	18100	
	TOTAL	19300	
	LESS stock to end	1700	
	Cost of goods sold	17600	88
	Gross surplus	2400	12
	LESS Wages	600	
	Property expenses	386	
	Other expenses	349	
	Depreciation	265	
	TOTAL EXPENSES	1600	8
	NET TRADING SURPLUS TO a/c II	800	4
	II Surplus disposable account at ...31.12.75		
	Balance b/f	2	
	ADD surplus from A/c I	800	
	TOTAL SURPLUS FOR DISPOSAL	802	
	LESS Proposed allocations:		
	Reserve fund	380	
	Education fund	50	
	Interest on shares	70	
	Bonus on trade	300	
	TOTAL	800	
	Balance c/f	2	

Example 21 (continued)

III Balance sheet at ...31.12.75		
	This year	Last year
	\$	(comparisons)
	\$	\$
Source of funds (liabilities)		
Share capital	2458	
Deposits	840	
Reserve fund	470	
Education fund	80	
Surplus for disposal	802	
Total funds of members	4650	
Creditors (A/c 3 + 6 + 13)	1359	
TOTAL	6009	
Use of funds (assets)		
Fixed assets		
Cost	2300	
LESS depreciation provision	865	
Book value	1435	
Investments	265	
Stocks	1700	
Debtors (A/c 7 + 14)	70	
Cash at bank	2499	
Cash in hand	40	
TOTAL	6009	



# 6 Summary

## 6.1 Book-keeping system

The outline of the book-keeping system for consumer societies is now complete. The system can be summarised as follows:

- 1 All transactions are immediately recorded in records of original entry.
- 2 Details of these are posted into the *working ledger* which is ruled off and balanced at the end of every week.
- 3 The working ledger totals of entries are posted every week into the *main ledger*.
- 4 A *trial balance* of the main ledger is prepared at the end of every four weeks.
- 5 At the end of the financial period the *final accounts* and *balance sheet* are prepared.
- 6 Any *surplus* revealed is distributed.

## 6.2 Control systems

Within the book-keeping system, different control systems operate:

### 1 *Efficiency control*

The actual business performance of the society is compared from time to time with the forecasted results in the annual budget.

### 2 *Stock control*

All stocks are checked as soon as received. All sales are recorded. Leakage control accounts are kept.

### 3 *Cash control*

Receipts are issued for all cash received.

Receipts are obtained for all cash paid.

Cash is banked as soon as possible.

Cash in hand is checked frequently.

### 4 *Reports*

Regular reports are submitted to the committee. The auditor and the internal auditors examine the records and report on the business.

### 5 *The book-keeper*

The book-keeper is the key person in the efficient maintenance of these systems and controls.

# 7 Exercises

To illustrate the book-keeping procedures outlined, the information from the following three exercises has been posted into the examples of the forms, books and ledgers shown in this manual. Teachers can change the figures given in these exercises and in that way prepare exercises for further teaching purposes. Naturally other changes and additions can be made in order to adapt the exercises to local conditions.

## Exercise A

In this exercise the main ledger for the new financial year beginning 1.1.75 was opened from the details shown in the trial balance. The balances in the accounts for the assets and the liabilities shown were posted to their pages in the main ledger (Example 2, page 8)

## Exercise B

From the summary of the financial transactions for 1975 the working ledger (Example 1, page 6) was posted and the trial balance was prepared. The main ledger Example 2 was posted and the trial balance (Example 16, page 29), was prepared.

As far as is possible the other examples within this manual show the entries and balances included in the working ledger and the main ledger.

## Exercise C

The closing entries for the stocks and the other adjustments were summarised in the working ledger and then posted to the main ledger. Then the final accounts and balance sheet (Example 21, page 35) were prepared.

## Exercise A

### Opening balances from balance sheet at 31.12.74

#### 1.1.75. Post the main ledger

Detail	Ref no	DR \$	CR \$
Cash	1	10	
Bank	2	1020	
Purchases: goods not invoiced	3		240
Wages – accrued b/f	6		20
Property expenses – prepaid b/f	7	5	
Fixed assets	9	2000	
Depreciation provision	10		600
Shares	11		1400
Deposits	12		600
Creditors	13		905
Debtors	14	20	
Investments – Regional Union	15	200	
Surplus for disposal 1974	16		240
Reserve fund	17		400
Education fund	18		50
Stocks at cost	19	1200	
TOTALS		4455	4455

#### Notes

- 1 Round dollars (\$) are given in the exercise here. In the books of a society the exact amounts are always recorded.
- 2 To show the use of as many ledgers and records as possible, the totals of transactions have been posted to the examples given of these. However, in the books of a society individual transactions and accounts are posted.

**Exercise B**

**Summary of financial transactions for 1975 from records of original entries**

31.12.75. (a) *Post and balance working ledger*

(b) *Post and balance main ledger*

	\$	\$		\$	\$
1 Allocations from 1974 surplus:			11 Interest added to investment		15
Bonus paid in cash	30		12 Goods used in shop for cleaning		10
Bonus transferred to shares	68		13 Received share contributions		1000
Interest transferred to shares	40		14 Paid share withdrawals by cheque		50
Transfer to reserve fund	70		15 Received deposits from members		400
Transfer to education fund	<u>30</u>		16 Deposit interest		40
Total		238	17 Paid deposit withdrawal in cash		200
2 Invoices from creditors:			18 Cash shortages		30
Goods for resale	18010		19 Cash overs		20
Fixed assets – new scale	300		20 Paid expenses in cash:		
Property expenses	<u>350</u>		Wages	530	
Total		18660	Postage	40	
3 Paid creditors by cheque		18500	Stationery	100	
4 Cash discounts allowed by creditors		96	Sundry	<u>130</u>	
5 Sales: Cash sales		19510	Total		800
Credit sales to debtors		500	21 Paid expenses by cheque:		
6 Received cash from debtors		460	Staff income tax	40	
7 Debtors – bad debts written off		20	Water fees	50	
8 Cash paid into bank		20300	Travel	40	
9 Bank charges		30	Property expenses	<u>61</u>	
10 Investment in Regional Union by cheque		50	Total		191

**Exercise C**

**Stocks and adjustments at 31.12.75**

- 31.12.75 (a) *Post working ledger*  
 (b) *Post main ledger*  
 (c) *Prepare final accounts and balance sheet*

	\$	\$		\$
1 Stocks of goods for resale at selling value	2000		8 Leakage control account:	
Less 15% to cost	300		Example 20 was completed using the following details:	
'Cost' value		1700	Goods at selling values:	
2 Purchases – goods received not invoiced at cost		340	Sales	20 000.00
3 Wages accrued		50	Purchases	20 670.00
4 Property expensed paid in advance		30	Stocks to end	2 000.00
5 Depreciation: Land and buildings 5%		65	Stocks to begin	1 386.00
Fixtures and fittings 20%		200	9 Bank reconciliation statement:	
6 Transfer cash differences to sales		DR 10	Example 7 was completed from the following details:	
7 Proposed allocations of net surplus for disposal:			Balance on statement	2610.50
Reserve fund	380		Bank balance on main ledger	2499.00
Education fund	50		Deposits in transit 31.12.75.	500.00
Share interest	70		Cheques not presented:	
Bonus	300		No 129	300.00
Total		800	No 131	200.00
			No 135	111.50



# *Co-operative Book-keeping*

## **3 Savings and Credit Co-operatives**



Co-operative Education Materials Advisory Service

INTERNATIONAL CO-OPERATIVE ALLIANCE  
11 Upper Grosvenor Street, London W1X 9PA

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# Foreword

It is a common complaint that, in many primary co-operatives, the standard of book-keeping is poor. The need has long been recognised for a basic, simplified system of book-keeping, for use in primary co-operatives in developing countries, in order to help improve that situation. The system described in this manual has been specially designed to meet that need. It makes no claim to be revolutionary, nor to advocate new techniques. On the contrary, it is based on customary double-entry practice; its only claim is that it is simple and that it works, and can easily be adapted to meet particular local requirements.

The system was originally introduced in Botswana, where it has been extensively field-tested and used for many years, with considerable success. In 1970, the British Ministry of Overseas Development, in association with the Intermediate Technology Development Group (ITDG), published three manuals based on the system (one each for Consumer, Marketing, and Thrift and Credit Co-operatives), which have been widely distributed and used in several countries. The ILO International Centre for Advanced Technical and Vocational Training at Turin used these manuals for the book-keeping sections of their Co-operative Management Training Courses. The original manuals have now been substantially revised, to make them more suitable for training purposes, and reissued as CEMAS/ICA publications. A fourth manual, for Industrial Co-operatives, has been added to the original series.

The purpose of book-keeping is *three-fold*:

- 1 to maintain an accurate financial picture of the business, in such a way, that the state of its finances can be simply, clearly and accurately revealed at any time;
- 2 to make it possible for the accuracy of the accounts to be quickly checked, to avoid errors or fraud;
- 3 to serve as a management tool by providing the information required for decision-making and for planning future activities.

This system satisfies those criteria and, in doing so, takes account of the circumstances within which it has to be used, and of the essential need for the book-keeper to know *what* he is doing and *why* he is doing it. The intention is to provide a system which, while fully adequate, in terms of good book-keeping practice, does not make unnecessary demands on the user's time, ability and comprehension.

The manuals have been so designed as to serve both training and operating purposes. They may be used as *handbooks* for co-operative teachers, as *textbooks* for students attending training courses, and as *working manuals* for on-the-job guidance of secretaries and book-keepers. They will be found of most value wherever training courses, based upon them, are provided, and where, after the courses, students are encouraged to use them on return to work.



## ACKNOWLEDGEMENTS

The International Co-operative Alliance gratefully acknowledges the permission of the Ministry of Overseas Development, London, and of the Intermediate Technology Development Group, to revise and reissue these publications.

The major work of revision was undertaken by Mr D W Heffer, former adviser on co-operative accounting in Botswana and the West Indies. The manuals at draft stage were also submitted to the criticism of several other co-operative experts, and in particular, Mr A Böberg, of Sweden, formerly co-operative accountancy expert with the Nordic Co-operative Project in Kenya, and consultant to the Co-operative Department, Zambia, contributed much useful advice. We are grateful for the help of all these colleagues.

Publication of the manuals is made possible by the financial assistance and encouragement of the Swedish Co-operative Centre and the Swedish International Development Authority, which finances the CEMAS project.

## NOTE FOR TEACHERS

This manual describes a book-keeping system concerned with the maintenance of ledger accounts up to trial balance stage. In the final sections, a brief description of control systems and preparation of final accounts is given in order to complete the sequence of operations up to that stage, but these are deliberately not described in detail.

As a follow-up to the present series, CEMAS/ICA is producing a more advanced manual on Co-operative Accountancy, which extends the system to the stage of preparation of final accounts and budgets, to meet the needs of larger co-operatives.

When the manual is used for training purposes, it will normally be desirable for the teacher to prepare and use his own exercises (additional to the three in chapter 7, on page 37), and particularly so when it is necessary to adapt these to the specific requirements of local practice.

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# 1 Introduction

## 1.1 Outline of book-keeping system

The book-keeping system described in this manual has been prepared for use by co-operative savings and credit societies, or other primary co-operatives concerned with thrift and loans. The system uses the double-entry method of book-keeping, applied to the columnar form of accounts, kept in the working ledger and controlled in the main ledger. The system is illustrated by practical examples of the typical transactions, forms, accounts and records with which such a co-operative society will be involved.

## 1.2 Objects of savings and credit co-operatives

The objects of these societies will be stated in their by-laws. The savings and credit societies generally have the following aims:

- (a) to encourage their members to save regularly;
- (b) to invest these savings in a safe and rewarding way;
- (c) when well established, and in special circumstances, to make loans to their members for necessary and productive purposes.

## 1.3 Operations of savings and credit co-operatives

The operations of the society are carried on in the spirit of self-help and mutual aid. Members are encouraged to gain experience in the wise use of money. Generally this type of society is a small organisation which cannot, at least not in the initial stages, afford to maintain an office or to have any paid employees.

The committee of such a society, in consultation with the other members, should decide upon a regular savings meeting, on a regular day, at a regular place, to help to create and to encourage the habit of thrift.

As soon as possible after the savings have been collected, the money should be paid into the organisation where the bank account of the society is kept. Members are rewarded for saving by part of any surplus earned being returned to them as interest. This return will be based on the amount of savings and the length of time these have been held by the member in the society. Therefore it is essential that the funds of the society be put to work to earn an interest income as soon after receipt as possible. The funds are to be invested in such a way that:

- they are safe;
- they are easily available for withdrawal if required;
- they earn a fair interest.

The place where investments are made will depend upon local needs and conditions. When the society has gained operating experience and built up funds, the investments can be made as loans to members for necessary and productive purposes. In this way the savings and credit co-operatives bring together the funds of a community to be put to work in developments within that community.

#### 1.4 The book-keeper's job

This manual is about the work of the book-keeper. The book-keeper has the task of recording the savings made by each member, recording the investments, recording all loans made, recording all interest income received and recording any expenses incurred in the running of the society. A few words of advice are given here to the book-keeper:

- (a) Balance the books at regular intervals, preferably after every collection.
- (b) Never do anything in a hurry. Try to understand why you are making each entry. Speed and accuracy will come with practice and study.
- (c) Make sure that you always give enough information when you make an entry. Note particularly the double-entry system.
- (d) Be neat. If you make a mistake do not try to rub it out. Put a line through it with your pen. If the auditor notices that something has been rubbed out he will suspect that something is wrong.

In some co-operatives the book-keeper is called the secretary, in others the accountant, but whatever he is called his job in every co-operative is:

- (a) To keep complete and accurate records of every financial transaction in which the society is involved.
- (b) To check the accuracy of these records at regular intervals.
- (c) At the end of each financial year to prepare a balance sheet and the final accounts, which can be audited by an independent person and verified as a true record of the state and results of the society.
- (d) To prepare, at regular intervals during the financial year, statements for the committee which show the current financial position of the society.

The book-keeper has great responsibilities to the members of the co-operative society. Because of this, he needs to be a very honest, and a very able person.

#### 1.5 Importance of book-keeping

Book-keeping control is essential. The members are the owners of the society. They need to know how their business is doing and how their funds are being used. The members elect a committee to direct and control the day-to-day affairs of their society. This committee needs information on the affairs of the society to be able to make decisions and to take action. It is essential that the information required by members and committees is complete, accurate and up to date. The book-keeping system in use must therefore show:

- (a) How much the society *owes* (its liabilities).
- (b) How much the society *owns* (its assets).
- (c) Whether the society has *financial stability* and is able to pay its debts as they arise, and withdrawals of savings as they are required.
- (d) Whether the society is *operating efficiently*, covering its costs and providing a net surplus.

All societies therefore need books of account, so that they can provide the members and the committees with the information they need. In most countries there are laws which require that co-operatives keep proper books of account. This underlines the importance of a book-keeping system. In this manual the system described will meet the needs of members as well as the committees and, in many cases, the specific requirements of the law.

# 2 Book-keeping system

## 2.1 Double entry system

Book-keeping is concerned with the making of permanent, written records of financial transactions into the books of account of the society.

A *financial transaction* arises when money, or something having a money value, is transferred from one account to another account. Examples will be shown later when the working ledger is considered.

The double-entry system of book-keeping is used to record a transfer from the provider to the receiver. In this system all financial transactions are posted in two entries in the columns kept in the working ledger and from there into the accounts kept in the main ledger. One account provides and the other receives.

The account which *provides* is *credited* (CR) with the money amount provided. The account which *receives* is *debited* (DR) with the money amount received. For every debit (DR) entry there must be a corresponding credit (CR) entry and, vice versa, for every credit (CR) entry there must be a corresponding debit (DR) entry.

