



Regional Office for Asia & the Pacific

*A Learners' Manual*  
*for*  
**INTERNAL AUDITING IN**  
**PRIMARY COOPERATIVES**

ICA Library  
334:657 CHO-L  
ICA 00822

ICA 00822

*A Learners' Manual*  
*for*  
**INTERNAL AUDITING IN  
PRIMARY COOPERATIVES**

**PROF. B. N. CHOUBEY**  
(Retd) Secretary  
National Council for Co-operative Training, India

334:657.  
ICA-A..

Human Resource Development Series - 3



**Regional Office for Asia and the Pacific**

Bonow House, 43 Friends Colony (East)  
New Delhi 110 065, India

Tel. : (91)11-6835123  
Telefax : (91)11-6835568  
Telex : (81)31-75025 DICA IN  
Cable : Interallia, New Delhi

ICA Library



ICA 00822

First Published  
February, 1992 (1000)

*Reproduction, translation or adaptation of this manual is allowed, provided the original source is quoted and also not used on commercial basis.*

---

Typeset by P.Nair at the ICA Regional Office for Asia and the Pacific, New Delhi  
Printed at Document Press, H.S.14, Kailash Colony Market, New Delhi 110 048

## PREFACE

The number of small primary co-operatives in the Asia Pacific Region is substantial enough to be considered as the foundation of co-operative movements in many countries.

Many of these primary co-operatives elect audit committees from the membership to scrutinise the transactions in terms of bye-laws and accounting principles. It has been found that many of these committees are unable to perform their role effectively due to the lack of knowledge in basic accounting and the way of checking accounts.

The Committee on Human Resource Development for Asia and the Pacific decided to publish a Manual through the ICA Regional Office for the benefit of these committees. After scrutiny of the bye-laws of primary co-operatives in few countries in the Region, the manual was prepared by Prof. B.N. Choubey, a former Professor at the Vaikunth Mehta National Institute of Co-operative Management, India. He also served as the Secretary to the National Council for Co-operative Training in India.

The model used in the manual is a primary co-operative society with multi-services. However, it could also be used by a single-purpose society. The draft manual was sent to co-operative organisations in a few countries and validated after receiving feedbacks.

The manual is of a universal nature. Therefore, the co-operative trainees could either use it as it is or adapt it using local situations.

The manual is based on self-learning strategy. However, an instructor or an accounting executive could help the learner in his reinforcement through exercises.

We hope that this manual will fulfil a long felt need in primary co-operatives in the Region.

We are grateful to Prof. Choubey for his comprehensive and simple approach to the learning manual. Mr. Hasnain Zaidi has provided humorous cartoons for readers' pleasure. We thank him too. I would also like to thank Mr. P. Nair, DTP Officer for his excellent typesetting and Mr. Amin Zaidi of Document Press for the excellent printing work even on a recycled paper.

W U Herath  
Adviser

Human Resource Development  
ICA Regional Office for Asia and the Pacific

New Delhi  
07 January, 1992

## Acknowledgement

In the course of drafting this manual, I have received valuable suggestions from eminent people and ICA officials. In particular, I would like to express my gratitude to Royal Professor Ungku A. Aziz of Malaysia, who took the trouble of going through the draft and made very constructive and useful comments and suggestions. Before starting the work, I had the opportunity to discuss the project with Mr.G.K.Sharma, Regional Director and Mr.W.U.Herath of the ICA Regional Office, New Delhi. The discussion with them was very helpful in concretising my ideas about the work. I am indeed very thankful to them.

Last but not the least, my sincere thanks are also due to the ICA for assigning the consultancy on the subject.

New Delhi  
December, 1991

**B.N.Choubey**

# INTERNAL AUDITING IN PRIMARY CO-OPERATIVES

## CONTENTS

	Page
Preface	01
An Overview	02
General Information	06
<b>PART I : ACCOUNTABILITY IN CO-OPERATIVES</b>	
01. Who owns Primary Co-operatives?	08
02. What for members join a co-operative?	08
03. How do they achieve their objective?	09
04. How do they ensure that achievements are satisfactory?	09
05. Who is responsible to periodically check the performance in a co-operative?	10
06. What Material information is required to assess the performance?	11
07. How to ensure the timely availability of information required?	11
08. Book-keeping in co-operatives	12
09. Accounting systems in co-operatives	12
10. Definition	12
11. Double Entry System of Book-keeping	13
12. Rules for double entry system	14
13. Books of accounts	15
14. Principal Books	16
15. Limited use of Journal Proper	17
16. Important Subsidiary Books	17
17. Sales Book	18
18. Returns Books	19
19. Cash Book	19
20. Bank Reconciliation Statement	21
21. Ledger and Posting of Subsidiary books into Ledger	23
22. Balancing and Closing of Ledger Accounts	26
23. Posting from Subsidiary books to General Ledger	23
24. Trial Balance	28
25. Errors and their rectification	29
26. Final Accounts	30
27. Trading Account	30
28. Profit and Loss Account	32
29. Balance Sheet	34

**PART II : TOOLS AND TECHNIQUES OF ENSURING ACCOUNTABILITY  
IN CO-OPERATIVES**

30. To whom primary co-operatives are responsible for the funds invested in them?	38
31. Who is responsible to check proper use of money?	38
32. What information is required for checking?	40
33. Internal Audit of Co-operatives (Agricultural) Tools and Techniques	41
34. System of account keeping	42
35. Checking of the cash book	43
36. Vouching of receipts	44
37. Checking receipts on account of share capital and entrance fees	45
38. Vouching of payments	47
39. Checking of posting into Ledger	51
40. Verification of property statement	51
41. Outstanding assets and liabilities	52
42. Valuation and verification of assets and liabilities	52
43. Balance Sheet Analysis	53
44. Valuation of assets	54
45. Liabilities	55
46. Complete Balance Sheet	56
47. Limitations of Balance Sheet	57
48. Assessing profitability	57
49. Verification of Assets and Liabilities	58
50. Verification of Liabilities	61
51. Detection and prevention of Errors and Fraud	62
52. Detection of Fraud	62
53. Prevention of Fraud	63
54. Internal Checks	63
55. Internal Audit Report to Management	64
56. Maintenance of Working Papers/Work Sheets	66

## INTERNAL AUDITING IN PRIMARY CO-OPERATIVES

### GENERAL INFORMATION

#### 01. For whom the Learning Package is meant

- \* Elected Audit Committees of Primary Co-operative societies having small scale business.

#### 02. Assumptions on the Learning Group

- \* They should only have basic arithmetical skills.
- \* They may not know about accounting and book-keeping in co-operatives before.

#### 03. Learning Period

- \* The learners can take their own pace of learning.

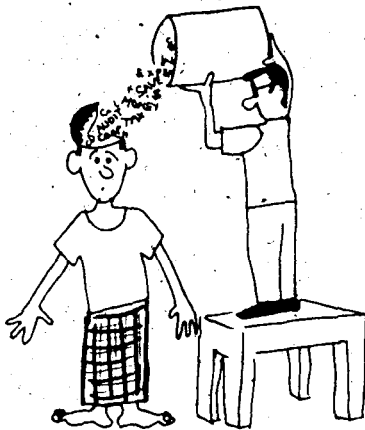
#### 04. Learning Facilitation

- \* The learning package can be used by the Learner for self-learning facilitated by an instructor or a subject specialist.
- \* The package can also be used by an instructor for class room learning in a group.