The posting of these corresponding entries into the ledgers of the society is checked by the preparation of *trial balances*. These are statements showing a list and total of all debits and a separate list and total of all credits. Since all postings of any financial transaction are recorded twice — as a debit and as a credit — the total of all debits must equal the total of all credits. *The books balance when the debits equal the credits.*

## 2.2 Records of original entry

The details of the financial transactions involving the society are recorded in the records of original entry immediately they occur. These records are the source of postings to the working and other ledgers. They include:

- (a) Entrance fees receipt book
- (b) Members' savings receipt book
- (c) Members' savings withdrawal forms
- (d) Loan advances receipts
- (e) Loan repayment receipts
- (f) Expenses receipts or vouchers
- (g) Bank and investment records

Some of these and other records are shown later when the working ledger is considered. Either these primary documents can be specially printed, or standard forms, which are available from most stationers, can be purchased and adapted to the needs of the society. In any case, stocks of unused documents should be kept safely locked away. Where possible, these primary documents for the original entries should be consecutively numbered to assist in their control.

Example 4 (page 13) shows a receipt. This form of receipt can be used in most cases whenever cash is received or paid out. Separate receipt books containing receipts in duplicate can be kept for each of the different transactions. A separate receipt book will then be kept for entrance fees, a separate book will be kept for savings received and so on.

Entries obtained from the exercises on page 25 have been used to illustrate the posting of the ledgers, forms and records used as examples in this manual. In the books of a society, individual transactions are posted into the records on the dates on which they occur.

### 2.3 Working ledger: Example 1

This ledger combines the function of the traditional cash book and the journals. It is a summary ledger. Details of all the financial transactions of the society are posted from the records of original entry into the working ledger. This is kept on the double-entry system, so for every debit entry (DR) there is a corresponding credit entry (CR) and vice versa.

The working ledger is a columnar cash analysis book which can usually be purchased from the local book-shop with headings written in by the book-keeper as required. Two separate columns, one for debit entries, the other for credit entries, are kept for each type of account. The number and type of separate accounts kept by each society will depend upon its own particular needs and circumstances.

The society from which the examples will be given in this manual has regular savings, grants loans to members and invests the remaining funds. The accounts it uses meet its own needs but will form part of a system suitable for most similar co-operatives.

Sometimes, to avoid opening columns in the working ledger for accounts which are not often used, a debit column and a credit column together are headed 'Other Accounts'. Into these columns are posted the entries for these infrequent transactions, which are later posted to their separate accounts in the main ledger.

As entries are made into the working ledger from the original records, they show the date of the transaction, the details and any reference number. Then the appropriate debit and credit entries are made in the other columns provided for them in the working ledger. All of this information is shown on the same line for each transaction.

At the end of every week the working ledger is closed off and balanced. A trial balance is prepared of the totals of all the debit entries and of all the credit entries. When this is balanced, the totals of the entries are posted to the appropriate accounts kept in the main ledger.

The working ledger, shown in Example 1, has been posted from the summary of the financial transactions for the whole of 1975 and all of these entries are dated as December 31 (see Exercises, page 25). When used in a society, the working ledger will have daily postings and it will be closed off, totalled and balanced every week.

Example 1

		WORKING															
		for week 52 Ending 31 <sup>st</sup>						4 Members' savings									
Date	1975	Detail	1 Cash		2 Bank		3 Entrance fees		DR		CR						
			DR	CR	DR	CR	DR	CR	DR	CR	DR	CR					
Dec	31	Allocation of 1974 surplus															
"	31	Entrance fees	5				5										15
"	31	Savings contributions															
"	31	Savings withdrawals	1000														1000
"	31	Loans advanced															
"	31	Loan interest															
"	31	Loan repayments	210														
"	31	Cash banked															
"	31	Bank withdrawal	500														
"	31	Bank interest added															
"	31	Investment deposited															
"	31	Investment interest received															
"	31	Expenses paid	42														
TOTALS TO MAIN LEDGER			1757	1730	860	500	5	400	1015								
Account no			1	1	2	2	3	4	4								

**LEDGER**

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5 Members' loans		6 Investments		7 Interest income		8 Expenses		9 Surplus		10 Reserve fund		11 Education fund		Trial balance	
DR	CR	DR	CR	DR	CR	DR	CR	DR	CR	DR	CR	DR	CR	DR	CR
								30						1757	1730
										10				860	500
															5
250					40									400	1015
40														290	210
														200	
															92
														30	
														30	
															10
															5
290	210	200			92		30	30		10				3567	3567
5	5	6		7		8	9			10		11			



**2.4 Main ledger: Example 2**

In the main ledger a separate page is kept for each account. Since it is posted from the working ledger, the accounts in the main ledger will be kept in the same order as they are kept in the cash columns of the working ledger.

The pages kept for each account are numbered consecutively and are headed with the name of the account. Columns are provided for the date, the details and the reference number, which is the number of the page of the working ledger from which the entry was posted.

Then three other columns are provided on each page. In the first column the debit entries are posted. In the second, the credit entries are posted. The third column contains the running balance, prefixed to show whether it is DR or CR.

For the purposes of this manual Example 2 shows the main ledger accounts together. In the society each account has a separate page in the main ledger as shown in Example 2(a). This example shows

the cash account included within Example 2 as it would appear on its separate page in the main ledger of the society.

Example 2(a)

CASH ACCOUNT						No 1	
Date		Detail	Ref no	DR	CR	Balance	
1975							
Jan	1	Balance from balance sheet	b/f			DR	10 00
"	7	Entries from working ledger	3	121 15	100 00	DR	31 15
"	14	" " " "	5	100 40	80 40	DR	51 15
"	21	" " " "	6	141 00	180 15	DR	12 00
				and so on		DR	37 00
Dec	31	Asset to balance sheet	c/f		37 00		
1976							
Jan	1	Balance from balance sheet	b/f			DR	37 00

Example 2

													MAIN				
Date		Detail	Ref no	1 Cash			2 Bank			3 Entrance fees			4 Members' savings				
				DR	CR	Balance	DR	CR	Balance	DR	CR	Balance	DR	CR	Balance		
1975																	
Jan	1	Balances from balance sheet	b/f			DR 10			DR 100								CR 500
Dec	31	Entries from working ledger	52	1757	1730	DR 37	860	500	DR 460								CR 1115
"	31	Transfer of entrance fees								5							
"	31	" " income & expenditure															
"	31	" " net surplus															
"	31	Assets & liabilities	c/f		37	-		460	-				1115				-
1976																	
Jan	1	Balances from balance sheet	b/f			DR 37			DR 460								CR 1115

After the working ledger has been balanced, at the end of every week, the main ledger is posted. Postings in the main ledger are made to show:

*Date* ..... the week ending date  
*Detail* ..... 'from working ledger'  
*Ref no* ..... page number of working ledger  
*DR* ..... details from working ledger  
*CR* ..... details from working ledger  
*Balance* ..... the new running balance prefixed 'DR' or 'CR'

At the end of every four weeks the balances in the main ledger are listed and a trial balance of them is prepared, (Example 9, page 18), to check the postings made. The total of the list of DR balances must be agreed with the total of the CR balances. The accounts, to be prepared by the book-keeper for the members, and the monthly report, to be made to the committee, make use of the information taken from the monthly trial balances of the main ledger.

## 2.5 Members' savings ledger: Example 7 (page 15)

In the members' savings ledger a separate page is kept, in membership number order, for each member. These separate accounts for each member can be kept in a loose-leaf ledger or on cards. The savings transactions of the member are posted into this ledger from the details of their original entries after they have been made into the working ledger. At the end of every four weeks the balances in this ledger are listed and their total is agreed with the CR balances for members' savings in the main ledger at that date, as shown in the trial balance of the main ledger (Example 9, page 18). In some societies the holdings of members are in the form of shares but the book-keeping procedure can still be similar to the system outlined for savings in this manual.

## 2.6 Members' loan ledger: Example 8 (page 15)

In the members' loan ledger a separate page is kept, in loan number order, for each loan holder. These separate accounts can be kept in a loose-leaf ledger or on cards. In some societies the savings and loan records are kept together in one ledger. The loan transactions of the members concerned are posted into this ledger from their original entries, after they have been made into the working ledger. At the

## LEDGER

<u>5 Members' loans</u>			<u>6 Investments</u>			<u>7 Interest income</u>			<u>8 Expenses</u>			<u>9 Surplus</u>			<u>10 Reserve fund</u>			<u>11 Education fund</u>		
DR	CR	Balance	DR	CR	Balance	DR	CR	Balance	DR	CR	Balance	DR	CR	Balance	DR	CR	Balance	DR	CR	Balance
		DR 100			DR 400									CR 30			CR 60			CR 20
290	210	DR 180	200		DR 600		92	CR 92	30		DR 30	30		-		10	CR 70		5	CR 25
						42		-		30	-					5	CR 75			
	180	-		600	-							62	62	CR 62			75			25
		DR 180			DR 600									CR 62			CR 75			CR 25

end of every four weeks, the balances in this ledger are listed and their total is agreed with the DR balance for members' loans in the main ledger at that date, as shown in the trial balance of the main ledger (Example 9).

## 2.7 Trial balances

The book-keeper will be concerned with the preparation of two trial balances:

### (a) *Trial balance of working ledger*

This will be prepared at the end of every week, after the entries for all the transactions of that week have been posted from their records of original entry. The trial balance will be prepared from the *totals of entries* of each column. An example is shown within Example 1 (page 7).

### (b) *Trial balance of main ledger*

This will be prepared at the end of every four weeks after the postings for that period have all been made from the working ledger. The trial balance will be prepared of the *balances* in each of the accounts. An example is shown in Example 9.

## 2.8 Other book-keeping terms

Book-keeping is the science of recording financial transactions. Like all sciences it uses technical terms. Some of the most common other book-keeping terms that are used in this manual are as follows:

### *Financial, or accounting, period*

At the end of regular periods, usually a year, the ledgers are closed and the final accounts are prepared. The financial, or accounting, period is the period of time covered by the final accounts. The by-laws will state when these are to be prepared.

### *Final accounts*

These are prepared at the end of a financial period. In the system described in this manual for small savings and credit co-operatives, only one final account need be prepared.

### *Income and expenditure account*

This is the final account. It is a summary of all of the income earned

during the financial period, less all of the expenditure, being the expenses incurred in earning this income. This account reveals the surplus, or loss.

### *Surplus or loss*

When the income is greater than the expenses, there is a remaining net *surplus*. When the expenses are greater than the income, there is a net *loss*.

### *Interest*

This is that part of the net surplus which is distributed to the members, based on their savings. In some societies this is called 'dividend'.

### *Balance sheet*

This is a summary of the assets and liabilities of the society at a specified date. It is prepared after the income and expenditure account has been prepared.

### *Assets*

These show anything of value owned by the society and indicate the use being made of the funds. Assets will include members' loans, investments, cash at bank and cash at hand.

### *Liabilities*

These show what is owed by the society and indicate the source of the funds being used. They include members' savings, reserve funds, education fund and any surplus available for disposal.

### *Auditor*

The auditor is a skilled accountant, whose responsibility it is to check and verify the accounts of a co-operative society at the end of a financial period, and at any other time the registrar of co-operative societies may think necessary. The auditor is always independent of the co-operative societies. The auditor provides a check on the honesty of the book-keeper. Also, as he is a professional book-keeper himself, he can help the book-keeper with any accounting problems.

### *Internal auditors (or supervisory committee)*

It is also recommended that the by-laws provide that the members should elect two of their number at the annual general meeting to act as *internal auditors* for at least the coming year. These internal auditors conduct frequent inspections of the books, cash and other assets and report on their findings to the members. Committee members should also arrange to check the books and count the cash at some of their meetings.

# 3 The working ledger

## 3.1 Cash account

(a) One officer of the society should be responsible for handling all the cash. This person should not be the book-keeper. Cash, including cheques, postal orders and money orders received, must be handled with the utmost care. At all times cash, other than that being currently used, must be locked in a safe place and banked or invested as soon as possible. The committee and the internal auditors will check all cash balances as often as possible.

### (b) Receipts and vouchers

For all cash received a receipt must be issued. For all cash paid a receipt, or voucher, similar to Example 4 (page 13), must be obtained. These must show:

- 1 Date on which cash is received or paid
- 2 Name and number of person from whom received, or to whom paid
- 3 Purpose of receipt, or payment
- 4 Amount of cash in figures and words
- 5 Signature of person receiving the cash
- 6 Receipt or voucher number.

### (c) Working ledger entries

#### 1 Cash received

Date ..... cash received

Details ..... from receipt

Ref no ..... receipt number

DR ..... cash – with amount received

CR ..... provider – e.g. savings, entrance fees, loans

#### 2 Cash paid

Date ..... cash paid

Details ..... from receipt or voucher

Ref no ..... receipt or voucher number

DR ..... receiver – e.g. expenses, savings or loan

CR ..... cash – with amount paid

## 3.2 Bank account

Since savings and credit societies usually operate on a small scale, most business will be done on a cash basis. Therefore in most circumstances there will be no need to open a *current account* at the bank. In any case, since no interest is earned by the society on bank current accounts, and since charges are made by the bank for the cheques and other services, this type of account should be avoided.

Several banks offer *short term deposit* facilities. Interest is paid on balances in these accounts and withdrawals are paid on demand. Committees should decide on the banking services required and select their bank from the banks available in their areas. The bank selected will need to be an organisation approved under the by-laws of the society. Cash not immediately required can be banked in short term deposit accounts and then be withdrawn easily if required. The banks usually issue pass-books showing details of the deposits, withdrawals, interest and the balance on these accounts.

(a) *Deposits*

When deposits are made to bank accounts, the entries are made from the original entry records on the bank deposit receipt, or on the receipt given by the bank in the pass-book, into the working ledger as follows:

*Date* ..... of deposit  
*Detail* ..... bank deposit  
*Ref no* ..... receipt or pass book number  
*DR* ..... *bank account* – with amount paid in  
*CR* ..... *cash* – with amount paid in

(b) *Withdrawals*

Withdrawals will usually be made in cash. The committee will advise the bank of the names of officers of the society who are authorised to sign on behalf of the society. The bank will require specimen signatures of these officers. These officers will sign the withdrawal forms required by the bank. From the entry made for the withdrawal in the pass-book by the bank, the working ledger will be posted as follows:

*Date* ..... of withdrawal  
*Detail* ..... bank withdrawal  
*Ref no* ..... pass book number  
*DR* ..... *cash* – with amount withdrawn  
*CR* ..... *bank* – with amount withdrawn

(c) *Interest*

Interest earned will be posted into the pass-book by the bank from time to time. From this record the working ledger will be posted as follows:

*Date* ..... of interest  
*Details* ..... bank interest  
*Ref no* ..... pass book number  
*DR* ..... *bank* – with amount of interest  
*CR* ..... *interest income* – with amount of interest

(d) *Balance*

At all times the balance in the pass-book must agree with the DR balance shown in the bank account in the main ledger.

### 3.3 Entrance fees account

(a) *Applications for membership*

Applications for membership will be made to the committee using the form shown in Example 3 (page 13). A separate *entrance fees receipt book* will be kept to record the entrance fees required to be paid by applicants as indicated in the by-laws. Receipts will be made out in duplicate by the use of carbon paper. The top copy of the receipt will be given to the member.

The applicant, when accepted as a member, will also be issued with a *pass-book*. This pass-book will show all the savings transactions between the member and the society. Separate pages will also be included to record any loan transactions. The pass book will show the name and membership number of the member on its front cover.

(b) *Working ledger entries*

From the bottom copy of the receipt for the entrance fees, the working ledger will be posted to show:

*Date* ..... of receipt  
*Details* ..... entrance fees – name of applicant  
*Ref no* ..... receipt number  
*DR* ..... *cash* – with amount received  
*CP* ..... *entrance fees* – with amount received

(c) *Register of members*

The membership application cards, which have been accepted will be kept in surname alphabetical order as the register of members.

Example 3

ABC SAVINGS AND CREDIT CO-OPERATIVE SOCIETY LTD	
	Member's no ...16.....
I the undersigned hereby apply for membership of the above and agree to abide by the By-laws of the Society.	
Name: <i>Anthony Member</i> .....	Date of birth: <i>12.1.40</i> .....
Address: <i>The Street, Old Town</i> .....	
Occupation: <i>Fisherman</i> .....	
Signature: <i>A Member</i> .....	
Application accepted/rejected on <i>1.10.1975</i>	

3.4 Members' savings account

(a) Contributions

When cash is received as a contribution to a member's savings account, a receipt is issued to the member from the members' savings receipt book as shown in Example 4.

Example 4

ABC SAVINGS AND CREDIT CO-OPERATIVE SOCIETY LTD	
	Receipt no ...61.....
Received from: <i>A Member</i> .....	
Membership no: <i>16</i> .....	
The sum of: <i>one dollar only</i> ..... \$ <i>1.00</i> .....	
For: <i>savings</i> .....	
Signed: <i>J. Batuan</i> ..... for Society.	
Date: <i>5.10.75</i> .....	Posted to working ledger page <i>5</i> .....

These receipts are made out in duplicate. The *top copy* is issued to the member. From the *bottom copy* of the receipt, the working ledger is posted to show:

Date ..... of receipt  
 Details ..... member's name and number  
 Ref no ..... receipt number  
 DR ..... *cash* – with amount of contribution  
 CR ..... *member's savings* – with amount of contribution

(b) Withdrawals

These are paid after the requirements of the by-laws have been followed. Example 5 shows the form to be completed by the member for the application and receipt of the withdrawal from member's savings.

Example 5

ABC SAVINGS AND CREDIT CO-OPERATIVE SOCIETY LTD	
Member's savings withdrawal form	
Application	No ...69.....
I <i>Anthony Member</i> ..... make application to withdraw the sum of <i>\$2.00</i> ..... from my Savings Account on <i>4 Jan 1976</i> .....	
Member's signature: <i>A Member</i> ..... Membership no <i>16</i> .....	
Date: <i>3<sup>rd</sup> January 1976</i> .....	
Receipt	
I acknowledge receipt of <i>\$2 (two dollars only)</i> ..... being a withdrawal from my Savings Account.	
Member's signature: <i>A Member</i> .....	
Date: <i>4.1.76</i> .....	
Posted to working ledger page <i>12</i> .....	

From the details on these completed forms, the working ledger is posted as follows:

- Date ..... of withdrawal
- Details ..... name of member and number
- Ref no ..... withdrawal form number
- DR ..... *member's savings* – with amount of withdrawal
- CR ..... *cash* – with amount of withdrawal

(c) *Interest on savings*

Where there is a distribution to be made of interest from the net surplus, it is recommended that this be calculated on the average minimum quarterly balances. For this purpose, it is necessary to record the minimum balance held for each complete quarter of the financial year from the members' savings ledger, and to calculate the average of the four quarters. The savings interest calculation form, shown in Example 6, is used for this.

Example 6

Savings interest calculation form								
Financial year ended ...31.12.74....								
Member-ship no	Minimum quarterly balances					Average total 4	Interest at 3%	
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total			
1	6	6	4	4	20	5		15
2	8	8	8	8	32	8		24
3	1	1	20	18	40	10		30
4								
5								
and so on								
TOTALS	300	500	600	600	2000	500		15 00
								Posted to working ledger page 52

The entries in this form are made at the end of every quarter from the members' savings ledger. The minimum balance held for the complete quarter is entered for each member against their membership number on this form. The total and the average for each member is calculated at the end of the year. The 'average' column shows the balances on which the amount of interest due will be calculated:

For example: Total of 'average' balances = \$500  
 Net surplus available for savings interest = \$15  
 Therefore rate of interest possible  

$$= \frac{\text{Net surplus available} \times 100}{\text{Total of average balances}} = \frac{15 \times 100}{500} = 3\%$$

After the annual general meeting, the distribution will be made in accordance with the resolution made by the members. The book-keeper will then calculate the interest due to each member, which will be shown in the column headed 'interest'. The entries in this column will be totalled and the total amount of interest due for distribution will be posted from the savings interest calculation form to the working ledger as follows:

- Date ..... of distribution
- Details ..... from savings interest calculation form
- Ref no ..... number of form
- DR ..... *surplus* – with total amount of interest
- CR ..... *members' savings* – with total amount of interest

- (d) *Members' savings ledger (Example 7, page 15) and pass books*  
 All details of the financial transactions concerning savings will be posted into the individual accounts of the members concerned in the members' savings ledger, Example 7, and in the pass-book held by the members.

Example 7

MEMBERS' SAVINGS LEDGER					
Name: <i>A Member</i>		Membership no: <i>16</i>			
Loan number: <i>6</i>					
Date 1975	Receipt no	Contributions CR	Interest CR	Withdrawals DR	Balance CR
<i>Jan 1</i>					<i>500</i>
<i>Dec 31</i>	<i>164</i>	<i>1000</i>	<i>15</i>	<i>400</i>	<i>1115</i>

3.5 Members' loan account

(a) Members' loan ledger (Example 8)

A separate ledger is kept, in which a separate page is opened for each member having a loan. Pages in this ledger are headed and ruled as follows:

Example 8

MEMBERS' LOAN LEDGER						
Name: <i>A Member</i>		Loan no: <i>6</i>				
Membership no: <i>16</i>		Terms of repayment: .....				
Amount of loan: .....		Date of committee meeting: .....				
Date 1975	Receipt no	Advance	Interest	Repayments	Balance	
		DR	DR	CR	Advance DR	Interest DR
<i>Jan 1</i>					<i>100</i>	
<i>Dec 31</i>	<i>17</i>	<i>250</i>			<i>350</i>	
<i>" 31</i>	<i>29</i>		<i>40</i>		<i>350</i>	<i>40</i>
<i>" 31</i>	<i>40</i>			<i>210</i>	<i>170</i>	<i>10</i>

Details of the loan transactions will be posted into the ledger pages concerned and in the pages of the pass-book held by the member.

(b) Advances

Applications for loans will be made in accordance with the by-laws of the society. Loan agreements will be prepared and signed. These agreements will be drawn up to meet the specific requirements of the society. When the cash for the loan, agreed by the committee, is paid to the member, a receipt will be obtained by the society. From this receipt, the working ledger will be posted to show:

- Date ..... of advance
- Details ..... name of member/loan number
- Ref no ..... receipt number
- DR ..... *members' loans* – with amount of advance
- CR ..... *cash* – with amount of advance

(c) Loan interest

Interest will be calculated in accordance with the *loan agreement*. Entries for this will be made in the working ledger as follows:

- Date ..... interest due
- Details ..... name of member
- Ref no ..... loan number
- DR ..... *members' loans* – with interest due
- CR ..... *interest income* – with interest due



(d) *Repayments*

A receipt will be issued for each repayment received. This will be made out in duplicate and the *top copy* given to the member. From the *bottom copy* the working ledger will be posted as follows:

*Date* ..... of repayment  
*Details* ..... name of member/loan number  
*Ref no* ..... receipt number  
*DR* ..... *cash* – with cash received  
*CR* ..... *members' loans* – with cash received

The interest charges should be, as far as possible, recovered from the repayments. Any interest not recovered from the repayments is separately shown in the balance columns of the account in the members' loan ledger, but it is included as part of the total balance due from the member. The balance of the advance, together with any interest due, will be shown as an asset in the balance sheet at the end of the financial year.

**3.6 Investments account**

Funds not expected to be required for withdrawals of savings, or for loans to members, should be invested as soon after receipt as is possible. Generally, the longer the period for which the funds are invested, the higher the rate of interest which will be earned. The bank, or other outside organisation, will issue some evidence of the investment. This will be a pass-book or investment certificate. This account is *for investments* not *withdrawable on demand*, as are short term deposits.

When investments are made, the entries in the working ledger will be: DR investments and CR cash. Withdrawals can only be made in accordance with the terms agreed when the investment was made. As soon as cash has been received for an investment, *withdrawal* entries to be made in the working ledger are: DR cash and CR investments.

When the society is notified that *interest* has been added to the investment account, the entries to be made in the working ledger are: DR investments, CR interest income. When interest is paid

direct to the society, the debit (DR) entry will be made to cash instead of investments.

In the main ledger separate pages will be opened for each of these long-term investments. The balances on these will be agreed from time to time with the outside organisations concerned.

**3.7 Interest income account**

The entries in this account will be *credits* for loan interest charged to members, together with the bank interest and investment interest received. These make up the income of the society. At the end of every financial year the book-keeper analyses these credit entries to show the loan interest separately in the income and expenditure account. Where the operations of the society expand, a separate account can be opened for 'loan interest'.

**3.8 Expenses account**

A voucher or receipt will be obtained for all payments made for expenses including stationery, postage and similar expenses. The receipt will be made out in a similar way as Example 4 (page 13) and will be signed by the person who received the cash. From this receipt the working ledger will be posted to show:

*Date* ..... of payment  
*Details* ..... of expense  
*Ref no* ..... from receipt  
*DR* ..... *expenses* – with amount paid  
*CR* ..... *cash* – with amount paid

Where the operations of the society expand, separate accounts can be opened for the various types of expenses. These expenses can then be separately compared and controlled.

### 3.9 Surplus account

At the end of every financial year, any income remaining as net surplus, after provision has been made for all known expenses, is transferred as a credit to the surplus account from the income and expenditure account. Allocations and distributions can be made from this net surplus in accordance with the co-operative law, the by-laws of the society and the resolutions of the members at their annual general meetings.

- (a) *Allocations* of net surplus can be made to the *reserve fund* and the *education fund* by entries being made into the working ledger as follows:

DR: Surplus account, CR: reserve, or education fund,  
with amount of the allocation

- (b) *Distributions* of net surplus can be made as a *savings interest* by transfer to the members' savings accounts. The following entries are made into the working ledger after the amount due has been calculated:

DR: Surplus account, CR: members' savings account with  
amount of interest transferred

Where the by-laws provide for this, some net surplus can be returned to those members who have loans, as a *loan interest rebate* based on the interest charged by the society to them. The entries to be made for this distribution would be: DR: surplus, CR: members' loans.

- (c) *Any balance* of net surplus remaining in this account can be included with the net surplus for the next year. Alternatively, any remaining balance can be transferred to the reserve fund, if so authorised by the members.

### 3.10 Reserve fund

The by-laws should provide for the establishment of a reserve fund. This fund gives some financial strength and stability to the society and can help to meet unforeseen losses which may arise. Allocations will be made by *credit* to this fund from the net surplus. Generally, the reserve fund consists of past net surplus, retained by the members in their own business. The reserve fund belongs to the society and no individual member may claim any part of it. Sometimes entrance fees may also be *credited* to this fund.

### 3.11 Education fund

Where there is provision in the by-laws, this fund should be established. Allocations can be made from any net surplus by *credit* to this account. When this fund has a sufficient credit balance, it can be used within the society for member education and other educational purposes in accordance with co-operative principles.

### 3.12 Balancing

At the end of every week, after all the entries have been made from the records of original entry, the working ledger is ruled off and balanced. The entries in all of the individual columns are separately totalled. The totals of each debit column and the totals of each credit column are separately listed. These lists are made in the form of a trial balance in the last two columns of the right hand side of the working ledger. (See Example 1, page 6). The total of all the debits must equal the total of all the credits. When they do so, the entries are posted to the main ledger.

# 4 The main ledger

## 4.1 Posting

As soon as the working ledger has been balanced at the end of every week, the entries are posted into the accounts kept in the main ledger. As the entries are posted, the number of the account concerned in the main ledger is written underneath the entry in the working ledger to indicate that the entry has been posted. This cross-reference system helps in any future checking of the postings.

The new running balance in the account being posted in the main ledger is ascertained. When the money amount of debit entries on the account is greater than the money amount of credit entries, there is a *debit (DR) balance*. When the money amount of credit entries is greater than the money amount of debit entries, there is a *credit (CR) balance*.

## 4.2 Balancing

At the end of every four weeks, when all the postings from the working ledger for the period have been completed, the trial balance of the main ledger shown in Example 9 is prepared and balanced. If the trial balance debit and credit totals do not agree then something is wrong. To help to locate the error the book-keeper should:

- (a) check all additions
- (b) check that the balances from the accounts have been listed correctly
- (c) check the entries from the working ledger into the main ledger

When the trial balance has been balanced, the balances in the main ledger accounts are confirmed as follows:

*Cash in hand*

Actual cash is counted and agreed with the trial balance.

*Bank and investments*

The pass-books for these are checked and their balances agreed with the trial balance total.

*Members' savings ledger*

The ledger balances are add-listed and the total agreed with the trial balance.

*Members' loans ledger*

The ledger balances are add-listed and the total agreed with the trial balance.

Example 9

Account	Ref no	DR	CR
Cash	1	37	
Bank	2	460	
Entrance fees	3		5
Members' savings	4		1115
Members' loans	5	180	
Investments	6	600	
Interest income	7		92
Expenses	8	30	
Surplus account	9	-	-
Reserve fund	10		70
Education fund	11		25
<b>TOTAL</b>		<b>1307</b>	<b>1307</b>

This trial balance shows only the *balances* on the accounts in the main ledger in Example 2. When, for example, the total loan advances to date need to be known for reports and comparisons, all the debit entries on the loan account are added together (Total \$290). In a similar way, the total savings contributed to date can be ascertained by adding together the credit entries for these in the savings account in the main ledger (Total \$1115). (See main ledger, page 8).

# 5 Control systems and final accounts

The sections which follow briefly outline control systems and final accounts. These will be dealt with in detail in the next manual in this series on accounting. (See Note for teachers, page iv).

## 5.1 The budget

The budget is a forecast of what the committee hopes to achieve from its management of the society in the coming financial period. Therefore a budget is usually prepared for a complete financial year. It should be prepared at least one month before the beginning of the financial year to which it relates.

The budget is prepared in two parts. The first part is the *operating budget* and contains the estimate of the income and expenditure for the coming year. The second part is the *cash budget* which shows the estimates of the flow of funds coming in and going out of the society. A suitable form for a budget is shown in Example 10. The book-keeper will assist the committee to make realistic forecasts.

### (a) Operating budget

The *income* of the society will be earned from the use of the savings and other funds available. These will be invested in other organisations or as loans to members. An estimate will be made of the interest income expected to be earned during the coming financial period.

The *expenses* of the society are the costs of operating the business of attracting and using the savings and other funds. The main expense will be for stationery, or similar administrative costs. An estimate will be made of the expenses expected in the coming financial period. These expenses must be kept as low as possible, since the major portion of the income should remain as *net surplus*.

### (b) Cash budget

The estimated cash coming into the society will be based on the forecast of the savings and other funds anticipated to be available in the coming year. Since the main object of the

society is the mobilisation of money, it is recommended that this section of the budget be prepared from month to month as indicated in Example 10. This will enable the committee to have more frequent, and therefore more accurate, forecasts on the funds likely to be available for outside investment or for loans to members.

### (c) Comparisons

During the financial year comparisons will be made between the actual results revealed in the trial balance of the main ledger and the monthly report to the committee, and the forecasts made in the budget. Differences will be explained and any faults corrected by the appropriate committee action.

Example 10 (Part II, see page 20)

ABC Savings and Credit Co-operative Society Ltd			
THE BUDGET			
Part I OPERATING BUDGET for financial year ending .....			
	Budget this year	Actual this year	Actual last year
Income: Investment interest	\$	\$	\$
Loan interest			
TOTAL INCOME			
LESS Expenses: Stationery			
Postage			
Other			
TOTAL EXPENSES			
Net surplus			
Proposed allocations: Reserve fund			
Education fund			
Interest on savings			
TOTAL			

Example 10 continued

PART II CASH BUDGET for month ending .....		
	Budget this month	Actual this month
Funds available to begin:	\$	\$
Cash in hand		
Cash in bank		
TOTAL		
ADD: Savings contributions		
Loan repayments		
Loan interest		
Entrance fees		
Investment interest		
TOTAL		
LESS: Expenses		
Savings withdrawals		
TOTAL		
Estimated funds available for investments and loans		

5.2 Monthly report to committee

The committee members are elected at the annual general meeting. The committee is responsible for directing and controlling the affairs of the society as authorised under the by-laws. To assist the committee members in their task, the chief officer of the society will submit regular reports to them for their consideration and action. It is recommended that *monthly* reports are prepared, but in some societies, where the committee has so resolved, *quarterly* reports will be prepared.