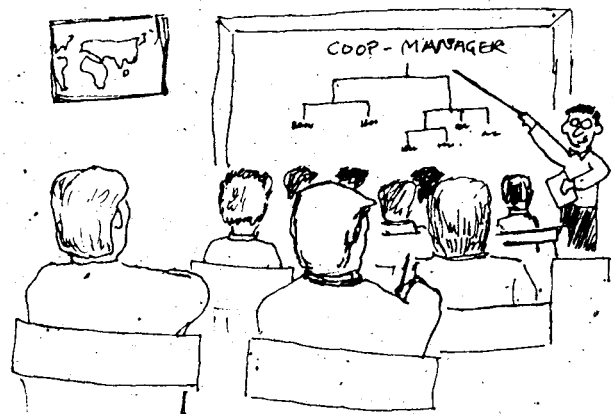
#### 05. Instructions for Learners

How to learn:

- \* Firstly, read the text section by section at your leisure.
- \* Secondly, answer the questions given in the exercise (in the box) followed by the text in each unit. Do it through your own memory and inspiration. Then check the answer back with the text. Now you will know whether your answer is correct or not.
- \* If you are not satisfied with your performance, read the text once again.
- \* If you have further doubts or obscurity, please check with the instructor or a colleague who is familiar with the subject.



LEARNING !



GROUP LEARNING !



## AN OVERVIEW

As members of the Managing Committee (MC) or Board of Directors, you must have noted that if there is any thing absolute and permanent about primary agricultural co-operatives, it is that they are essentially a business organisation with a social purpose. Thus they combine two distinct elements; one, they are an enterprise and two, they are an institution. As enterprise their long-term goal is survival and continuous growth so that they can render economic services to their members with utmost efficiency and economy. The institutional aspect is concerned with social development of members and with creating an environment conducive for co-operative development by projecting a bright image of its own.

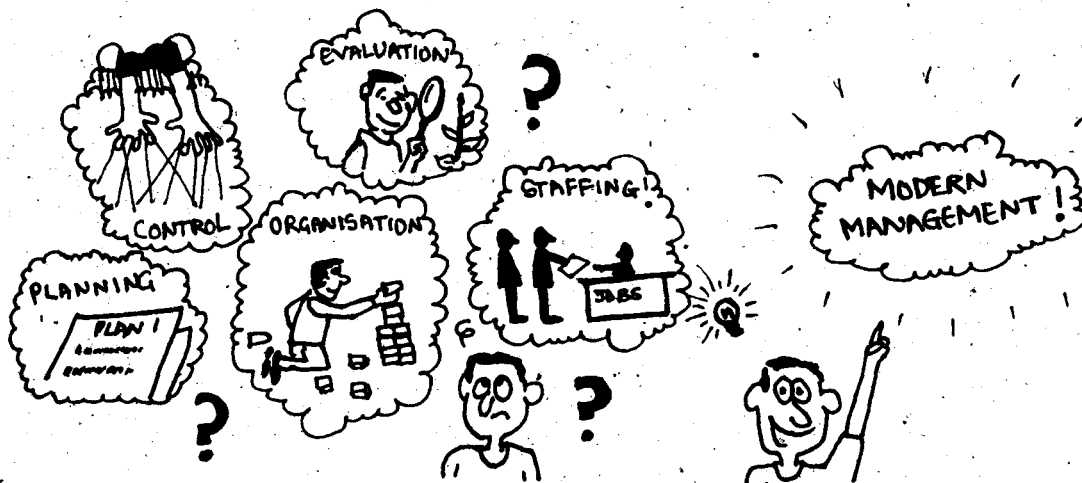
While managing your society, you must have realized that in order to achieve this objectives, primary co-operatives must be run efficiently and effectively. Efficiency refers to the input-output relationship. If output is more and more with a given input, then the society is efficient. The effectiveness refers to achievement of objectives set before the society. If major objectives are realised then, the society is also effective.

As a business organisation, your co-operative society is required to adopt and use all the tools and techniques of modern management for its success. Thus, it has to perform all the major functions of management, viz. planning, organisation, staffing, controlling and evaluation.

Your job of conducting internal audit of your society is concerned with control and evaluation.

By conducting internal audit of your society's accounts you are providing an aid to your management to exercise proper control over the affairs of the society and evaluate the results of its various activities and review and revise the decisions taken in the past.

Thus you may appreciate that maintenance of proper and up-to-date accounts and their regular internal



audit acts as one of the tools in the hands of the management to ensure efficient functioning and realisation of the various goals and objectives set before it. There are a number of methods evolved for exercising management control. But the most commonly adopted method in small primaries is the budgetary control. Budgetary control involve developing measures of effectiveness and efficiency, setting performance standards, undertaking variance analysis, the analysis of financial ratios, and applying profitability tests and liquidity tests, etc.

In order to provide adequate information for the above measures, all business transactions and results

of all economic activities have to be recorded properly and efficiently. Hence the need for a proper system of book-keeping and accounting. Double-entry book-keeping system is generally adopted by a business enterprise. Your society might also be following the same system of book-keeping.

If you are a member of the Internal Audit Committee (IAC) of your society, don't you think that you must have elementary knowledge of book-keeping, besides basic knowledge of audit techniques?

Since primaries maintain simple books of accounts prescribed in their Bye-laws, based on double-entry system, you must acquire proper knowledge about this. That will help you in discharging your duties efficiently and creditably. This involves the study of the following subjects:

- Definition of book-keeping,
- Double entry systems of book-keeping,
- Various books of accounts,
- Principal books,
- Subsidiary books,
- Sales book,
- Purchase book,
- Return's book,
- Cash book,
- Bank Reconciliations,
- Ledger and its posting,
- Trial balance,
- Rectification of errors,
- Final accounts,
- Trading & profit and Loss Account,
- Balance sheet.



*Double entry records both personal & impersonal transactions*

Your job of internal audit entails checking of the above accounts and making a report to the management. Proper knowledge about the tools and techniques of checking the accounts will greatly facilitate your work.

Hence you will appreciate the need for equipping yourself with techniques of checking the following aspects of your society's accounts:

- Checking of the cash book,
- Vouching of receipts,
- Vouching of payments,
- Checking of postings in to ledger,
- Valuation and verification of assets and liabilities,
- Balance sheet analysis,
- Assessing profitability,
- Detection and prevention of errors and fraud.

This manual in your hand is the result of my endeavours to discuss and elucidate the above topics in as simple a manner as possible. I hope and trust that it will facilitate you in acquiring proper knowledge of accounts and simple practical tips about internal audit, through self and guided study. That in turn may help your society in achieving its objectives in a larger measure by improving its operational efficiency.

## INTERNAL AUDITING IN PRIMARY CO-OPERATIVES

### PART I

#### Accountability in Primary Co-operatives

##### 1. Who owns primary co-operatives?

As members, you all own your primary co-operative. A co-operative belongs to its members who have voluntarily joined together to form the society to fulfill their common economic needs. By virtue of equity capital subscribed by members all the assets and liabilities of a co-operative society belong to them. Thus the owners and users of services are members themselves. Hence the ultimate authority and control of the society vests in the general body of members. In other words, they are the masters of the society's destiny and the extent to which they succeed in fulfilling these common economic needs depends on how they exercise the authority vested in them.

? Who owns a primary co-operatives? Check the correct answer below:

	Yes	No.
(a) Government	<input type="checkbox"/>	<input type="checkbox"/>
(b) Financing Bank	<input type="checkbox"/>	<input type="checkbox"/>
(c) Members	<input type="checkbox"/>	<input type="checkbox"/>



"Collective Ownership!"

##### 2. What for Members join a co-operative?

Perhaps you will agree that 'Service' not 'Profit' is the motto of your a co-operative society. All of you have joined your co-operative on the basis of equality, 'mutual help' and 'self-help' for availing certain services which you could not individually. In other words, members form and join a co-operative for their socio-economic development. Thus member development is the ultimate goal of your society for which members have joined it.

? What for members join a primary co-operative?

	Yes	No.
(a) For loans	<input type="checkbox"/>	<input type="checkbox"/>
(b) For Fertiliser	<input type="checkbox"/>	<input type="checkbox"/>
(c) For Seeds	<input type="checkbox"/>	<input type="checkbox"/>
(d) For socio-economic development.	<input type="checkbox"/>	<input type="checkbox"/>

### 3. How do they achieve their objectives?

In order to fulfil your objectives, the general body of members lay down the policy guidelines, contribute share capital, form a managing committee and direct it to take practical steps to achieve the objectives. The managing committee in its turn form a number of functional sub-committees to assist it, appoint staff for day-to-day work, formulate the business plan and budget, raise adequate funds and direct the staff to manage the operations most efficiently to achieve the aims of the society.