In Example 11, page 21, the report form, which can be used for monthly reports is shown. Quarterly reports, where these are prepared, will contain similar details. Using the information in the report, the committee will be able to review the results of their management of the society. They will be able to consider ways in which any faults can be corrected and to plan future developments.

The book-keeper will assist in the preparation of the reports. It will be essential that the books are properly kept up to date so that the information required is readily available. The committee will then be able to take action to increase membership and savings and to ensure that the loans are kept under control.

Example 11

Page 1

**ABC Savings and Credit Co-operative Society Ltd**  
 Monthly report to committee for four weeks ended: .....

**1 Membership**  
 Total membership to date:

This year	Last year	Increase/decrease	
		number	%

**2 Savings**  
 Total savings to date:

This year	\$ .....
Last year	\$ .....
Increase or decrease	\$ .....%

Irregular savings:

	No savings made in:		
	This month	Last 3 months	Last 12 months
Number of members			

**3 Loans**  
 (a) Loans advanced this month:

Member-ship no	Name	Purpose of loan	Amount of loan \$	Date due for repayment

(b) Loan balances to date:

	<i>Number of loans</i>	<i>Balances of loans</i>
		\$
This year	.....	.....
Last year	.....	.....
Increase or decrease	.....	.....

(c) Overdue

Member-ship no	Name	Balance of loan \$	Repay-ments overdue	Interest overdue	Date of last payment	Balance of savings	Action to be taken

Page 2

**4 Financial returns**

(a) Trial balance of main ledger attached

(b) Income and expenditure account to date: \$

Income:

Investment interest

Loan interest

TOTAL INCOME \_\_\_\_\_

LESS expenses:

Stationery

Postage

Other \_\_\_\_\_

TOTAL EXPENSES \_\_\_\_\_

NET SURPLUS to balance sheet \$ \_\_\_\_\_

(c) Balance sheet at end of month

Source of funds (liabilities)

Savings

Reserve fund

(+ entrance fees)

Education fund

NET SURPLUS to date \_\_\_\_\_

TOTAL \_\_\_\_\_

Use of funds (assets)

Loans (and interest)

Investments

Cash at bank

Cash in hand

TOTAL \$ \_\_\_\_\_

**5 Report on action taken on committee resolutions**

**6 Report on educational activities**

**7 Any other matters requiring the attention of the committee**

Signed: .....

Date: ..... Chief officer

### 5.3 Final accounts and balance sheet

The by-laws will state the date on which the financial year is to end. On that date, the following procedures will be started for the preparation of the *income and expenditure account* and *balance sheet* as shown in Example 12, page 23), ready for audit and presentation to the members.

(a) *Cash in hand*

All cash in hand will be counted and listed. This will be checked by the auditor or the internal auditors. Any differences between the debit balance shown for cash in the main ledger and the actual cash will require to be located, or explained, by the person responsible for the cash.

(b) *Bank and investment balances*

The bank and the outside organisations which hold funds of the society will be required to submit certificates showing the balances in these accounts at the end of the financial year.

(c) *Members' savings and loans' ledgers*

The individual balances in these accounts will be separately listed for each of these ledgers and their total balances agreed with their balances in the main ledger. The pass-books of the members will later be checked against the balances in these ledgers by the auditor.

(d) *Income and expenditure*

As far as possible, all income due to the society will be recorded and collected. All expenses will be cleared by payment.

(e) The trial balance of the main ledger will be prepared.

(f) *Income and expenditure account* for the financial year will then be prepared:

(i) *Transfer of Income*

DR: Interest income account — in the main ledger

CR: Income and expenditure account — with the credit balance in the interest income account in the main ledger.

In this account the credit total will include 'investment interest' and 'loan interest'. The book-keeper will show these details separately in the income and expenditure account.

(ii) *Transfer of expenses*

CR: Expenses account — in the main ledger to clear the DR balance in this account

DR: Income and expenditure account — showing the separate totals for each type of expense.

(iii) *Transfer of net surplus*

The resulting net surplus, where the income is greater than the expenditure, is transferred as a CR to the surplus account.

(g) *Balance sheet*

(i) *Transfer of entrance fees*

DR entrance fees and CR reserve with the fees received.

This closes the entrance fees account. When a society is first formed, the initial expenses are high. The entrance fees are therefore used to help meet the costs of expenses. The book-keeping entries for this would be made in the working ledger as follows: DR entrance fees, CR expenses.

(ii) *The balance sheet* is then completed from the remaining balances, being assets and liabilities, remaining in the main ledger.

(h) *Comparisons*

(i) The financial results and position of the society, as revealed in the income and expenditure account and balance sheet, will be compared with the past results and the forecast results. Reasons for differences will be considered.

(ii) The amount of net surplus will be a reflection on the *efficiency* of the committee in their use of the funds of the society, and in their control and administration of the affairs of the society.

(iii) The society will be *solvent* when all the liabilities are covered by assets. When 'reserves' are included as part of the liabilities, they indicate solvency, providing the loans and investments have been properly valued and will be repaid.

- (iv) The society may be solvent, but may not have the ready cash available to meet demands for payments, including demands for withdrawals of savings. The cash may be tied up in long-term loans or investments. Therefore from past experience and future forecasts the committee should estimate the amount of cash likely to be required. They should then ensure that there is always sufficient cash readily available in hand, or in short term deposits, to meet these demands.

Example 12

ABC Savings and Credit Co-operative Society Ltd			
1 Income and expenditure account for year ended .....			
		This year	Last year
		\$	\$
Income:			
Investment interest		52	
Loan interest		40	
	TOTAL INCOME	92	
LESS expenses:			
Stationery	20		
Postage	8		
Other	2		
	TOTAL EXPENSES	30	
NET SURPLUS		\$ 62	\$
2 Balance sheet as at .....			
		This year	Last year
		\$	\$
Source of funds (liabilities)			
Savings		1115	
Reserve fund		75	
Education fund		25	
Surplus for disposal:			
Proposed allocations to:			
Reserve fund	25		
Education fund	5		
Interest	30		
Balance c/f	2		
	TOTAL	\$ 1277	\$
Use of funds (assets)			
Loans and interest		180	
Investments		600	
Cash at bank		460	
Cash in hand		37	
	TOTAL	\$ 1277	\$

Note: Separate columns are often included in which the corresponding figures of the previous year are shown for comparison.



## 6 Summary

This outline of the book-keeping system for savings and credit societies is now complete. It can be summarised as follows:

- (a) All transactions are recorded, immediately they occur, in the records of original entry.
- (b) Details from these records are posted at the end of every week into the working ledger.
- (c) For every credit entry there is a corresponding debit entry and, vice versa, for every debit there is a corresponding credit.
- (d) When all the entries for the week have been posted into the working ledger, it is ruled off and a trial balance is made.
- (e) The working ledger column totals of entries are posted into their accounts in the main ledger.
- (f) The total debit balances of the accounts in the main ledger must always equal the total credit balances.
- (g) At the end of every four weeks, this is checked by the preparation of a trial balance.
- (h) Records of members' savings are kept in individual accounts in the members' savings ledger.
- (i) Records of members' loans are kept in individual accounts in the members' loan ledger.
- (j) At the end of every financial period the final accounts and balance sheet are prepared.
- (k) All books of account, records and receipts must be kept safely, ready for audit.

# 7 Exercises

To illustrate the book-keeping procedures outlined, the information from the following three exercises has been posted into the examples of the forms, books and ledgers shown in this manual.

Teachers can change and supplement the figures given in these exercises and in that way prepare exercises for further teaching purposes. Naturally other changes can be made in order to adapt the exercises to local conditions.

## Exercise A

In this exercise the main ledger for the new financial year beginning 1.1.75 was opened from the details shown in the trial balance. The balances in the accounts for the assets and liabilities shown to begin the year were posted to their separate pages in the main ledger, Example 2 (page 8).

## Exercise B

From the summary of the financial transactions for 1975, the working ledger, Example 1 (page 6), was posted and the trial balance within that example was prepared. The main ledger, Example 2, was then posted from the working ledger and the trial balance, Example 9 (page 18), was prepared.

The adjustments transferring the entrance fees to the reserve fund were posted into those accounts in the main ledger.

As far as possible within this manual the other Examples show the entries and balances included in the accounts concerned in the working ledger and in the main ledger.

## Exercise C

The income and expenditure account and balance sheet, Example 12 (page 23), were prepared from the balances in the main ledger.

The net surplus from the income and expenditure account was posted into the surplus account in the main ledger as a credit.

The proposed allocations of this surplus for disposal are shown within the balance sheet, Example 12.

## Exercise A

### Opening balances from balance sheet at 31.12.74

1.1.75. These are the opening balances to be posted into the main ledger. In the books of a society these would be carried down as the balance sheet is completed:

Account	Ref no	DR \$	CR \$
Cash	1	10	
Bank	2	100	
Members' savings	4		500
Members' loans	5	100	
Investments	6	400	
Surplus account	9		30
Reserve fund	10		60
Education fund	11		20
TOTALS		\$610	\$610

### Notes

- 1 Round \$ (dollars) are given. In the books of a society the exact amounts are posted.
- 2 To show the use of as many ledgers and records as possible, the totals of transactions have been posted to the examples given of these. In the books of a society, individual transactions and accounts are posted.

**Exercise B**

Summary of financial transactions for 1975 from records of original entry

31.12.75. (a) Post and balance working ledger

(b) Post and balance main ledger

1 Allocation of 1974 surplus		\$
Transfer to reserve fund		10
Transfer to education fund		5
Transfer of interest to savings		15
2 Financial transactions		
Entrance fees received		5
Members' savings contributions		1000
Members' savings withdrawals		400
Members' loans advanced		250
Loan interest charges		40
Members' loans repayments		
Advance	180	
Interest	<u>30</u>	
		210
Paid cash into bank (short term)		850
Received cash from bank (short term)		500
Bank interest (short term) added to account		10
Cash invested in long term investments		200
Investment interest received in cash		42
Expenses paid – (stationery \$20, postage \$8, other \$2)		30
3 Adjustment		
Transfer entrance fees to the reserve fund		5

**Exercise C**

After the trial balance of the main ledger has been completed. Prepare the income and expenditure account and balance sheet for 1975

The committee recommend that the net surplus be distributed as follows:

	\$
Allocation to reserve fund	25
Allocation to education fund	5
Distribution of interest	30



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# *Co-operative Book-keeping*

## **4 Industrial Co-operatives**



Co-operative Education Materials Advisory Service

INTERNATIONAL CO-OPERATIVE ALLIANCE  
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# Foreword

It is a common complaint that, in many primary co-operatives, the standard of book-keeping is poor. The need has long been recognised for a basic, simplified system of book-keeping, for use in primary co-operatives in developing countries, in order to help improve that situation. The system described in this manual has been specially designed to meet that need. It makes no claim to be revolutionary, nor to advocate new techniques. On the contrary, it is based on customary double-entry practice; its only claim is that it is simple and that it works, and can easily be adapted to meet particular local requirements.

The system was originally introduced in Botswana, where it has been extensively field-tested and used for many years, with considerable success. In 1970, the British Ministry of Overseas Development, in association with the Intermediate Technology Development Group (ITDG), published three manuals based on the system (one each for Consumer, Marketing, and Thrift and Credit Co-operatives), which have been widely distributed and used in several countries. The ILO International Centre for Advanced Technical and Vocational Training at Turin used these manuals for the book-keeping sections of their Co-operative Management Training Courses. The original manuals have now been substantially revised, to make them more suitable for training purposes, and reissued as CEMAS/ICA publications. A fourth manual, for Industrial Co-operatives, has been added to the original series.

The purpose of book-keeping is *three-fold*:

- 1 to maintain an accurate financial picture of the business, in such a way, that the state of its finances can be simply, clearly and accurately revealed at any time;
- 2 to make it possible for the accuracy of the accounts to be quickly checked, to avoid errors or fraud;
- 3 to serve as a management tool by providing the information required for decision-making and for planning future activities.

This system satisfies those criteria and, in doing so, takes account of the circumstances within which it has to be used, and of the essential need for the book-keeper to know *what* he is doing and *why* he is doing it. The intention is to provide a system which, while fully adequate, in terms of good book-keeping practice, does not make unnecessary demands on the user's time, ability and comprehension.

The manuals have been so designed as to serve both training and operating purposes. They may be used as *handbooks* for co-operative teachers, as *textbooks* for students attending training courses, and as *working manuals* for on-the-job guidance of secretaries and book-keepers. They will be found of most value wherever training courses, based upon them, are provided, and where, after the courses, students are encouraged to use them on return to work.



## ACKNOWLEDGEMENTS

The International Co-operative Alliance gratefully acknowledges the permission of the Ministry of Overseas Development, London, and of the Intermediate Technology Development Group, to revise and reissue these publications.

The major work of revision was undertaken by Mr D W Heffer, former adviser on co-operative accounting in Botswana and the West Indies. The manuals at draft stage were also submitted to the criticism of several other co-operative experts, and in particular, Mr A Boberg, of Sweden, formerly co-operative accountancy expert with the Nordic Co-operative Project in Kenya, and consultant to the Co-operative Department, Zambia, contributed much useful advice. We are grateful for the help of all these colleagues.

Publication of the manuals is made possible by the financial assistance and encouragement of the Swedish Co-operative Centre and the Swedish International Development Authority, which finances the CEMAS project.

## NOTE FOR TEACHERS

This manual describes a book-keeping system concerned with the maintenance of ledger accounts up to trial balance stage. In the final sections, a brief description of control systems and preparation of final accounts is given in order to complete the sequence of operations up to that stage, but these are deliberately not described in detail.

As a follow-up to the present series, CEMAS/ICA is producing a more advanced manual on Co-operative Accountancy, which extends the system to the stage of preparation of final accounts and budgets, to meet the needs of larger co-operatives.

When the manual is used for training purposes, it will normally be desirable for the teacher to prepare and use his own exercises (additional to the three in chapter 7, on page 37), and particularly so when it is necessary to adapt these to the specific requirements of local practice.

## LIST OF EXAMPLES IN THE TEXT

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# 1 Introduction

## 1.1 The industrial co-operative book-keeping system

The book-keeping system described in this manual has been prepared for use by industrial co-operative societies or other primary societies engaged in production. This system uses the double-entry method of book-keeping applied to the columnar form of accounts. All the entries for the financial transactions are posted into a working ledger and all the accounts are controlled in the main ledger.

## 1.2 Objectives of industrial co-operatives

Workers combine together as members of their industrial co-operative to obtain the following advantages:

- (a) The members want regular work and a regular income.
- (b) Their co-operative has more opportunities of obtaining loans and development funds than the members have as individuals.
- (c) The members can obtain the use of better tools, machines and equipment.
- (d) Raw materials can be obtained in bulk at better prices.
- (e) Skills in production can be better developed and products be improved.
- (f) Better marketing of finished goods can be achieved.

In summary, the objectives of an industrial co-operative are to enable the workers to use better methods of production, to buy the most suitable raw materials at the best prices and to obtain a reasonable price for their finished goods.

## 1.3 Problems with industrial co-operatives

In many ways the industrial co-operatives are the most difficult to operate and control. Some of the reasons for this are:

- (a) Co-operatives aim to be self-financing, but the funds required for the fixed assets, including land, buildings, machinery and equipment and for the working capital to buy raw materials, are not usually available from members.
- (b) The quality control of the products is difficult to operate. Members are reluctant to refuse to accept unsatisfactory work of other members.
- (c) Suitable managers and managerial experience and skills are not always available from within the membership.
- (d) Payments to members for products completed are not always related to products sold. The delay between the completion of a product and the sale of that product causes further strains on the limited funds available.
- (e) A complex system of financial book-keeping is required, together with a system of costing and cost control.

## 1.4 The industrial co-operative exemplified here

The industrial co-operatives are concerned with producing finished goods from raw materials. The members contribute their skills to this process. Industrial co-operatives can be of many types. The book-keeping system described in this manual refers to an industrial co-operative with about 50 members. They are engaged in the production of standardised products, which are made in the factory operated by the society. The society sells to the consumers through a small shop, which it operates in the market area at the end of the factory. Most of the products, however, are sold on a wholesale basis to marketing organisations.

The society has taken a loan from the development bank operating in the area. There is a manager and a book-keeper. They are not craftsmen, but they are members of the society and were appointed to these positions by the committee of the society. The society owns no vehicles and uses local transporters when required. Production is undertaken as efficiently as possible to cover at least the costs and to provide for reserves to build up the funds and stability of the society. When there is any remaining net surplus, distributions are made to the members in the form of a limited interest on their shares and a bonus on their contribution to this surplus as represented by their earnings.

### 1.5 The book-keeper's job

This manual is about the work of the book-keeper and how this work can be used in the control of the co-operative business enterprise. His duties will include:

- 1 keeping complete and accurate records of every financial transaction in which the society is involved;
- 2 checking the accuracy of these records at regular intervals;
- 3 preparing final accounts and a balance sheet at the end of every financial year, ready for audit and later consideration by the members;
- 4 preparing reports for the committee on the financial position of the society during the financial year.

### 1.6 Importance of book-keeping

Book-keeping control is essential. The members are the owners of the society. They need to know how their business is doing and how their funds are being used. The members elect a committee to direct and control the affairs of their society, and a manager is appointed to run the day-to-day operations. The committee and the manager need information on the affairs of the society to be able to make decisions and to take action. Members, committees and managers require that the information they get is complete, accurate and up to date. The book-keeping system in use must therefore show:

- (a) How much the society *owes* (its liabilities).
- (b) How much the society *owns* (its assets).
- (c) Whether the society has *financial stability* and is able to pay its debts as they arise.
- (d) Whether the society is *operating efficiently*, covering its costs and providing a net surplus.

All societies therefore need books of account, so that they can provide the members, the committee and the manager with the information they need. In most countries there are laws which require co-operatives to keep proper books of account. This underlines the importance of an efficient book-keeping system. The system described in this manual will meet the needs of members, committees, managers and the main requirements of most co-operative laws.

# 2 Book-keeping system

## 2.1 Double entry system

Book-keeping is concerned with correctly entering permanent written records of financial transactions into the books of the society.

A *financial transaction* arises in the course of the business when there is a transfer of money, or something having a money value. Examples will be considered later when the working ledger is examined.

In every financial transaction there are two aspects. There is the *imparting* of the benefit transferred and there is the *receiving* of this benefit. This imparting and receiving takes place between the accounts in the books of the society. The double-entry system of book-keeping is used to record this transfer between the imparting account and the receiving account.

In this system details of the money, or money value of the benefit transferred, are recorded twice into the accounts of the society. The account which imparts or provides, is credited (CR) and the account which receives is debited (DR). For every credit entry there must be a corresponding debit entry and vice versa, for every debit entry there must be a corresponding credit entry. When there has been corresponding postings made into the books of account they will balance. *The debits will equal the credits.*

The balancing of the books is similar to the balancing of a beam-scale. When the goods in one pan of the scale are the same weight as the metal weights in the other pan, the scale will balance.

## 2.2 Trial balances

The book-keeper can check that the books balance by the preparation of a trial balance. These are statements prepared after the posting of the debit and credit entries have been completed for a given period. They show the list and total of all debits and a list and total of all credits. Since all entries of any financial transactions are recorded twice, once as a debit then correspondingly as a credit, the total of all debits on the trial balance must be the same as the total of all the credits. If these totals do not agree with one another, an error has been made. The book-keeper then must check all the additions, and all the postings, for a trial balance *must* balance.

The book-keeper will be concerned with two trial balances:

### 1 Working ledger trial balance

The working ledger (Example 1) contains the debit and credit entries for all financial transactions. These entries are made as they arise into the records of original entry, then at the end of every week they are posted into the working ledger. The working ledger is balanced every week. This is checked by the preparation of a trial balance of all the *debit and credit totals of entries* to be made from the working ledger into the main ledger. See trial balance in Example 1 (page 7).

### 2 Main ledger trial balance

The main ledger (Example 2) contains the balances on the various accounts of the society. After the debit and credit entries have been made from the working ledger, the new balances on these accounts in the main ledger are ascertained. Then a trial balance of *all the debit and credit balances* in the main ledger will be prepared to check that the main ledger balances. See Example 17 (page 31).

### 2.3 Records of original entries

The main books and records used in this book-keeping system are outlined in the sections which follow. The entries to be made in them flow from the initial entries made into the records of original entry. These entries are made immediately the financial transactions occur. They become the source of postings to the ledgers. In the industrial co-operative the following records of original entry are used:

- (a) receipt books
- (b) invoices
- (c) cheque-books, bank paying-in books and the bank statements for bank charges
- (d) cash sales receipts
- (e) materials records
- (f) labour records
- (g) other expenses records
- (h) finished goods records.

These original documents can either be specially printed, or standard forms, available from most stationers, can be purchased and adapted to the specific needs of a society. All unused original documents should be kept safely locked away. They should also be consecutively numbered to assist in their control.

Entries obtained from the exercises on page 37 have been used to illustrate the posting of the ledgers, forms and records used as examples in this manual. In the books of a society, individual transactions are posted into the records on the dates on which they occur.

### 2.4 Working ledger: Example 1

This ledger combines the functions of the traditional cash book and the journals. It is a summary ledger. Details of all the financial transactions of the society are posted from the records of their original entries into the working ledger. This is kept on the double-entry system, so for every debit entry (DR) there is a corresponding credit entry (CR).

This ledger is a columnar cash analysis book which can usually be purchased from a local book-shop and the columns are headed as required by the book-keeper. Two separate cash ruled columns, one column for debit entries and the other for credit entries, are kept for each type of account. The number and type of separate accounts kept by a society will depend upon its own particular needs and circumstances.

This example shows the typical accounts which need to be kept. To avoid this ledger containing many columns for accounts which are not used frequently two columns headed 'other accounts' can be opened. Then debit, or credit, entries concerning these accounts can be posted into these columns but are posted into their separate accounts in the main ledger.

As entries are made into the working ledger from the original records, they show the *date* of the transaction, the *details* and any *reference number* from the original entry. Then the appropriate debit and credit entries are made into the cash ruled columns provided. All of this information is shown on the same line for each transaction. At the end of every week the working ledger is closed off and balanced. The totals of the debit and credit entries to be posted to the main ledger are first checked by the preparation of a trial balance. See Example 1 (page 6).

The working ledger, shown in Example 1, has been posted from the summary of the financial transactions for the whole of 1975 and all of these entries are dated as December 31 (see Exercises, page 37). When used in a society, the working ledger will have daily postings and it will be closed off, totalled and balanced every week.

WORKING

Week no 52 Ending 31<sup>st</sup> December

Date 1975	Detail	Ref no	1 Cash		2 Bank		3 Materials		4 Labour		5 Other expenses		6 Production		7 Finished goods	
			DR	CR	DR	CR	DR	CR	DR	CR	DR	CR	DR	CR		
Dec 31	Allocations 1974 surplus			100												
" 31	Invoices from creditors						53000				6000					
" 31	Expenses paid in cash			300							300					
" 31	New tops - cash			100							100					
" 31	New sewing machine - cheque						400									
" 31	Cash paid into bank		101650		101650											
" 31	Net earnings & tax - cheque					30000			30000							
" 31	Bank charges					50					50					
" 31	Loan interest										250					
" 31	Loan repayment					500										
" 31	Invoices for finished goods															95000
" 31	Cash sales of "	5000														5000
" 31	Paid creditors by cheque					61000										
" 31	<u>Completed production cards:</u>															
" 31	Materials						50000						50000			
" 31	Labour								30000				30000			
" 31	Direct expenses										1000	1000				
" 31	Overcosts										8000	8000				
" 31	Transfer to finished goods												89000	89000		
" 31	Managers & B-keepers wages & tax					1500					1500					
" 31	Cash from debtors	94000														
" 31	Share contributions	1200														
" 31	Deposit contributions	2010														
" 31	Deposit withdrawals - cheque					760										
" 31	Deposit interest										100					
" 31	TOTALS TO MAIN LEDGER	102210	102150	101650	94210	53000	50000	30000	30000	8300	9000	89000	89000	89000	100000	
	Account no	1	1	2	2	3	3	4	4	5	5	6	6	7	7	
Dec 31	<u>Adjustments</u>															
	Materials received not invoiced					10000	10000									
	Materials stock to end					14000	14000									
	Expenses accrued									250	250					
	Expenses prepaid									150	150					
	Depreciation									1180						
	Stock finished goods													600	600	
Dec 31	TOTALS TO MAIN LEDGER					24000	24000			1580	400			600	600	
	Account no					3	3			5	5			7	7	

Example 1





Date 1975	Detail	Ref no	1 Cash		Balance	2 Bank		Balance
			DR	CR		DR	CR	
Jan 1	Balances from balance sheet	b/f			DR 80			DR 2060
Dec 31	From working ledger: Transactions	52	102210	102150	DR 140	101650	94210	DR 9500
	Adjustments:							
	Materials received not invoiced	c/f 52						
	Materials stock to end	c/f 52						
	Materials shortage to Production & trading A/c	-						
	Expenses accrued	c/f 52						
	Expenses prepaid	c/f 52						
	Depreciation	52						
	Expenses not recovered from oncsts to "	-						
	Finished goods sales to "	-						
	" " production costs to "	-						
	" " stocks to end	c/f 52						
	" " balance to "	-						
	Surplus for year from "							
Dec 31	Assets & liabilities to balance sheet			140	-		9500	-
1976								
Jan 1	Balances from balance sheet	b/f			DR 140			DR 9500

Example 2

2.5 Main ledger: Example 2

For the purpose of this book the accounts are shown together (Example 2). In the main ledger of a society a separate page is kept for each account as shown in Example 2(a).

This example shows the cash account included within Example 2 as it would appear on its separate page in the main ledger of the society.

Example 2(a)

Date 1975	Detail	Ref no	DR	CR	Balance
Jan 1	Balance from balance sheet	b/f			DR 80.00
" 7	Entries from working ledger	3	1206 15	1200 15	DR 86.00
" 14	" " " "	6	1591 50	1590 00	DR 87.50
" 21	" " " "	8	1726 14	1701 27	DR 112.37
" 28	" " " "	10	1432 15	1480 10	DR 94.42
	and so on				DR 140.00
Dec 31	Asset to balance sheet	c/f		140 00	-
1976					
Jan 1	Balance from balance sheet	b/f			DR 140.00

**LEDGER**

<u>3 Materials</u>			<u>4 Labour</u>			<u>5 Other expenses</u>			<u>6 Production</u>			<u>7 Finished goods</u>		
DR	CR	Balance	DR	CR	Balance	DR	CR	Balance	DR	CR	Balance	DR	CR	Balance
		DR 1060				50	100	CR 50						DR 3690
53000	50000	DR 4060	30000	30000	—	8300	9000	CR 750	89000	89000	—	89000	100000	CR 7310
10000		DR 14060												
	14000	DR 60												
	60	—												
						250		CR 500						
								CR 650						
						1180		DR 530						
								—						
												100000		DR 92690
													89000	DR 3690
													600	DR 3090
													3090	—
14000	10000	DR 4000				150	250	CR 100				600		DR 600
	4000	—				100		—					600	—
14000	10000	DR 4000				150	250	CR 100						DR 600

Example 2 (continued) ►

Since they are posted from the working ledger these accounts will be kept in the same order as they are kept in the cash ruled columns of the working ledger. The pages kept for each account are numbered consecutively and contain columns for the date, the details, the reference number and three cash ruled columns. In the first cash column debit entries (DR) are posted. In the second column the credit entries (CR) are posted. The third column contains the running balance, prefixed to show whether it is DR or CR.

At the end of every four weeks the DR and CR balances in the main ledger are separately listed on a trial balance shown in Example 17 (page 31). This checks that the main ledger balances. At the end of every four weeks, after this trial balance is prepared, the monthly report to the committee (Example 18, page 32) is prepared. At the end of the financial year the production and trading account for the year together with the surplus disposable account and balance sheet shown as Example 19 (page 34) will be prepared.

<u>8 Fixed assets</u>			<u>9 Depreciation provision</u>			<u>10 Shares</u>			<u>11 Deposits</u>			<u>12 Creditors</u>		
DR	CR	Balance	DR	CR	Balance	DR	CR	Balance	DR	CR	Balance	DR	CR	Balance
		DR 7000			CR 1000			CR 2220			CR 1050			CR 3000
400		<u>DR 7400</u>				1260	<u>CR 480</u>	760	2510	<u>CR 2800</u>	61000	59000	<u>CR 1000</u>	
			1180		CR 2180									
	7400	-	2180		-	3480		-	2800		-	1000		-
		DR 7400			CR 2180			CR 3480			CR 2800			CR 1000



Example 3

MEMBERS' SHARE AND DEPOSIT LEDGER										
Name of member:									Share no:	
Address:										
Date	Ref no	SHARES					DEPOSITS			
		Contributions	Interest	Bonus	Withdrawals	Balance	Deposits	Interest	Withdrawals	Balance
1975		CR	CR	CR	DR	CR	CR	CR	DR	CR
Jan	1					2220				1050
Dec	31	1200		60		3480	2410	100	760	2800

2.6 Members' share and deposit ledger: Example 3

Within this ledger a separate page is kept in share number order, for each member. These records can be kept in a loose leaf ledger or on a card system with separate accounts for each member. The share and deposit transactions are posted to this ledger from the details of their original entries after these have been posted to the working ledger. At the end of every four weeks the individual balances for shares and deposits are separately add-listed. The resulting share total has to be agreed with the CR balance for shares in the trial balance of the main ledger. The resulting balance for deposits is agreed with the CR balance for these in this trial balance.

There are also three cash ruled columns. The first column is used for debit entries (DR) for cash paid, discounts allowed to the society and credit notes. The second is used for credit entries (CR) for invoices. The third column shows the running balance prefixed (DR) when there is a balance due to the society or (CR) when there is a balance due to the supplier. Postings are made to this ledger from the original records after their details have been posted to the working ledger.

At the end of every four weeks the balances in this ledger will be add-listed to produce the net credit balance (CR) due to suppliers. This total is then agreed with the balance for creditors shown in the trial balance of the main ledger at that date.

2.7 Creditors' ledger (accounts payable): Example 4

Creditors are suppliers who are owed money by the society for raw materials or services supplied on credit terms to the society. In this ledger a record of the dealings of the society with these individual suppliers of raw materials and services will be kept. A separate page will be opened for each of these suppliers.

These pages will be kept in surname alphabetical order. They contain columns for the date of the transaction, the details and reference number.

Example 4

CREDITORS' LEDGER					
Name of supplier:			Account no:		
Address:			Credit terms:		
Date	Detail	Ref no	DR	CR	Balance
1975					
Jan	1	Balance			CR 3000
Dec	31	from receipts & invoices	52	61000	59000 CR 1000

## 2.8 Debtors' ledger (accounts receivable): Example 5

Debtors are customers of the society who owe money to the society. The society should try to obtain immediate cash for sales of finished goods. The balances due from debtors will then be kept as low as possible. The debtors' ledger contains separate pages for each customer who is given credit by the society.