? How do they achieve objectives?

	Yes	No.
(a) By defining the society/s objectives	<input type="checkbox"/>	<input type="checkbox"/>
(b) By laying down policy	<input type="checkbox"/>	<input type="checkbox"/>
(c) By using the society/s services	<input type="checkbox"/>	<input type="checkbox"/>
(d) By taking active interest in management	<input type="checkbox"/>	<input type="checkbox"/>
(e) By checking results	<input type="checkbox"/>	<input type="checkbox"/>

### 4. How do they ensure that achievements are satisfactory?

The business plan of the society lays down targets for achievement in every area of economic activities. It also contains the previous year's performance. Besides, the physical targets, the financial budget is also projected for the year. Estimated funds flow statement for the budget year is also appended to the annual budget. This shows estimated monthly inflow and outflow of funds in the society.

As the business plan rolls down, the performance has to be monitored by the business committee. For this a proper reporting system has to be adopted. This may be in the form of monthly progress reports, monthly receipts and payments accounts, monthly trial balance, trading and profit & loss account and balance sheet. These reports will ultimately result in annual report to the general body.

The managing committee has to periodically review the performance as against the targets for the periods under review. If there are wide variations between the targets and actual achievements, the reasons have to be found and mid-course corrections attempted. As regards the funds flow, if there are significant differences between the estimated and actual fund flows, the factors responsible have to be found and corrective measures taken by reviewing and revising the future estimates.

Besides the above measures, the managing committee may devise an internal audit system by constituting an Audit Committee in accordance with the Bye-laws which may constantly keep a check on achievements of the society.

? How members ensure that society/s achievements are satisfactory?

	Yes	No
(a) By systematic business planning	<input type="checkbox"/>	<input type="checkbox"/>
(b) By budgeting and budgetary control	<input type="checkbox"/>	<input type="checkbox"/>
(c) By periodical review of targets & achievements	<input type="checkbox"/>	<input type="checkbox"/>
(d) By introducing internal audit system	<input type="checkbox"/>	<input type="checkbox"/>

#### 5. Who is responsible to periodically check the performance in a co-operative?

As you will appreciate, the general body is too large a body to exercise periodical check on the performance of a society. It can do only once in a year through annual general meeting, in which members can discuss the Annual Report and the statutory audit report and give policy direction in the light of their views about the performance during the year of report.

The managing committee too cannot go into the details of checking the business and financial transactions and examine their correctness or otherwise. At the most, they can have periodical review with the help of monthly progress reports, statements and returns, etc.

Hence the need for constituting an Audit Committee of members who can have some grasp of business and financial matters and who can scrutinize the same in the light of the provisions of bye-laws, act and rules, instructions of Registrar of Co-operative Societies, etc.

Thus, it is your Internal Audit Committee (IAC) which is responsible to exercise periodical check on the performance of your co-operative society. The main objective of this internal audit will be those set by the management but generally will ensure that:

- a) Management policies and programmes are being carried out;
- b) Systems laid down are working; and
- c) Assets and properties of the society are protected.

The main advantages of internal audit will be as under:

- i. It would ensure up-to-date maintenance of account books and records prescribed;
- ii. Compliance of decisions, systems and procedures laid down can be ensured;
- iii. Adherence to policies laid down can be checked,
- iv. Matter of principles can be brought to the notice of management in time for correction;
- v. Errors and frauds can be detected early;
- vi. Errors can be rectified without delay;
- vii. Pre-audit function by Internal Audit Committee can prevent errors from cropping up.

? Who is responsible to periodically check the performance in primary co-operatives?

	Yes	No
(a) General Body	<input type="checkbox"/>	<input type="checkbox"/>
(b) Individual Members	<input type="checkbox"/>	<input type="checkbox"/>
(c) Managing Committee	<input type="checkbox"/>	<input type="checkbox"/>
(d) Internal Audit Committee	<input type="checkbox"/>	<input type="checkbox"/>

**6. What material/information is required to assess the performance?**

In addition to annual business plan, financial budget, monthly progress reports, monthly review reports as mentioned above, your Internal Audit Committee (IAC) will also require to examine the monthly receipts and payments accounts, monthly trial balance, trading/manufacturing and profit and loss account and balance sheets. They may also have to examine the minute books for important decisions, as also the Registrar's circular instructions and directions from financing banks, relevant acts and rules, etc.

<i>?What information are required to assess the performance of primary co-operatives?</i>		
	Yes	No
(a) Business Plan	<input type="checkbox"/>	<input type="checkbox"/>
(b) Annual Budget	<input type="checkbox"/>	<input type="checkbox"/>
(c) Trading Account	<input type="checkbox"/>	<input type="checkbox"/>
(d) Profit & Loss account	<input type="checkbox"/>	<input type="checkbox"/>
(e) Balance sheet	<input type="checkbox"/>	<input type="checkbox"/>

**7. How to ensure the timely availability of information required?**

This can be ensured by maintenance of proper and up-to-date books of accounts and other records prescribed in the bye-laws of your society or by the Registrar of Co-operative societies and the financing agencies or project authorities.

It is also necessary that your Internal Audit Committee is familiar with the books of accounts and other relevant records and registers. In particular, they should be conversant with the basic financial statements prepared by the society such as trial balance, trading and profit and loss accounts and balance sheets.

In other words, the members of your Internal Audit Committees should have some basic knowledge of accounts, like cash and bank account, receipt & payment accounts, accounting errors, bank reconciliation, ledger, trial balance, trading and profit and loss account and balance sheet.

<i>How to ensure availability of adequate information?</i>		
	Yes	No
(a) By recruiting trained accountant	<input type="checkbox"/>	<input type="checkbox"/>
(b) By getting maintained all books of accounts and records prescribed:	<input type="checkbox"/>	<input type="checkbox"/>
(c) By keeping account books and records correct and up-to-date.	<input type="checkbox"/>	<input type="checkbox"/>
(d) By appointing an Internal Audit Committee and making it responsible for proper accounts.	<input type="checkbox"/>	<input type="checkbox"/>
(e) By Internal Audit committee requiring working knowledge of accounts.	<input type="checkbox"/>	<input type="checkbox"/>



*Timely availability of information is important*

## Book Keeping in Co-operatives

8. As you have already seen, a co-operative form of enterprise is a people's organisation. It is born when a group of people voluntarily associate themselves for collective action to meet their common socio-economic development needs. A co-operative has two distinctive features which make it different from other forms of business organisation. Firstly, it is an institution of people who have joined on the basis of equality. Hence, it has an institutional value. Institutional values may be social and economic. The social values are reflected in member-participation, self-regulation and leadership development. The economic values are concerned with member's material prosperity reflected in their incremental income. Thus the institutional aspect aims at member's social and economic development.

The second aspect is that it is an enterprise for survival and growth while fulfilling the objectives for which it has been established. As a business enterprise, it requires all the tools and techniques of efficient management, so as to achieve profitability of its operations, constant expansion and diversification. Its business operations involve meticulous planning, organising, staffing, direction and control.

Of all the functions of management, control is essential for measuring the results of all the decisions and actions taken by the authority. And proper and up-to-date accounting is the backbone of control. Hence the need for proper accounting system in a co-operative enterprise.

*Why book-keeping and accounting is essential in primary co-operatives?*

	Yes	No
(a) Because Primary Co-operative is a business enterprise.	<input type="checkbox"/>	<input type="checkbox"/>
(b) Because accounting helps in measuring business results	<input type="checkbox"/>	<input type="checkbox"/>
(c) Because accounting helps in exercising control	<input type="checkbox"/>	<input type="checkbox"/>

## Accounting Systems in Primary Co-operatives

9. There are mainly two systems of accounting:

- i) Single entry system,
- ii) Double entry system.