### Example 5

DEBTORS' LEDGER					
Name of customer:			Account no:		
Address:			Credit terms:		
Date	Detail	Ref no	DR	CR	Balance
1975					
Jan 1	Balance	b/f			DR 1020
Dec 31	from receipts & invoices	52	95000	94000	DR 2020

Each page contains columns for the date, details and reference number. There are also three cash ruled columns. The first column is used for debit entries (DR) for invoices issued by the society. The second is used for credit entries (CR) for cash received, and credit notes. The third column shows the running balance, prefixed (DR) or, where the society owes money to the customer, prefixed (CR).

Postings are made to the accounts in this ledger from the original records after their details have been posted to the working ledger.

At the end of every four weeks the balances in this ledger are added to produce the net debit balance (DR) due to the society. This is agreed with the balance for debtors shown in the trial balance of the main ledger at that date.

## 2.9 Other books and records

There are other books and records in use in the society in which are entered the numerous details connected with the business operations and controls. These will be outlined when the accounts are considered later on in this manual.

## 2.10 Annual budget

This manual explains a system of book-keeping. The opportunity is taken to emphasise that this is only a part of the financial control system of a society. The overall financial control stems from the preparation and use of the budget.

The *annual budget* is the forecast of what the committee hopes to achieve from its management of the society. It is prepared in two parts before the financial year begins. The first part is the *operating budget*. This contains the estimates of the income and expenditure for the coming year. The second part is called the *cash budget*. This part shows the estimated flow-in and flow-out of funds.

The funds available will finance the operations estimated in the operating budget. During the financial year the actual results being obtained will be measured against the forecasted results. The variances will be investigated and appropriate managerial action will be taken to correct any faults revealed.

## 2.11 Other book-keeping terms

Book-keeping is a technical subject. Technical book-keeping terms are used in this manual as follows:

(a) *Financial or accounting period*

The financial period is the period of time covered by the final accounts. This period is often of one year ending on a date stated in the by-laws of the society.

(b) *Final accounts*

These are prepared at the end of the financial period. This industrial co-operative uses two final accounts.

(c) *Production and trading account*

This is one of the final accounts. It is a summary of all of the income and expenditure for the financial period. This summary reveals the surplus or loss.

(d) *Surplus disposal account*

This account shows the proposed disposal of any net surplus. It contains the recommendations of the committee on the allocations for reserves, education, share interest and bonus.

(e) *Balance sheet*

This is a list of the liabilities and the assets of the society on a given date. A balance sheet is prepared after the final accounts have been completed at the end of the financial period.

(f) *Surplus and loss*

The *income* of the society is earned from the sale of finished goods. The *expenditure* includes the cost of producing and selling the finished goods. There is a net *surplus* when income is greater than expenditure. There is a net *loss* when expenditure is greater than income.

(g) *Liabilities and assets*

*Liabilities* show what the society *owes*. They include members' shares and deposits, reserve funds, surplus not distributed, and balances owed to creditors. They represent the source of the funds being used by the society.

*Assets* show what the society *owns*. They include land, buildings, fixtures, equipment, stocks, investments, cash and balances owed by debtors. They indicate the uses being made of the funds of the society.

*Fixed assets* are held permanently to be used to earn income and include land, buildings, fixtures and equipment.

(h) *Auditors*

The *auditor* is a skilled accountant whose responsibility it is to check and verify the accounts of the society at the end of the financial year and at any other time as the registrar of co-operatives may consider necessary. The auditor is independent of the society and reports to the registrar and the members.

*Internal auditors* are elected under some by-laws by the members at their annual general meeting. They are elected to conduct regular checks for the members on the books, assets and activities of their society.

# 3 The working ledger

The working ledger is shown in Example 1 (pages 6-7). This ledger is posted at the end of every week from original entries, which were made immediately the financial transactions arose. The entries posted are outlined as follows:

## 3.1 Cash account

### (a) Receipts

A receipt containing the details shown in Example 6 must be issued for all cash received.

#### Example 6

CASH RECEIPT	
	Number: .....15.....
RECEIVED FROM: ..... <i>F. Mayo</i> .....	
..... <i>One</i> ..... dollars and ..... <i>ten</i> ..... cents	\$ <i>1.10</i> .....
IN PAYMENT OF: ..... <i>Share contribution A/c no 19</i> .....	
DATE: <i>1.4.75</i> FOR: ..... <i>Anywhere</i> ..... Co-operative Society Ltd	
SIGNED: ..... <i>S. Shan</i> ..... <i>Cashier</i> .....	
( <i>New balance in</i> <i>pass book \$12.51</i> )	Posted to working ledger page no ..... <i>16</i> .....

All cash received is posted into the working ledger as follows:

Date ..... received  
 Detail ..... from receipt book  
 Ref no ..... receipt number  
 DR ..... cash account – with amount received  
 CR ..... provider e.g. debtors, shares or other imparting account – with amount received

### (b) Payments

A receipt must be obtained or a voucher be made out in support of all cash paid out. This must contain similar details as shown in Example 6 and is signed by the person receiving the cash. The by-laws should provide that all disbursements in excess of say \$5 should be paid by cheque.

All cash paid out, including cash paid into the bank, is posted into the working ledger as follows:

Date ..... paid  
 Detail ..... from receipt or voucher obtained  
 Ref no ..... receipt or voucher number  
 DR ..... receiving account e.g. bank, other expenses or creditors  
 CR ..... cash account – with amount paid

### (c) Cash-in-hand

One person should be responsible for receiving and paying cash. This should not be the book-keeper. A cash float should be kept to give change and from which payments can be made. The cash-in-hand should be checked from time to time by the committee and the internal auditors. The auditor appointed by the registrar of co-operatives will also check this on his visits to the society. Apart from the cash float, or other cash held to make known payments, all cash should be banked as soon after receipt as possible.



### 3.2 Bank account

A current account should be opened at the nearest bank. The bank will issue a *paying-in book* and a *cheque book* after they have received a copy of the resolution of the committee to open the account. The committee will also inform the bank of the officers who are authorised to sign cheques on behalf of the society. The bank will require specimen signatures from these officers. The person appointed to handle the cash of the society will make the deposits to this current account at the bank. All cheques and postal orders received are treated as cash. Generally cheques bearing a future date (post-dated) should not be accepted.

#### (a) *Bank deposits*

Entries to be made into the working ledger are:

*Date* ..... taken to bank  
*Detail* ..... from the paying-in slip, stamped and received by the bank  
*Ref no* ..... number of paying-in slip  
*DR* ..... *bank* – with amount deposited  
*CR* ..... *cash* – with amount deposited

#### (b) *Bank payments*

The book-keeper will present the bills to be paid with the cheque-book to the manager. The manager should make out the cheques. The officers of the society authorised to sign the cheques should only do so after they have compared the cheques with the bills for payment. The cheques are then sent off to the creditors concerned. The working ledger is then posted:

*Date* ..... of cheque as shown on the stub retained in the cheque book  
*Detail* ..... name of creditor (payee) from the stub  
*Ref no* ..... number of cheque  
*DR* ..... *payee* – creditor or other receiving account with amount of cheque  
*CR* ..... *bank* – with amount of cheque

#### (c) *Bank statements and reconciliation statement*

From time to time the bank will send a statement showing all transactions posted to the account of the society by them together with the used cheques. When these are received the following procedure is undertaken:

- 1 The balance to begin on the statement is checked to ensure that it is the same amount as shown on the previous statement as the balance to end.
- 2 The cheque entries on the statement are ticked (✓) to ensure that all cheques posted on the statement have been enclosed.
- 3 Items remaining as withdrawals on the bank statement, if any, are for such items as commission and interest as will be seen by checking the prefix number of the posting with the number code shown at the bottom of the statement.
- 4 These *bank charges* are added and the total is posted to the working ledger as follows:  
*Date* ..... posted to working ledger  
*Detail* ..... bank statement – charges  
*Ref no* ..... number of bank statement  
*CR* ..... *bank* – bank charges  
*DR* ..... *other expenses* – bank charges
- 5 When this entry and all entries in the working ledger have been posted to the main ledger, the last balance on the bank statement has to be reconciled with the last balance shown on the bank account in the main ledger.
- 6 Cheques are sorted into their numerical order and ticked against the entries which were made in the working ledger when the cheques were drawn.
- 7 Deposits as shown on the statement are ticked against the entries which were made in the working ledger when the deposit was made.
- 8 The bank columns of *DR* – deposits, and *CR* – payments, now show ticked entries, indicating that they have been posted by the bank to the statement.

9 The reconciliation is then prepared as follows:

Balance in bank on bank statement	\$
ADD: deposits in transit (deposit entries in the working ledger not ticked (✓) as having been shown on the bank statement)	
Total	\$
LESS: cheques not presented (cheque entries in the working ledger not ticked (✓) as having been shown on the bank statement)	
TOTAL – being balance in bank account in the main ledger	\$

10 Where an overdraft (normally in red print) is shown as the balance on the statement – cheques not presented are added and deposits in transit are deducted, to produce the balance on the bank account in the main ledger.

11 Overdrafts arise when cheques have been paid from the account with the bank in excess of the funds held in the account. The bank has then in reality made a loan to the society. Overdrafts should first be arranged with the bank manager. They should only be used for short periods, since the rate of interest charged by the bank for an overdraft is very high.

### 3.3 Materials account

(a) *Purchase*

Materials should be ordered using a *materials order form* prepared in duplicate. The top copy of the order will be sent to the supplier after being signed by the manager of the society.

When the materials are received, the manager will check them as to quality, quantity and price against the bottom copy of the order, and the delivery note sent with the materials by the supplier. Immediately the materials have been accepted their details will be entered into the *materials received book* shown in Example 7, and into the *materials stock control record* shown in Example 8. A separate card is kept in this record for each of the different materials used in production.

*Example 7*

MATERIALS RECEIVED BOOK								Page no: 6	
Date received	Supplier	Description of materials	Quantity units	Unit price	Total cost	Delivery note no	Stock control page no	Invoice no	
1975									
Dec 31	Creditors (names)	from invoices	26500	2	53000	268	9	197	
" "	" "	" "	5000	2	10000	316	9		

Example 8

MATERIALS STOCK CONTROL RECORD								
Description of material: .....						Material no .....9.....		
Unit: .....								
Unit cost price: .....2.....								
Date	Materials received book page no	Production card no	Stock to begin b/f	+ Received	- Issued	Stock to end c/f	Physical stock checked	
1975							on: date	by: signature
Jan 1			530					
Dec 31	6			26500		27030		
" 31	6			5000		32030		
" 31		8			25000	7030		
" 31		Final A/cs			30	7000	Dec 31 <sup>st</sup>	U. Stuan

Details are recorded in units, e.g. unit for nails could be kilograms or pounds weight, unit for cloth could be metres or yards. The cost price, which includes any delivery costs and similar expenses, for each unit is shown. This is obtained from the invoice. Unit prices should be changed when there are any price changes shown on the invoices as new materials are purchased and the old stock is used. Material should be charged to production at cost price, which includes any delivery costs and similar expenses in getting the materials to the society.

When the invoice for the materials is received it will be checked and when accepted it will be signed by the manager. The invoice will be numbered by the book-keeper and details of this number entered against the entry for the materials made in the materials received book.

The working ledger would be posted from the invoice to show:

- Date ..... of invoice
- Detail ..... name of supplier
- Ref no ..... invoice number
- DR ..... materials — with total of charge
- CR ..... creditors — with total of charge

The details of the invoice would also be entered into the account for the supplier kept in the creditors' ledger shown in Example 4. The invoice would then be filed in number order ready for audit.

(b) *Issue of materials*

For all work to be undertaken, the manager issues a *production card* as shown in Example 9.

*Example 9*

PRODUCTION CARD					
Product number: ..17.....		Description: .....		Card number: ..8.....	
Number of units: ..8900.....		Started: date/time .....			
		completed: date/time .....			
	Ref no	Number of units	Unit cost \$	Cost \$	Total cost \$
Materials: Descriptions	9	25000	2	50000	
TOTAL materials					50000
Labour: Names	16	8900	3.37	30000	
TOTAL labour					30000
TOTAL materials and labour					80000
ADD: Direct expenses					1000
Other expenses at oncost rate 10% (of 80000)					8000
TOTAL cost					89000
Unit cost 10					
Products accepted: Signed: Manager					
Posted to finished goods control page no. 17..					

The products are standardised as shown on their *specification card* in Example 10, and are produced in batches. The type and number of units of material have been ascertained for each unit of production. The materials required for each batch are then calculated as follows: *material required for 1 unit of production x number of units of production in the batch.*

*Example 10*

SPECIFICATION CARD				
Production item: .....		No: .....		
Description:				
Length	_____			
Width	_____			
Diameter	_____			
Height	_____			
Surface	_____			
Weight	_____			
Colour	_____			
Pattern	_____			
Other details	_____			
Costs for 1 unit:				
Materials: No	Type	Quantity	Price	Costs
Labour:	Type	Rate		_____
			TOTAL	_____
Direct expenses:	Type	Price		_____
Other expenses: Oncost at .....	%			_____
			TOTAL COST	_____
ADD mark-up at .....	%			_____
			SELLING PRICE	=====
Average production time – hours				

The materials issued to production are entered on the production card and in their materials stock control card. Entries are made into the working ledger as follows:

- Date ..... materials issued to production
- Detail ..... production description
- Ref no ..... production card number
- DR ..... *production account* – with value of materials
- CR ..... *materials account* – with value of materials

(c) *Control of materials*

One member should be responsible, under the manager, for the control of the stocks of materials. The manager, the internal auditors and the auditor should check the physical stock with the book stock as shown on the materials stock control cards. Any differences should be located.

Material is charged out at cost price. This may mean that where old and new stock of the same material are issued to the same batch, there will be more than one cost price. However, this system avoids the calculations involved by using the average price. Price changes in materials should also be shown on the specification cards concerned.

At the end of each financial period the materials in stock will also be valued at cost price on the stock sheets. Their total cost value should be agreed with the debit balance in the main ledger for materials. Any differences will be transferred to the production and trading account, as will be shown later in this manual.

**3.4 Labour account**

(a) *Calculation of earnings*

The manager and the book-keeper are paid a fixed wage. The other members are paid on a *piece-work basis* as far as possible. A fixed sum, set by the committee, is paid for each unit produced, job performed, or number of operations completed. These are shown on the specification cards. The labour payment made to the members will depend upon their

output, rather than the time they spend at work. Since this industrial society is producing standardised items, the earnings of labour for each item is known.

Example 11

MEMBER'S OUTPUT CARD							
Name: .....		Share number: .....					
Occupation: .....							
Date completed	Initials of manager	Production card no	Output			Posted Earnings Date	To record No
			No of units	Earnings per unit	Total earnings		
1975							
Dec 31	AM	8	8900	3.37	30000	31 Dec	16

Each member will be issued with a member's output card (Example 11). As their production is completed and the batch of finished goods is accepted by the manager, their output cards will be entered and initialled by the manager. At the end of every week the book-keeper will collect all the output cards and post the entries to the books and records.

He will then return the output cards to the members. The entries to be made by the book-keeper from the output cards will be as follows:

1 *Production card: Example 9*

The name of the members, their share numbers and their earnings will be posted to the production cards for the batches completed.

2 *Member's earnings record: Example 12*

The total of the earnings of each member is posted to his earnings record card.

Example 12

MEMBER'S EARNINGS RECORD							
Name: ..... Occupation: ..... Share no: <i>16</i> .							
Week ending date	Production card no	Earnings	Month ending date	Gross earnings	Less tax etc	Net cash	Signature of member
1							
2							
3							
4		— 1					
5							
6							
7							
8		— 2					
9							
10							
11							
12		— 3					
and so on							
49		5000					
50		10000					
51		5000					
52		7000	12	30000	3000	27000	
TOTAL earnings for year		30000					
Bonus at 10%		3000	Bonus:				
			Received in cash		Signature of member		
			OR				
			Transferred to		Share account no		
					Deposit account no		

3 Working ledger

The working ledger is posted from the production cards as follows:

Date ..... week ending date

Detail ..... production card details

Ref no ..... production card number

DR ..... production account – with total earnings

CR ..... labour account – with total earnings

(b) Payment of earnings

The sooner raw materials are made into finished goods and sold, the sooner there will be funds from which the earnings of members can be paid. This society has a regular market for its products. It has obtained a loan to help provide the working capital for raw materials, payments to members and other costs. This loan bridges the time gap between undertaking production and receiving the proceeds for the finished goods. The members are aware that without this source of finance they would have to wait until the proceeds of the sale of their finished goods had been received before they were paid for their work.

At the end of every four weeks the members are paid. Their earnings for the four weeks, as shown on their earnings record, are totalled. This total is shown on their earnings record as their 'gross earnings'. From this any tax or other agreed deductions are made.

The net payment is made to the members by cheque or in cash. Where cash is paid the total required is drawn from the bank on one cheque. The total drawn is ascertained by adding the amounts shown as 'net cash' on all the members' earning records. Cheques are also drawn to pay over the tax and other deductions to the authorities. As the members are paid they sign their member's earnings record as a receipt.

The working ledger is posted from the cheque book stubs as follows:

*Date* ..... of cheque  
*Detail* ..... labour payment  
*Ref no* ..... cheque number  
*DR* ..... *labour* – with amount of cheque for net cash and for tax deductions  
*CR* ..... *bank* – with amount of cheque for net cash and for tax deductions

### 3.5 Other expenses

#### (a) Charges

All other expenses, including the wages of the manager, the book-keeper and any other members whose earnings cannot be charged directly to production, are debited to this account. Office and selling expenses together with depreciation charges are included. Debit (DR) entries to the working ledger will be made for expenses from receipts, invoices, vouchers and cheque stubs. Other expenses will be debited and the corresponding credit entry will be made in the imparting account. The expenses will be charged to production.

#### (b) Direct expenses

Where an expense has been directly incurred by a particular batch of production, it can be directly charged to that batch. The entries for this would be made on the production card for the batch and then from this card to the working ledger as follows:

*Date* ..... of entry  
*Detail* ..... description of expense  
*Ref no* ..... production card number  
*DR* ..... *production account* – with amount of direct expense  
*CR* ..... *other expenses* – with amount of direct expense

#### (c) Indirect expenses

Generally, the expenses of the society are not directly incurred by any particular batch of production. Therefore, the expenses remaining after the direct expenses have been charged to production, have to be *apportioned* over production. This spreading of the indirect expenses over the products can be done by adding a predetermined percentage to the total costs of labour and materials directly charged to the units of output.

This percentage on cost will have been calculated when the annual budget was being prepared. It will be based on past experience, current trends and forecasted performance.

As batches of finished goods are completed their production cards will be posted with their part of the other expenses. The total cost of each batch as shown on each production card may be obtained as in the following example:

Total units of production	<u>170</u>	\$
Materials – direct charge		500
Labour – direct charge		<u>1000</u>
	Total	1500
+ Any direct expenses		50
+ Other expenses at 10%		<u>150</u>
	Total cost	<u><u>1700</u></u>

Total direct materials and labour were \$1500

Other expenses were charged to production at the *oncost* rate of 10% on this amount  $\frac{1500 \times 10}{100} = \$150$

Since 170 units were produced, the average total cost of producing one unit is  $\frac{\text{total cost}}{\text{number of units produced}} = \frac{1700}{170} = \$10$

Entries to be made in the working ledger for indirect expenses to be charged to production during the financial period will be made from the production cards as follows:

*Date* ..... of completion of production  
*Detail* ..... production card details  
*Ref no* ..... production card number  
*DR* ..... *production account* – with amount of other expenses  
*CR* ..... *other expenses* – with amount of other expenses

(d) *Adjustments*

At the end of the financial year adjustments will be made for the charge (DR) for the depreciation of the fixed assets, for expenses used but not charged and for the credit (CR) for any expenses paid in advance. After these have been calculated the ledgers are posted with these adjustments.

Should the percentage oncost have been completely accurate there would then be no balance in the other expenses account. Since any forecasting is subject to error, there will usually be a balance remaining. Where the balance is a credit, the percentage oncost has been too high. Where the balance is a debit, the percentage oncost has not been enough. The balance is transferred to the production and trading account as will be shown later in this manual.

### 3.6 Production account

(a) *Specification card: Example 10* (page 19)

Each product will be standardised as far as possible. Items to be produced will be determined by the committee, based on customer demands, for the products *must* sell. The selling prices must be competitive, so costs must be strictly controlled. There will be a specification card for each type of product. This will show the specification, cost and other details of each type of product. These will be followed in the production process.

(b) *Production card: Example 9* (page 19)

Production is undertaken on the issue, by the manager, of a production card. This is the production order for a batch to be made. The costs of each batch will be recorded on these cards.

(c) *Book-keeping entries*

Entries to the columns in the working ledger for production will be made from the details on the production cards.

The *debit* (DR) entries in these columns will be:

DR for materials  
DR for labour  
DR for direct expenses  
DR for oncosts for other (indirect) expenses

The *credit* (CR) entries will be those, made from the completed production cards, of the total costs of products completed and transferred to finished goods. Any remaining DR-balances in the production account will be part of work-in-progress.

(d) *Work-in-progress*

As far as possible all work started by the issue of a production card should be completed before the closing of the books at the end of the financial period. When there is incomplete work-in-progress at the closing of books, it will be valued by the manager. The valuation will include the costs of any materials, labour and direct expenses already charged to the batch. Oncosts will not be included.

The production account will be credited (CR) with the value of work-in-progress at the end of the old financial year, and the debit entry (DR) will be carried down to begin the new financial year. The valuations will be shown as a note on the production cards concerned.



### 3.7 Finished goods account

#### (a) Received from production

As products are completed, they will be checked for quality by the manager. When accepted they are transferred into the stock of finished goods section of the shop at the end of the factory. A finished goods stock control record will be kept by the book-keeper. An example of this record is shown in Example 13.

#### Example 13

FINISHED GOODS STOCK CONTROL RECORD								
Product: description				Product group no: .....17.....				
Unit selling price: .....11.....			Unit cost price: .....10.....					
Date	Product card no	Invoice or cash sales receipt no	Stock to begin b/f	+ Received	- Sold	Stock to end c/f	Physical stock checked	
							Date	Signature
1975			369					
Jan 1								
Dec 31	8			8900		9269		
31		24			8745	524		
31		Cash sales			455	69		
31		Difference			9	60	Dec 31	A Member

A separate record will be kept for each of the separate lines of product. The details of receipts of finished goods will be posted from the production card into the finished goods stock control record. Entries will also be made into the working ledger as follows:

Date ..... finished goods accepted  
 Detail ..... from the production card  
 Ref no ..... production card number  
 DR ..... finished goods account – with total costs of finished goods  
 CR ..... production account – with total costs of finished goods

#### (b) Cash sales of finished goods

The selling price of items of products will be their total cost price plus a mark-up agreed by the committee which is shown in the annual budget on the specification card. To assist in the control of the stock of finished goods a *product group number* is shown on the finished goods stock control record for each line of product. These numbers are recorded against the items sold for cash on the sales receipt issued for all cash sales (see Example 14).

#### Example 14

CASH SALES RECEIPT					
					Number: .....87.....
Sold to: .....H. J. Cook.....					
Description of goods	Product group no	Quantity	Selling price per unit		Total value
Wooden table	14	1	10	60	10 60
Chairs	19	4	2	00	8 00
					\$ 18 60
Cash received: .....Eighteen..... dollars .....sixty..... cents					
Date: .....8.9.75..... For .....Anywhere..... CO-OPERATIVE SOCIETY LTD					
Signed: .....S. Pule.....					



(d) *Control of finished goods*

One member should be responsible, under the manager, for the control and sales of the stocks of finished goods. The manager, the internal auditors and the auditor should check the physical stocks with the book stocks as shown in the finished goods stock control record. Any differences should be located.

At the end of each financial period the finished goods in stock would be listed on stock sheets and valued at their total cost price. The number of units of each product line on these lists should agree with the units shown as in stock on the finished goods stock control records. Any differences would be investigated.

### 3.8 Fixed assets and depreciation

(a) *Purchase of fixed assets*

Fixed assets are acquired and held permanently for the purpose of earning income, and include land, buildings, fittings, fixtures, equipment and machinery.

From the invoice obtained when the items were purchased the following entries will be made into the working ledger:

*Date* ..... of purchase  
*Detail* ..... supplier/fixed assets  
*Ref no* ..... invoice number  
*DR* ..... *fixed assets* – with cost  
*CR* ..... *creditor* – with cost

Details of all fixed assets are also entered into the fixed assets inventory and schedule of depreciation in Example 16. This inventory can be kept on a card system with a separate card for each fixed asset.

An inventory should also be kept of all tools purchased. These are usually for small amounts and their cost may have been charged to other expenses. A check should be kept on them, and their whereabouts always known to the manager.

(b) *Depreciation*

The charges made for depreciation in the accounts of the society are internal entries, representing the allocation of the cost of the fixed asset over its estimated working life. The years of useful working life will depend upon the type of asset and local conditions. As the charge for depreciation is made each financial year, these depreciation charges are aggregated year by year so that the book value of the fixed asset is correspondingly reduced, by the total charge for depreciation. The *equal instalment method of depreciation* is recommended here. This method spreads the cost of a fixed asset equally over its years of useful working life. The annual charge for depreciation will be calculated as follows:

$$\frac{\text{Cost of fixed asset}}{\text{Estimated years of useful working life}} = \text{Annual charge}$$

As a guide, the cost of buildings can be depreciated over 20 years and the cost for fixtures, fittings, etc over 5 years. In some countries land is not considered to be a wasting asset and no depreciation charge is made; however in this manual depreciation has been charged at the same rate as for buildings.

After the calculations of the charges have been made at the end of the financial year, the details are posted into their inventory. The working ledger is posted as follows:

*Date* ..... last day of financial year  
*Detail* ..... depreciation fixed assets  
*Ref no* ..... inventory page number  
*DR* ..... *other expenses* – with annual charge for depreciation from inventory  
*CR* ..... *depreciation provision* – with annual charge for depreciation from inventory

(c) *Insurance*

There are many risks of loss or damage to the property of the society. The society can be covered against some of these risks by taking out insurance cover with reputable companies. The full replacement value of the fixed assets, rather than their cost or book value, should be covered. The society will pay an annual premium, and receive a policy. These premiums are charged as 'other expenses' and the policies are safely kept in a separate file.

Example 16

FIXED ASSETS - INVENTORY AND SCHEDULE OF DEPRECIATION									
- financial period ended: 31.12.75									
Date purchased	Detail	COST			DEPRECIATION			Book value	
		b/f	+ Purchased this period	To date c/f	b/f	+ This period	To date c/f		
	<u>Buildings</u>								
	Land	500		500	10	25	35	465	
	Buildings	1500		1500	90	75	165	1335	
	TOTAL	2000		2000	100	100	200	1900	
	<u>Fixtures &amp; fittings</u>								
	Shelves	500		500	100	100	200	300	
	Cash register	500		500	100	100	200	300	
	TOTAL	1000		1000	200	200	400	600	
	<u>Machinery &amp; equipment</u>								
	Sewing machine		400	400		80	80	320	
	Machine 1	1000		1000	200	200	400	600	
	Machine 2	1000		1000	200	200	400	600	
	Equipment	2000		2000	300	400	700	1300	
	TOTAL	4000	400	4400	700	880	1580	2820	
	GRAND TOTAL FIXED ASSETS	7000	400	7400	1000	1180	2180	5220	
									agrees with balance sheet
									agrees with production & trading A/c
									agrees with balance sheet

### 3.9 Shares and deposits

#### (a) Entrance fees

An application for membership form should be completed by applicants wishing to join the society. After acceptance into membership, the applicant pays an entrance fee to the society as may be required under the by-laws. A receipt for the fee is issued containing details similar to those in Example 6 (page 15).

The new member is issued with a pass-book showing the member's share number. These numbers run consecutively. The details of the new member are entered into the share and deposit ledger shown in Example 3 (page 12).

From the copy of the receipt issued for the entrance fee the working ledger is posted:

*Date* ..... of receipt of fee  
*Detail* ..... name of member  
*Ref no* ..... share number  
*DR* ..... *cash* – with amount of entrance fees  
*CR* ..... *other expenses* (or reserve fund if so stated in the by-laws) – with amount of entrance fees

The membership register consists of the completed and accepted applications for membership forms duly filed in surname alphabetical order.

#### (b) Share contributions

Contributions of at least the minimum share holding shown in the by-laws should be paid in by the member. Receipts as shown in Example 6 (page 15) are issued and the details will be posted to the working ledger as follows:

*Date* ..... of receipt  
*Detail* ..... name of member  
*Ref no* ..... share number/receipt number  
*DR* ..... *cash* – with amount of contribution  
*CR* ..... *shares* – with amount of contribution

Entries are also made for share contributions into the pass-book of the member and the share and deposit ledger account for that member.

#### (c) Share withdrawals

Share capital is in the nature of the permanent capital of the society. Withdrawals can only be made in accordance with the provisions in the by-laws. When withdrawals are made, the entries into the working ledger will be made from the cheque drawn or receipt obtained. The bank account will be credited (CR) and the share account will be debited (DR). Entries will also be made into the member's pass book and share and deposit ledger account.

#### (d) Share interest

Should there be any surplus at the end of the financial year, and an interest on shares be declared, it will be distributed by credit to the share accounts of the members. The interest to each member will be calculated, based on the lowest balance of share capital held by the member for each complete three months. After a separate calculation has been made for each account, the total interest due is ascertained by add-listing the amount calculated for each member. The individual share accounts will be posted and the total share interest entered into the working ledger as a debit (DR) to surplus and a credit (CR) to shares.

#### (e) Bonus

Should there be any surplus at the end of the financial year, and a bonus be declared, it will be calculated in relation to the earnings of each member. The record of earnings for each member will be shown on the member's earnings record. These earnings will be add-listed for each member. The totals for each member will be add-listed to produce the total earnings for all the members. The wages of the manager, book-keeper and any other staff paid on a time basis will be included.

The amount of surplus available for distribution of the bonus will be divided by the total earnings and multiplied by 100 to produce the percentage rate of distribution. Individual members will receive their bonus, calculated as follows:

$$\frac{\text{Member's total earnings} \times \text{rate of bonus}}{100} = \text{a member's bonus}$$

Members should be encouraged to leave their bonus with their society, either in their share accounts or in their deposit accounts. Entries for bonus distributed will be made from the member's earnings record. The book-keeper will add-list the bonus paid by cash as shown on these cards. The total paid will be posted to the working ledger as a credit (CR) to cash and a debit (DR) to surplus. The bonus transferred to shares or deposit accounts will be separately listed and posted to the working ledger as a credit (CR) to shares or deposits and a debit (DR) to surplus.

(f) *Deposit accounts*

Since share holdings are not easy to withdraw, members should be encouraged to invest with their society in deposit accounts. Withdrawals are easier and interest on deposits is at a rate agreed when the deposit was accepted. Such interest is treated as an expense rather than an allocation of surplus. As an expense, the interest is calculated and distributed by credit to the deposit accounts before the final accounts are closed. The deposit columns in the working ledger are credited (CR) when deposits are received and debited (DR) when withdrawals are paid. When the interest has been calculated, the total is credited (CR) to deposits and debited (DR) to other expenses.

### 3.10 Creditors and debtors

(a) *Creditors*

Entries concerning creditors are made in the columns in the working ledger and then into the creditors' ledger.

When materials or services are obtained by the society on credit, the creditors' accounts are credited (CR). When the creditors are paid, their accounts are debited (DR). Should the society obtain a cash discount from the creditor, the entries to be made in the working ledger are:

debit (DR) creditors and credit (CR) other expenses.