Single entry system is an incomplete system of book-keeping based on incomplete records of the business. It may be suitable for a sole trader of a small proprietary business but not for an enterprise owned by the public. Hence in most cases, double entry system of book-keeping is followed in primary co-operatives.

Now you will appreciate that in order to exercise control through internal audit, your audit committee members should have some knowledge of book-keeping and accounts.

### 10. Definition

Book-keeping may be defined as the art of recording business transactions in monetary terms in a manner that it would help in knowing their combined results over a period of time and reveal to the owners the true financial position of the enterprise on a particular date.

Accounting work begins where book-keeping ends. Accounting, besides recording business transactions in monetary terms involve the work of summarizing, classifying, analyzing and interpretation of transactions and related events of financial nature. The results of analysis are made available to those responsible for taking decisions and controlling the enterprise's functioning, in order to ensure the attainment of its objectives.

*?What is book-keeping?*

	Yes	No
(a) Is it keeping of books?	<input type="checkbox"/>	<input type="checkbox"/>
(b) Is it recording of business transactions in a systematic manner?	<input type="checkbox"/>	<input type="checkbox"/>

*What is accounting?*

	Yes	No
(a) Is it summarizing of business transactions?	<input type="checkbox"/>	<input type="checkbox"/>
(b) Is it classifying of transactions of financial nature?	<input type="checkbox"/>	<input type="checkbox"/>
(c) Does it help measuring the results of business?	<input type="checkbox"/>	<input type="checkbox"/>
(d) Does it help interpreting the results?	<input type="checkbox"/>	<input type="checkbox"/>

### 11. Double Entry System of Book-keeping

As stated above, there are two systems of book-keeping, viz. single entry and double entry. Since double entry system is more scientific and advantageous, most of the co-operative organisations follow the system.

Every transaction has two-fold effect which give rise to debit of one account and corresponding credit to another.

#### *Advantages*

- i. It provides a complete record of both personal and impersonal aspects of every transaction.
- ii. Provides arithmetical check on records since total of debit entries will equal the total of credit entries and consequently the total of debit balances will equal the total of credit balances.
- iii. Personal accounts will reveal how much a person owes to the enterprise and how much the enterprise owe to him
- iv. Balance of nominal accounts, when summarized under Profit and Loss Account tell the results of business operations in terms of profit or loss for a certain period.
- v. Recording of two-fold effects of every transaction enables to extract debit and credit balances which in turn helps in preparing a balance-sheet which reveals the financial position of the enterprise at any given moment.
- vi. Given a proper organization of internal auditing, it may help in detecting errors and frauds.

*Double entry system of book-keeping*

	Yes	No
(a) Double entry system mean recording business transactions twice.	<input type="checkbox"/>	<input type="checkbox"/>
(b) Double entry system means recording double-fold effects of every transaction.	<input type="checkbox"/>	<input type="checkbox"/>



## 12. Rules of Double Entry System

Accounts are of three types, viz. personal, real and nominal. Personal accounts relate to parties. Real accounts relate to assets and properties. Nominal accounts relate to expenses and income.

### Debit and Credit

Every transaction gives rise to a debit and a corresponding credit. In other words, if one account gets a debit, another account will get the corresponding credit.

How to decide as to which account should be debited and which account should be credited. For this, the following simple rules of debit and credit can be followed:

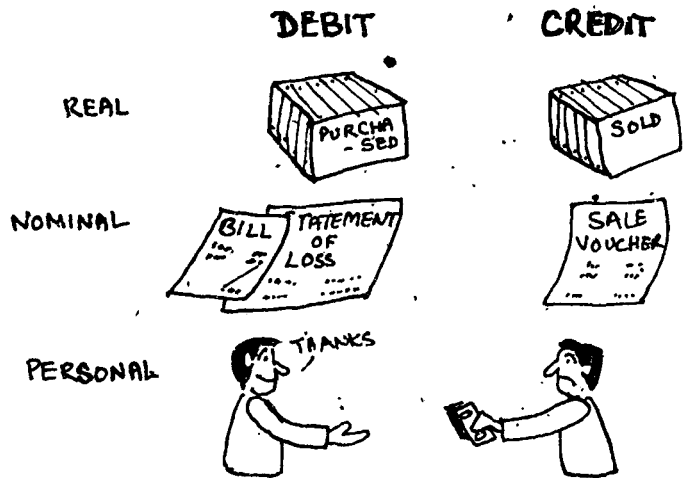
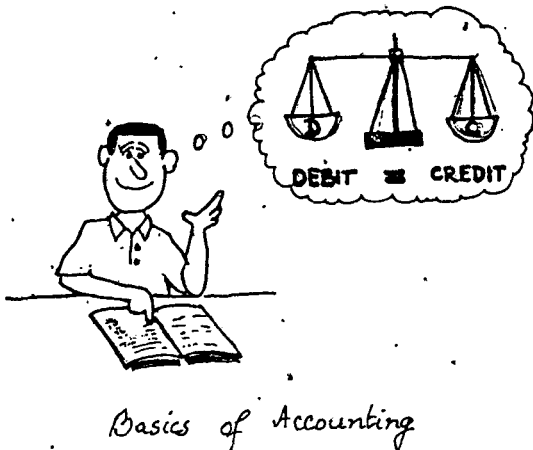
- (a) Under the Personal Account, debit the receiver of benefit and credit the giver.
- (b) Under the Real Account, debit what assets come in and credit what goes out.
- (c) Under Nominal Account, debit expenses and losses and credit incomes and gains.

### Rules of double entry system

	Yes	No
(a) Personal accounts relate to	_____	_____
	(persons)	(Parties)
(b) Real accounts relate to	_____	_____
	(liabilities)	Assets & Properties
(c) Nominal accounts relate to	_____	_____
	(Individuals)	(Expenses & income)

Fill in by using the correct word given in brackets:

- (d) Under the personal account, debit the \_\_\_\_\_ (Giver) and credit the \_\_\_\_\_ (Receiver)
- (e) Under the real account, debit \_\_\_\_\_ and (What goes out) and credit \_\_\_\_\_ (What comes in)
- (f) Under the nominal accounts, debit \_\_\_\_\_ (Income & gains) and credit \_\_\_\_\_ (Expenses and losses)



### 13. Books of Accounts

As you may be knowing, the business transactions of your primary co-operative are recorded in books of accounts prescribed in the bye-laws, so also in the Co-operative Societies Act and Rules or as per the circular instructions of the Registrar of Co-operative Societies.

Mainly these books may fall under the following categories:

- i. Books of original entry; and
- ii. Principal Books.

Books of original or prime entry are also known as journals. In a small organisation with a limited variety and volume of transactions, one main journal may be enough. But in an expanding enterprise, where the volume and variety of transactions is large, the journal is sub-divided into subsidiary journals as under:

- i. Journal Proper,
- ii. Sales Journal/Sales Book,
- iii. Purchase Journal/Purchase Book,
- iv. Sales Returns Journal or Returns Inward Book,
- v. Purchases Return Journal or Returns Outward Book,
- vi. Cash Book,
- vii. Bills Receivable Book,
- viii. Bills Payable Book.

? What books of accounts primary co-operative maintain?

	Yes	No
(a) As per the Act and Rules	<input type="checkbox"/>	<input type="checkbox"/>
(b) As prescribed in the Bye-laws.	<input type="checkbox"/>	<input type="checkbox"/>

### 14. Principal Books

Principal books are books of accounts in which various accounts are opened with the help of which profits earned or losses incurred by a business can be determined. Also the amount of assets and properties at the disposal of the enterprise, as also the amounts owed by it (liabilities) to others can be determined with their help.

Ledger is the principal book of accounts of a co-operative enterprise. Cash book is another. Cash book is a journal and also a principal book in so far as it relates to cash balance.

While subsidiary books are books of records, the principal books are books of accounts. Determination of profit or loss is facilitated by the principal books. They also enable to determine the position of assets and liabilities which is not possible only with the help of subsidiaries.

#### Illustration

Journalise the following transactions:

March, 1991

- i. Received Rs.20,000 as members' share capital.
- ii. Deposited Rs.15,000 with the Bank.
- iii. Sold fertilizer for Rs.2,000 (cash)
- iv. Purchased a typewriter for Rs.5,000/-.
- v. Bought consumer goods for Rs.10,000/-.
- vi. Bought stationery for Rs.1000/-.
- vii. Advanced loans to members Rs.40,000/-.
- viii. Paid salaries to staff Rs.3000/-.
- ix. Bought pesticides from Marketing Co-operative for Rs.10,000/-.

Date	S.No.	Particulars	LF	Debit (Rs.)	Credit (Rs.)
1991 March	1.	Cash Accounts Dr. To Share Capital Account Cr. (being the amount of cash received from member shareholders)		20,000	20,000
	2.	Bank Account Dr. To Cash Account (Being the amount of cash deposited in Bank)		15,000	15,000
	3.	Cash Account Dr.. To Fertilizer Account (Being the amount of cash sale of fertilizers)		2,000	2,000
	4.	Typewriter Account Dr. To Cash Account (Being cash paid for purchase of Typewriter)		5,000	5,000
	5.	Goods Account Dr. To Consumer Coop Accounts (Being the amount of credit purchase of consumer goods from consumer coop)		10,000	10,000
	6.	Stationery Account Dr. To Cash Account (Being the amount of cash paid for cash purchase of stationery)		1,000	1,000
	7.	Members' Loan Account Dr.. To Cash Account (Being the amount of cash loan advanced to members)		40,000	40,000
	8.	Salaries Account Dr. To Cash Account (Being the amount of cash disbursed as salaries to employees)		3,000	3,000
	9.	Pesticides Account Dr. To Marketing Coop A/c (Being the amount of pesticides supplied by the Marketing Coop on credit)		10,000	10,000
				1,06,000	1,06,000

? Whether the following books are principal or subsidiary books of accounts ?

	Principal	Subsidiary
(a) Cash book	<input type="checkbox"/>	<input type="checkbox"/>
(b) General Ledger	<input type="checkbox"/>	<input type="checkbox"/>
(c) Purchase book	<input type="checkbox"/>	<input type="checkbox"/>
(d) Sales Book	<input type="checkbox"/>	<input type="checkbox"/>
(e) Inventory Register	<input type="checkbox"/>	<input type="checkbox"/>
(f) Dead stock Register	<input type="checkbox"/>	<input type="checkbox"/>
(g) Loan ledger	<input type="checkbox"/>	<input type="checkbox"/>

### 15. Limited Use of Journal proper

Since special subsidiary books on journals such as cash book, purchase book, etc, are maintained by business enterprises these days, the main journal or journal proper is used to record only the following:

- i. Opening entries
- ii. Closing entries
- iii. Rectification entries
- iv. Adjustment entries
- v. Compound entries
- vi. Transfer entries or any other casual entries.

? Journalise the following transactions:

- (a) Received Rs.20,000 as members' share capital.
- (b) Purchased typewriter for Rs.8,000.
- (c) Paid salaries to staff Rs.2,000.

### 16. Important Subsidiary Books

#### Purchase Book

Cash purchases are recorded in the Cash Book. Purchase book is meant for recording credit purchases from suppliers. Some of the co-operatives record even credit transactions in the Cash Book. But this is not scientific. Here purchases of goods means only those goods which are bought for sales. The following is the proforma of purchase book:

#### PURCHASE BOOK

Date	S.No.	Particulars	L.F.	Details	Amounts	
					Rs.	P.

Enter the following transactions in the Purchase Book of People's Co-operative:

1991, March

- i. Bought from National Fertilizers 20 tonnes of Urea @ Rs.1000 per tonne.
- iv. Bought 5 quintals of pesticides from Bengal Chemicals @ Rs.2,000/- per qtl.
- vi. Bought 10 tonnes of Phosphate fertilizer from NPL Ltd. @ Rs.1,500/- per tonne.
- viii. Bought 20 tonnes of high yielding variety wheat for seed purpose from the National Seed Corporation @ Rs.2000 per tonne.
- x. Bought 10 tonnes of sugar from People's Co-operative Sugar Mills @ Rs.8,000 per tonne.

## PURCHASE BOOK OF PEOPLE'S CO-OPERATIVE

Date	S.No.	Particulars	L.F.	Details Rs.	Amounts Rs.
March 1991	1.	National Fertilizers (Invoice No & date) 20 tonnes of Urea @ Rs.1000 per tonne.		20,000	20,000
	4.	Bengal Chemicals (Invoice No & date) 5 qntls. pesticides @ Rs.2000/- per quintal		10,000	10,000
	6.	N.F.L.Ltd (Invoice No & date). 10 tonnes of Phosphate @ Rs.1,500 per tonne.		15,000	15,000
	8.	National Seeds Corpn (Invoice No & date) 20 tonnes of HYV Wheat seeds @ Rs.2000/tonne		40,000	40,000
	10.	People's Coop Sugar Mills (Invoice No & date) 10 tonnes of sugar @ Rs.8,000/- per tonne.		80,000	80,000
		Total			1,65,000

## 17. Sales Book

As purchase book is used for recording credit purchases, Sales book is meant for recording credit sales by a business enterprise. The following proforma may be used:

Date	S.No.	Particulars	LF	Details	Amount	
					Rs	P

Enter the following credit sales in the Sales Book of the people's co-operative:

- March 2 Sold 2 tonnes of Urea @ Rs.1,200/- per metric tonnes of Phosphate @ Rs.1,000/- per metric tonne to people's farming society.
- 4 Sold tonnes of H.Y.V.wheat seeds @ Rs.2,200/- per MT to people's Farming Society.

## SALES BOOK OF PEOPLE'S CO-OPERATIVE

Date	S.No.	Particulars	LF (Rs.)	Details Rs.	Amount
March 1991	2	People's Farming Society (Invoice No & date) 2 tonnes urea @ Rs.1200/- PMT)		2,400	
		1 tonne Phosphate @ Rs.1,600 per metric tonnes		1,600	4,000
	4	People's Farming Society (Invoice No & date) 5 tonnes of wheat seeds @ Rs.2,200 per metric tonne		11,000	11,000
		Total			16,000

**18. Returns Book**

These books are used to record goods returned to suppliers and goods returned by customers. Returns Outward Book records the return of goods to suppliers and Returns Inward Books record the return of goods by the customers. The performatas and rulings of these books is similar to that of Purchase and Sales Book.

However, it has been observed that primary co-operatives record even credit transactions in their cash book by means of contra entries so that cash is not affected.

? (15-18)

A. Enter the following purchases in the purchase book of People's Co-operative:

- Bought from National Fertiliser Corporation, 10 tones of Urea @ Rs.5000/- per tonne.
- Bought 20 tonnes of H.Y.V. seeds from National Seeds co-operative at Rs.10,000/- per tonne.

B. Enter the following sales in the sales book of people's Co-operative:

- Sold 2 tonnes of urea @ Rs.5,500/- per tonne to people's farming co-operative
- Sold 5 tonnes of H.Y.V. Seeds to people's farming co-operative @ Rs.10,500/- per tonne.

**19. Cash Book**

Receipt and payment of cash forms major part of business transactions in almost all co-operatives. These must be recorded from day-to-day, so as to know the closing balance at the end of the day. At the end of the day's business, the exact amount of cash must be accounted for and kept in safe custody and excess amount remitted to Bank the subsequent day.

The Book in which cash transactions are recorded is known as 'Cash Book'. This is known as Book of original entry since all cash transactions relating to purchases, sales, advances, expenses, etc. are first recorded in this book. But as far as Cash Account is concerned, it is a Book of Final Entry, since no Cash Account is opened separately in the Ledger. In fact, it may be considered as a part of the ledger.