When statements are received from creditors, the entries they contain are checked against the entries in the account kept for the creditor concerned in the creditors' ledger. Sometimes a reconciliation statement has to be prepared in a similar way to a bank reconciliation statement.

(b) *Debtors*

Entries concerning debtors are made in the columns in the working ledger and then into the debtors' ledger. Any bad debts written off are debited (DR) to other expenses and credited (CR) to debtors and the details are shown in the debtors' ledger.

### 3.11 Loans

Separate columns are opened in the working ledger, and separate accounts are opened in the main ledger for each loan obtained by the society.

When the loan was received the loan columns and account would have been credited (CR). When repayments are made the loan columns and account would be debited (DR). Interest charged on loans owed by the society will be posted as a credit (CR) to loans and a debit (DR) to other expenses.

At the end of the financial year the lender would be requested by the society to send a statement of the loan account, showing the balance, including interest, due at that time.

### 3.12 Surplus

At the end of the financial year any net surplus from the production and trading account would be transferred as a *credit* to this account.

After the annual general meeting the allocations from surplus to reserves, education, share interest or bonus would be made in accordance with the resolutions of members by *debit* (DR) to the surplus account and *credit* (CR) to these accounts.

### 3.13 Reserve fund

The reserve fund is created, held and used in accordance with the by-laws of the society. Allocations are made to reserves (CR) from surplus (DR). The society should build up its reserves to provide a source of operating funds and to give greater financial stability to the society.

### **3.14 Education fund**

Allocations are made to this fund (CR) from surplus (DR). These funds should be increased from year to year, so that eventually the society can take a more active part in member training and education.

### **3.15 Balancing**

At the end of every week the working ledger is ruled off and balanced. The entries in each of the columns are separately totalled and shown at the bottom of each column. This is checked by the preparation of a trial balance, see Example 1 (page 7). When this balances, the main ledger is posted.

# 4 The main ledger

## 4.1 Posting

The main ledger is kept as a control record of all the accounts of the society. It contains separate pages for each of the accounts for which columns are kept in the working ledger. An example of the accounts of the main ledger is shown in Example 2 (pages 8-11). The opening balances in the main ledger will be the assets and liabilities brought down from the previous financial year and shown in the last balance sheet of the society.

At the end of every week the debit and credit entries in the working ledger are posted to the main ledger. The number of each account so posted is entered into the working ledger underneath the total of entries posted to facilitate checking and ease of reference. The new running balance of each account posted in the main ledger will be ascertained and prefixed DR or CR as the case may be.

## 4.2 Trial balance

At the end of every four weeks a trial balance will be prepared from the balances in the main ledger. An example is shown in Example 17. This example shows the balances on each of the accounts in the main ledger. Where for example the total of share contributions is required to be known, all the relevant credit entries in the share account in the main ledger are added together. In a similar manner debit, or credit, entries on other accounts in the main ledger can be 'grossed-up' in this way.

The cash balance will be checked with the actual cash-in-hand. The bank balance will be checked with the bank statement. The share balance, the deposit balance, the debtors' balance and the creditors' balance shown on the trial balance will be checked with the totals of lists made from the individual accounts for these kept in the various ledgers. The actual results of the production and trading activities of the society will be ascertained using the information from the trial balance and they will be compared with the forecasted results shown in the budget.

Example 17

TRIAL BALANCE OF MAIN LEDGER AT 31.12.75			
Account	Ref no	DR	CR
Cash	1	140	
Bank	2	9500	
Materials	3	4060	
Labour	4		
Other expenses	5		750
Production	6		
Finished goods	7		7310
Fixed assets	8	7400	
Depreciation provision	9		1000
Shares	10		3480
Deposits	11		2800
Creditors	12		1000
Debtors	13	2020	
Loans	14		4750
Surplus	15		30
Reserve fund	16		1900
Education fund	17		100
TOTAL		23120	23120



### 4.3 Monthly report to committee from manager

The members are the owners of the co-operative society. At their annual general meeting they elect a committee who shall conduct the business and be responsible for the general direction and control of the affairs of the society. The committee appoints the manager to run the day-to-day business under their direction. The manager is required to submit his report to the committee at the end of every four weeks when the trial balance of the main ledger has been prepared by the book-keeper. An example of this report is shown in Example 18.

Example 18

MONTHLY REPORT OF MANAGER TO COMMITTEE				
4 weeks ended				
<b>1 Membership</b>				
Number to begin year _____				
ADD: New members this year _____				TOTAL
				_____
LESS: Withdrawn this year _____				
Total present membership this year _____				
To date last year _____				
Increase or Decrease _____				No _____
<b>2 Share capital and deposits</b>				
		Shares	Deposits	
		\$	\$	
Total balances to date _____				
To date last year _____				
Increase/decrease		\$	%	\$
				%
<b>3 Finished goods</b>				
		This year	Last year	Increase
		\$	\$	\$
Sales this month				%
Sales to date				%
Stocks in hand		\$ _____ units		
<b>4 Materials</b>				
Stocks in hand		\$ _____ quantity		
5 Trial balance of main ledger attached				
6 Report on production matters – (including labour and materials)				
7 Report on selling matters – (including stocks of finished goods)				
8 Report on education and training –				
9 Report on action taken on committee instructions –				
Signed: _____ Manager Date: _____				

# 5 Final accounts and balance sheet

The final accounts and the balance sheet are presented briefly below. They are dealt with in detail in the manual on Accounting.

## 5.1 Procedure and preparation

At the end of the financial year the final accounts and balance sheet shown in Example 19 (page 35) are prepared. The following is an outline of the procedure to be followed in this preparation:

- 1 Stocks of finished goods are listed and valued. These lists would be checked with the balances on the finished goods stock control records.
- 2 Stocks of raw materials are listed and valued. These lists would be checked with the balances on the materials stock control record.
- 3 Any materials received and not invoiced are listed and priced. Details of these items would be obtained from the materials received book.
- 4 To avoid, as far as possible, numerous adjustments with work-in-progress, production authorised by the issue of production cards should be completed. The members' earnings records would be posted up to date.
- 5 Any adjustments for expenses accrued or paid in advance should be listed:
  - (a) *Expenses accrued*

The benefit of an expense may have been obtained during the financial period but no charge has been made in the accounts. In these cases adjustments are made for these expenses accrued, or owing, by making an adjustment of a debit charge in the financial period in which the benefit was obtained.
  - (b) *Expenses paid in advance (prepaid)*

The full benefit of expenses that have been debited may not be received until the next financial period. In these cases credit adjustments are made to carry forward part of the debit charged, to the next financial period.
- 6 The charge for depreciation would be calculated and the inventory of fixed assets and schedule of depreciation would be completed and balanced off. The actual fixed assets would be checked against their inventory.
- 7 Tools would be checked against their inventory.
- 8 Deposit interest would be calculated and posted through the working ledger to the deposit ledger accounts.
- 9 Cash-in-hand would be checked and certified.
- 10 A bank statement would be obtained and a bank reconciliation statement would be prepared.
- 11 A statement of any loan would be obtained from the lender. Any interest due would be posted through the working ledger to the loan account as an adjustment.
- 12 Share, deposit, creditors' and debtors' balances in their ledgers would be add-listed and agreed with their control balances in the main ledger.
- 13 The trial balance of the main ledger would be prepared.
- 14 Adjustments would then be posted through the working ledger.
  - (a) *Materials received not invoiced*
    - DR Materials – to be included in production and trading a/c
    - CR Materials – to be included in balance sheet
  - (b) *Materials stock to end (at cost)*
    - CR Materials – to be included in production and trading a/c
    - DR Materials – to be included in balance sheet
  - (c) *Expenses accrued*
    - DR Other expenses – to be included in production and trading a/c
    - CR Other expenses – to be included in balance sheet

- (d) *Expenses prepaid*  
 CR Other expenses – to be included in production and trading a/c  
 DR Other expenses – to be included in balance sheet
- (e) *Depreciation*  
 DR Other expenses – to be included in production and trading a/c  
 CR Depreciation provision – to be included in balance sheet
- (f) *Finished goods stock to end (at cost of production)*  
 CR Finished goods – to be included in production and trading a/c  
 DR Finished goods – to be included in balance sheet
- 15 The income and expenditure accounts in the main ledger would be closed and their balances would be transferred to the production and trading account for the year.
- 16 The surplus disposable account would be prepared.
- 17 The balance sheet would be prepared from the balance of assets and liabilities remaining in the accounts in the main ledger.
- 18 The audit would be completed.
- 19 The annual return would be prepared and sent to the registrar.
- 20 The annual general meeting would be held.
- 21 Any surplus would be distributed as resolved by the annual general meeting.

*Notes to Example 19:*

- 1 *Sales* – total of cash and credit sales obtained by adding credit entries for year in main ledger account for finished goods.
- 2 *Costs charged to production* – details obtained from completed production cards. Total production costs will be agreed with the total of debit entries made for the year to the main ledger account for finished goods from these cards.
- 3 *Oncosts* – the total for oncosts is obtained from the completed production cards. The wages of the manager and book-keeper and the charge made for depreciation included in the total of oncosts will be separately shown. The *other expenses* will be the remaining balance of oncosts charged to production.
- 4 *Other costs – materials*. The difference between the value of the actual stock of raw materials carried forward to the new year and the balance at the end of the old year for materials in the main ledger, will be written off by this transfer to the final accounts. Where there is a debit balance to write off, this will be debited to the production and trading account. Where there is a credit balance to write off, it will be credited. *Other expenses*: After the expenses adjustments are made, any balance remaining in this account in the main ledger is written off by transfer to the final accounts.
- 5 Comparisons will be made with last year's results and the forecasted results in the budget.

Example 19

FINAL ACCOUNTS AND BALANCE SHEET		
<b>I Production and trading account for year</b>		
	\$	\$
Sales		100 000
LESS: Costs charged to production:		
Direct materials	50 000	
Direct labour	300 000	
Direct expenses	10 000	
Oncosts: Wages	1 500	
Depreciation	1 180	
Other expenses	<u>5 320</u>	
Total production costs		<u>89 000</u>
	TOTAL	11 000
LESS: Finished goods stocks:		
(Stock to begin \$3690 less stock to end \$600 )		<u>3090</u>
	TOTAL	7 910
LESS: Other costs:		
Materials	60	
Other expenses	<u>530</u>	<u>590</u>
NET SURPLUS TO ACCOUNT II		<u><u>7320</u></u>
<b>II Surplus disposal account at end of year</b>		
		\$
Balance of surplus from previous periods		30
ADD: Surplus from Account I		<u>7320</u>
	TOTAL FOR DISPOSAL	7350
Proposed allocations:		
Reserve fund	3500	
Education fund	500	
Interest on shares	120	
Bonus on earnings	<u>3000</u>	
		<u>7120</u>
Balance of surplus carried forward		<u><u>230</u></u>

<b>III Balance sheet at end of year</b>			
Source of funds (liabilities)			\$
Members' shares			3480
Members' deposits			2800
Reserve fund			1900
Education fund			100
Surplus for disposal			<u>7350</u>
	TOTAL from members		15 630
Loans			4750
Creditors (A/c 3+12 )			11 000
Expenses accrued			<u>250</u>
	TOTAL		<u><u>31 630</u></u>
Use of funds (assets)			
Fixed assets	Cost	Depreciation	\$
Land and building	2000	200	1800
Fixtures and fittings	1000	400	600
Machinery and equipment	4400	1580	2820
	TOTAL	<u>2160</u>	<u>5220</u>
Stocks: Materials		14000	
Work in progress		—	
Finished goods		<u>600</u>	14600
Debtors			2020
Expenses paid in advance			150
Cash at bank			9500
Cash in hand			<u>140</u>
	TOTAL		<u><u>31 630</u></u>

# 6 Summary

## 6.1 Book-keeping system

The outline of the book-keeping system for industrial co-operatives is now completed. The system can be summarised as follows:

- 1 All transactions are immediately recorded in records of original entry.
- 2 Details of these are posted into the working ledger which is ruled off and balanced at the end of every week.
- 3 The working ledger total of entries is posted every week into the main ledger.
- 4 A trial balance of the main ledger is prepared at the end of every four weeks.
- 5 At the end of the financial period the final accounts and balance sheet are prepared.
- 6 Any surplus revealed is allocated.

## 6.2 Control systems

Within the book-keeping system control systems operate:

### 1 Efficiency

The actual business performance of the society is compared from time to time with the forecasted results in the annual budget, which ought to be prepared.

### 2 Materials

- (a) Written orders are made for all materials.
- (b) The receipt of materials is recorded in the materials received book.
- (c) The issue of materials is recorded on the production cards.
- (d) The stock of materials is controlled in the materials stock control record.
- (e) Physical stocks are counted and checked from time to time.

### 3 Labour

- (a) Generally, payments are only made for output on a piece-work basis.
- (b) The committee decides on the payments to be made for each unit of output.
- (c) The output of each member is recorded and valued on his member's output card.
- (d) The earnings and payments for earnings made to each member are recorded on his member's earnings record.
- (e) Any bonus due on earnings is distributed based on the information on these records.

### 4 Other expenses

- (a) Where possible expenses are charged directly to production.
- (b) All other expenses are recovered by adding a pre-determined percentage oncost to the total of direct materials and labour for each batch of production.

### 5 Finished goods

- (a) There is a specification card for each type of item produced.
- (b) Production is only undertaken on the issue of a production card by the manager.
- (c) Receipts of finished goods are accepted on completion of production as shown on the production card.
- (d) Sales of finished goods are supported by the cash sales receipts or the invoices sent to debtors.
- (e) Stocks of finished goods are controlled by the use of the finished goods stock control record.

### REMEMBER:

*The book-keeper is the key person in the efficient maintenance of these systems and controls.*



**Exercise B****Summary of financial transactions for 1975 from records of original entries**

31.12.75. (a) Post and balance working ledger	
(b) Post and balance main ledger	\$
Allocation of 1974 surplus	
Bonus paid in cash	100
Bonus transferred to deposits	400
Share interest transferred to shares	60
Transfer to reserve fund	500
Invoices from creditors for materials	53 000
for other expenses	6 000
Expenses paid by cash	300
New tools bought by cash	100
New sewing machine bought by cheque	400
Cash paid to bank	101 650
Paid net earnings and tax – by cheque	30 000
Bank charges	50
Loan interest added to loan	250
Paid loan repayment by cheque	500
Invoices to debtors for finished goods (8745 units)	95 000
Cash sales of finished goods (455 units)	5 000
Paid creditors by cheque	61 000
Completed production cards	
Materials	50 000
Labour	30 000
Direct expenses	1 000
Oncosts at 10%	8 000
Transfer to finished goods – total costs for 8 900 units	89 000
Manager's and book-keeper's wages and tax paid by cheque	1 500
Cash received from debtors	94 000
Share contributions by cash	1 200
Deposit contributions by cash	2 010
Deposit withdrawals by cheque	760
Deposit interest added to deposits	100

**Exercise C****Stocks and adjustments at 31.12.75  
From stock sheets and other records**

31.12.75 (a) Post working ledger	
(b) Post main ledger	
(c) Prepare final accounts and balance sheet	\$
(a) Materials received not invoiced	10 000
Materials stock to end (7000 units)	14 000
Shortage of materials to production and trading account (30 units)	60
(b) Expenses accrued	250
Expenses prepaid	150
Depreciation: Land and buildings	5% 100
Fixtures and fittings	20% 200
Machinery and equipment	20% <u>880</u>
Expenses not recovered by oncost	530
(c) Finished goods – Transfer sales to final accounts	
Transfer production costs to final accounts	
Finished goods stock to end (60 units)	600
Transfer differences between stocks to begin and end to final accounts	
(d) Proposed allocations of surplus:	
Reserve fund	3 500
Education fund	500
Interest on shares	120
Bonus at 10% on earnings	3 000





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