Primary co-operatives may either keep single column Cash Book or Double column Cash Book, having both 'Cash' and 'Bank' columns. Double column Cash Book is preferable.

## Rules for Recording Cash Transactions

Cash is an asset and comes under Real Account. 'Debit what comes in and credit what goes out' is the rule relating to Real Account. Accordingly, the rule for recording cash transactions will be as under:

'Debit all cash receipts;  
Credit all cash payments.'

### *Illustration*

Enter the following transactions in the Cash/Day Book of Rampur Multipurpose Co-operative Society as on 5.3.1991:

- i. Received Rs.5000/- as share capital from members,
- ii. Deposited into Co-operative Bank Rs.2,000/-...
- iii. Paid Rs.2000/- salaries to staff for February, 1991.
- iv. Received short-term loan from Central Co-operative Bank of Rs.50,000/-.
- v. Disbursed cash as short-term loan to members Rs.20,000/-.
- vi. Paid Electricity bills Rs.200/-.
- vii. Paid Insurance Premium Rs.500/-.
- viii. Purchased fertiliser Rs.10,000/-.
- ix. Sold seeds Rs.2,000/-.
- x. Purchased pesticides Rs.5,000/-.

### CASH BOOK OF RAMPUR MULTIPURPOSE CO-OPERATIVE SOCIETY LTD.

#### RECEIPT

#### PAYMENTS

Date	Particulars	LF	Cash	Bank	Date	Particulars	LF	Cash	Bank
8.3.91	To Share Capital A/c		5000		5.3.91	By Bank A/c	C	2000	
	To Cash	C		2000		By Salaries A/c		2000	
	To CC Bank Loan A/c.		50000			By Members loan A/c		20000	
	To Sales of Seeds A/c		2000			By Elect. A/c		200	
						By Ins.Premium A/c		500	
						By Fert.Purchases A/c		10000	
						By Pest.. Purchase A/c		5000	
						By Balance C/d		17300	2000
			57000	2000				57000	2000
6.3.91	To Balance b/d		17000	2000					

(L.F stands for Ledger Folio)

(a) Is there any difference between cash book bank balance and the Passbook bank balance?

Yes  No

(b) Identify (✓) the reasons creating the difference:

i. Cheques paid into Bank effects not cleared

Yes  No

ii. Cheques issued but not presented to Bank

Yes  No

iii. Bank charges levied

Yes  No

iv. Income directly collected & credited by Bank

Yes  No

v. Error committed by Bank

Yes  No

(c) How to reconcile the difference?

Can it be done through Bank Reconciliation Statement?  Yes  No

(d) On 28.2.91, the cash book of People's Co-operative showed a bank balance of Rs.1805/-. From the following information, prepare a bank reconciliation statement showing the bank balance as per bank pass book.

- i) Cheques issued for Rs.590 not presented to bank for payment,
- ii) Cheques for Rs.820/- deposited with the bank not collected and credited till 28.2 1991,
- iii) Cheque for Rs.250/- paid by a member was dishonoured,
- iv) Bank debited Rs.20/- as bank charges without intimation.

## 20. Bank Reconciliation Statement

Your co-operative society might have opened a savings or current account on both in the financing co-operative or commercial bank, because very often, it may have to make payments through cheques and receive payments through cheques. On opening the account, the society would have received a Pass Book. This is supposed to be a copy of the society's account in the Bank's ledger.

Every month the society will get a statement from the Bank indicating its bank balance in the Bank Account. The statement is known as Bank statement. The bank balance revealed by the cash book should be equal to the credit balance shown in the passbook.

However, the dealings of the society with its bank may not be confined only to issue of cheques on the bank or deposit of cheques received from other parties. The Bank might perform certain functions or render other banking services which may give rise to many a transaction in the Bank statement. But the same might not find place in the cash book, since the society might not be aware about those transactions. These transactions will come to society's notice on receipt of the bank statement. The following are some of the samples of such transactions on the debit side:

- a) Incidental charges levied by the Bank,
- b) Interest charges on overdraft or cash credit, if any,
- c) Payment made by the Bank on behalf of the society,
- d) Bills discounted but dishonoured later,
- e) Payments to suppliers whose documents received through the Bank.



Bank Reconciliation Statement (BRS)



Similarly, on credit side of the statement, the following items may appear:

- a) Bills or cheques directly collected by the Bank and credited to society's account,
- b) Interest collected on behalf of the society,
- c) Dividend on shares or debentures collected by the Bank directly,
- d) Amounts directly paid by members or customers in society's bank account.

On account of factors mentioned above, the balance as per the cash book and the bank statement or bank pass book may not tally. To sum up, the following may be the reasons for the difference:

- i) Cheque paid into the bank, but effects not cleared,
- ii) Cheques issued but not presented to bank,
- iii) Bank charges debited by the bank but not known to society,
- iv) Payments received, collected by bank for the society, without their knowledge,
- v) Payments made on behalf of the society without intimation to it,
- vi) Errors committed by bank.

In view of the above, the society on receipt of the Bank statement, should locate the reasons of differences between the balance as per the cash book and the balance as per the pass book or bank statement.

This can be done by comparing the items of the cash book with the items of the pass book or bank statement. Tick the items which tally. Note the items which do not tally. It is these items which make the difference. Taking into account the amounts of these items, a statement has to be prepared to reconcile the difference and tally the balances. This statement is called Bank Reconciliation Statement.

#### Illustration

On 28th February, 1991, the Cash book of the Rampur Multipurpose Co-operative Society showed a bank balance of Rs.1805/-. From the following information, prepare a Bank Reconciliation Statement showing the bank balance as per the Bank pass book:

- a) Cheque issued for Rs.590/- not presented to bank for payment.
- b) Cheques deposited with the bank for Rs.820/- were not collected and credited till 28th February. One cheque for Rs.320/- was entered in the cash book on 28th February, 1991 but was banked on 03 March, 1991.
- c) A cheque for Rs.250/- paid by a member on 25th February, 1991 was dishonoured, but the bank informed this only on 03 March, 1991.
- d) Bank had debited Rs.20/- as bank charges.
- e) Bank had collected Rs.400/- as dividend on behalf of the society.

#### BANK RECONCILIATION STATEMENT AS ON 28.2.1991

	Rs.	Rs.
Balance as per cash book		1,805
Add: Cheques issued but not presented for payment	590.00	
Dividend received but not recorded in cash book	400.00	
		990
		2,795
Less: i) Cheques deposited with the bank not yet collected (820+320)	1,140	
ii) Cheques dishonoured not recorded in the cash book	250	
iii) Bank charges not recorded in the cash book	20	
		1,410
Balance as per Pass Book		1,385

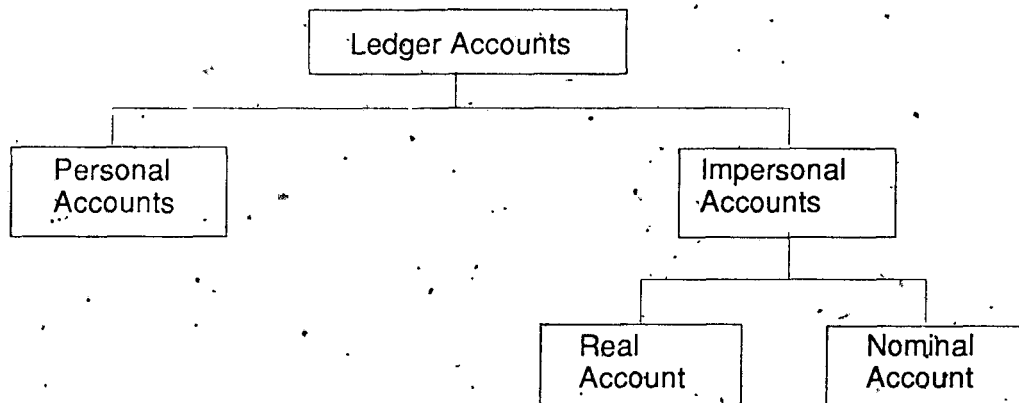
? (19-20) Check (✓) correct answer:

- (a) Cash Book is \_\_\_\_\_ (Subsidiary Book/Principal Book)
- (b) Is it (C.B.) meant for recording only cash transactions? Yes/No
- (c) Cash receipts are \_\_\_\_\_ Debited/Credited
- (d) Enter the following transactions into the cash book of 'A' Coop.
- i) Received Rs.5000/- from members towards share capital
  - ii) Deposited into Central Coop Bank Rs.2000/-
  - iii) Paid salaries to employees Rs.1000/-
  - iv) Received Rs.10,000/- as short term loan from Central Coop Bank
  - v) Disbursed loans to members Rs.5000/-
  - vi) Purchased fertilizers for cash Rs.2000/-

### 21. Ledger and Posting of subsidiary books into ledger

The transactions of an enterprise are finally recorded in a classified form so that the status of various accounts can be periodically determined by totalling and balancing at periodic intervals, say, monthly, quarterly, six monthly or annually. The book in which this is done is called Ledger or General Ledger.

Ledger accounts can be broadly placed under the following heads:



Personal accounts relate to persons dealing with the enterprise. Those who owe to the enterprise are its Debtors and those to whom the enterprise owes are its creditors.

The impersonal accounts relate to assets, expenses and incomes, etc. Assets come under real accounts. Purchases, sales, expenditures and incomes come under nominal accounts. Nominal accounts help in determining the profits and losses of the enterprise. Personal and real account help in determining its financial position in terms of assets and liabilities.

The number and kinds of ledger heads will depend on the nature and volume of business transactions. Generally, it should be in conformity with the budget heads adopted by an enterprise for preparation of annual budgets. They are generally opened in a chronological order and are debited or credited.

DEBIT				CREDIT			
Date	Particulars	JF	Amount	Date	Particulars	JF	Amount

(JF Stands for Journal Folio)

Prepare Ledger Accounts in the books of Rampur M.P.C.S. from the following particulars extracted from subsidiary books:

February 1991

- |   |            |
|---|------------|
| 1. Received from members as share capital           | Rs. 10,000 |
| 2. Bought fertilizer from Marketing Coop on Credit  | Rs. 5,000  |
| 3. Bought for cash pesticides from Bengal Chemicals | Rs. 2,000  |
| 4. Paid for stationery                              | Rs. 500    |
| 5. Paid salaries of staff                           | Rs. 4,000  |
| 6. Paid for furniture                               | Rs. 400    |
| 7. Disbursed loans to members                       | Rs. 2,000  |
| 8. Sold fertilizer for cash                         | Rs. 5,000  |

#### SHARE CAPITAL ACCOUNT

DEBIT				CREDIT			
Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
				1.2.91	By Cash		10,000

#### CASH ACCOUNT

DEBIT				CREDIT			
Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
1.2.91	To Share Capital		10,000	3.2.91	By Pesticides		2,000
					By Stationery		500
					By Salaries		4,000
	To Fertilizer A/c		5,000		By Furniture		400
					By Loans		2,000

## MARKETING CO-OPERATIVE ACCOUNT

DEBIT				CREDIT			
Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
				2.2.91	By Fertilizer A/c		5,000

## STATIONERY ACCOUNT

DEBIT				CREDIT			
Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
	To Cash		500				

## SALARIES ACCOUNT

DEBIT				CREDIT			
Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
	To Cash		4,000				

## FURNITURE ACCOUNT

DEBIT				CREDIT			
Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
	To Cash		400				

## MEMBERS LOAN ACCOUNT

DEBIT				CREDIT			
Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
	To Cash		2,000				

## SALES OF FERTILIZER ACCOUNT

DEBIT				CREDIT			
Date	Particulars	JF	Amount	Date	Particulars	JF	Amount
	To Cash		5,000				

## 22. Balancing or Closing of Ledger Accounts

After the entries are posted from the primary or subsidiary books under their respective heads of accounts in the General Ledger, they have to be totalled. Then the total of debit and credit entries under each head have to be balanced to find out the net results of transactions during a particular period. The balances will be either debtor balances or creditor balances. When the total of credit side exceeds that of the debit side of an account, the difference will indicate the creditor balance. When the total of the debit side exceeds that of the credit side, the difference will indicate the debtor balance.

Under the real accounts, the assets will be indicated by debtor balances and liabilities (personal accounts) will be indicated by creditor balances. As these assets and liabilities are of permanent nature or fixed nature, their closing balance will be transferred to the next year.

Nominal accounts generally relate to expenses, losses and income. Ledger accounts relating to expenses will have debtor balances when closed, while those relating to incomes will have creditor balance. Since they relate to a particular year, they are transferred to the Trading and Profit and Loss Account at the close of the year, so as to enable the enterprise to ascertain its gains and losses.

Let us now take up balancing of the ledger accounts given above.

## CAPITAL ACCOUNT

DEBIT			CREDIT		
Date	Particulars	Amount	Date	Particulars	Amount
Feb'91	To balance c/d	10,000		By cash	10,000
		10,000			10,000
				By Balance b/d	10,000

## FURNITURE ACCOUNT

DEBIT			CREDIT		
Date	Particulars	Amount	Date	Particulars	Amount
Feb'91	To Cash A/c	400		By Balance c/d	400
		400			400
	To balance b/d	400			

## SALARIES ACCOUNT

DEBIT			CREDIT		
Date	Particulars	Amount	Date	Particulars	Amount
Feb'91	To Cash A/c	4,000		By Balance c/d	4,000
		4,000			4,000
	To balance b/d	4,000			

The capital account shows a credit balance. The furniture account reveals a debtor balance. The salaries account shows a debtor balance.

? Check (✓) correct answer:

The book in which transactions are recorded are in a )  
 classified form, so that status of various personal, )  
 real and nominal accounts can be periodically deter- )  
 mined by totalling and balancing is called \_\_\_\_\_ )

Cash Book  
 Day Book  
 Ledger  
 Gen.Ledger

### 23. Posting from Subsidiary Books to General Ledger

Individually, the subsidiary books cannot tell the exact position of profits and losses or the assets and liabilities position of an enterprise. Hence, they have to be transferred to the General Ledger under their respective heads of accounts. This process is known as posting. The process helps in getting the summary of debits and credits under each account.

In this process, the total of subsidiary books are posted to the debit or credit sides of their respective ledger accounts. As for example, the total of the purchase book will be posted on the debit side of Purchase Account in the General Ledger. Thus the cash purchases will be posted from the cash book also on the debit side of the Purchase Account. That will give total purchases for the period. Similarly, the total of the Sales Book will be posted to the credit side of the Sales Account in the General Ledger. Similarly cash sales recorded in the cash book will also be posted to the Sales Account.

But most village level primary co-operatives do not maintain a number of subsidiary books. Many of them record all cash and credit transactions in the Cash Book itself. Hence postings will have to be done from the Cash book to the respective heads of account in the General Ledger.

? Check (✓) correct answer:

- |   |   |                |
|---|---|----------------|
| (a) After totalling and balancing two sides of an account if the total of debit side exceeds that of credit side the difference (Balance) is known as what? | ) | Debit balance  |
|   | ) | Credit Balance |
| (b) When total of credit side exceeds the balance is known as what?   | ) | Credit balance |
|   | ) | Debit balance  |
| (c) Liabilities account will be indicated by what?  | ) | Debit Balance  |
|   | ) | Credit Balance |
| (d) Assets will be indicated by what?   | ) | Credit Balance |
|   | ) | Debit Balance  |
| (e) Expenses & losses will be indicated by what?  | ) | Credit balance |
|   | ) | Debit Balance  |
| (f) Income gains will be indicated by what?   | ) | Credit balance |
|   | ) | Debit balance  |

#### 24. Trial Balance

You have seen that in Double Entry system, every transaction has double fold effects. As such every debit must have a corresponding credit. Consequently, the total of debit side of a journal is equal to the total of its credit side. As a result of every transaction, two accounts are affected. The amount of every transaction is placed to the debit of one account which receives benefits from it and the same amount is placed to the credit of another account which gives the benefit.

When the transactions are posted from subsidiary/primary books to General Ledger, their two sides are totalled and balanced.

As a result, the book-keeper will get either debit or credit balance or nil balance. When these debit and credit balances are summarized at one place, the total of the two sides should be equal. If they do not tally, it means there is some thing wrong in recording the transactions in some book. In other words, there is some error in recording the books. The list of the debit and credit balances is known as Trial Balance.

The preparation of Trial Balance is a preliminary step toward preparation of final accounts at the end of a given period. Primary co-operatives have to prepare the final accounts at the close of co-operative or financial year adopted by them as per the Act, Rules and Bye-laws. These final accounts reveal the position about profits and assets and liabilities.

In case the two sides of the Trial Balance agree, it means that the double fold effects of business transactions have been recorded and that the Account Books are arithmetically correct.

If the total of two sides do not agree, it means there are some errors. They must be corrected at the preliminary stage itself, otherwise the final accounts prepared from them will not show the correct picture of the enterprise.

? Check (✓) correct answer:

- |  |        |
|--|--------|
| Can subsidiary books individually, tell exact positions of profits and losses or the assets and liabilities positions? | Yes/No |
|--|--------|

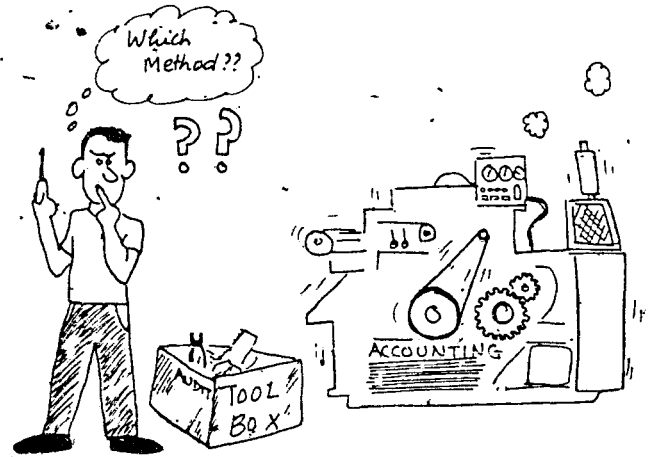
## 25. Errors and their Rectification

Errors in recording the books of accounts in your society may cause difference in the total of the two sides of a Trial Balance. Some of these errors can be disclosed by the Trial Balance. The following errors are examples of this:

- i. Omission to post an entry in the ledger from a subsidiary book.
- ii. Posting of a wrong amount to a ledger account.
- iii. Posting on the wrong side of a ledger account.
- iv. Errors committed in casting subsidiary books or ledger accounts.
- v. Errors committed in balancing a ledger account omitted from writing.

The following errors are not disclosed by the Trial Balance:

- i. Errors of omission.
- ii. Wrong entries in a subsidiary book.
- iii. Errors of principle.
- iv. Compensating errors.
- v. Posting to a wrong head of account.



*For smooth running of machinery, it is important to know all about it*

In case a credit purchase of Rs.500/- has not been entered in the Purchase Book, the total of Trial Balance will agree. This is an example of error of omission

Suppose the credit sale of goods to a member for Rs.5,000/- has been entered as Rs.500/- in the Sales Book, the Trial Balance will agree. This is an error of commission on account of wrong entry in the original book itself.

Posting of an item to a wrong account but on the correct side will not cause any difference in agreement of the Trial Balance.

When under debits or over debits are balanced by under credits or over credits, the Trial Balance totals will agree. This is compensating error.

Those errors which when committed go against the principles of accounting are known as errors of principle.

The book keeper or accountant should try to locate these errors before preparing the final accounts. This can be done by checking the totals of all subsidiary and ledger accounts, checking of postings from subsidiary to ledger accounts, casting and balancing of totals.

Also check the two sides of the Trial Balance so that balances are correctly taken and kept in proper place. See whether cash and bank balances from the Cash Book have been entered correctly in the Trial Balance.

Even after taking all possible steps, errors have not been located, open a Suspense Account in the General Ledger and keep the difference amount on the debit side of this account if the debtor balance total is less and on the credit side if the total of creditor balance is less.

If mistakes are located, necessary rectifying entries should be appropriately passed by the book-keeper to set right the position.



? Check (✓) the correct answer:

- a) When the debit and credit balances are summarized at one place, will the totals of two sides be equal? Yes/No
- b) The list of debit and credit balances known as what? ) Trial Balance  
 ) Trading balance  
 ) True Balance

## 26. Final Accounts

Like any other business enterprise, your society also wants to know two important things with the help of the records of financial transactions discussed in the preceding paragraphs:

- i. Trading results or results of its business operations over a given period, and;
- ii. Its financial position in terms of assets and liabilities at a particular date.

In order to achieve these objectives, the society has to first prepare a Trial Balance which may enable it to test the correctness of recording of financial transactions. From the Trial Balance; it can prepare a Trading and Profit and Loss Account of the business for a particular period.

This will reveal the net profits or loss from its business operations. In order to know the financial position on a particular date, a balance sheet is prepared. Comparison of Profit & Loss Account and the Balance Sheet of a few consecutive years will reveal the rising or declining trends of profits and the financial statements. An analysis of these financial statements will help in discovering the factors responsible for higher or lower growth or negative growth of your society.

The income statement comprising of Trading account and Profit & Loss account as also the Balance Sheet, also known as position statement, are prepared with the help of the debit and credit balances appearing in the Trial Balance.

The debit balances of the personal and real accounts are kept on the assets side of the Balance Sheet. Those having credit balances are kept on the liabilities side. The balances of nominal accounts are taken to construct the Trading and Profit and Loss Account. Expenses are indicated by debit balances and income by credit balances. These are to be taken to Income Statement.

- a) When the two sides of the Trial Balance do not tally, what does it mean? ) There are no errors  
 ) There are some errors
- b) How to locate the errors? ) 1.  
 ) 2.  
 ) 3.  
 ) 4.

## 27. Trading Account

The first part of Income Statement is called Trading Account. It is prepared to ascertain the gross profit or gross loss from the main business activities. The difference between the costs of goods sold and sale proceeds of the goods sold may be either gross profit or gross loss of the business.

$$\begin{aligned} \text{Gross profit} &= (\text{Sales} + \text{Closing stock}) - (\text{Opening stock} + \text{purchases}) \\ \text{Gross Loss} &= (\text{Opening stock} + \text{purchase}) - (\text{Sales} + \text{Closing stock}) \end{aligned}$$

## TRADING ACCOUNT

	Rs.		Rs.
To Opening stock	500	By Sales	1500
To Purchases	2000	By Closing stock	2000
To Gross Profit	1000		
	3500		3500

Some time the enterprise incurs certain expenses before the goods can be offered for sale. These may be in the shape of custom duties, freight, carriage, insurance, etc. Procuring cost or manufacturing wages may have to be paid in some cases. These are known as direct expenses and should be debited to Trading Account. Suppose in the above case, the enterprise has incurred Rs.300 (by way of cartage Rs.50, freight Rs.100 and wages Rs.150/). Then the above Trading Account would appear as under:

## TRADING ACCOUNT

	Rs.		Rs.
To Opening stock	500	By Sales returns	1500
To Purchases less returns	3000	By Closing stock	2000
To direct expenses:			
Cartage           50)			
Freight          100)			
Wages           150)	300		
To Gross Profit	700		
	Rs. 3500		Rs. 3500

Generally, the following items may find place in Trading Accounts:

<i>Item on debit side</i>	<i>Items on credit side</i>
1. Opening stock/inventory	1. Net Sales
2. Net purchases (Trading goods)	2. Goods sent on consignment
3. Carriage/Cartage inward	3. Goods sent on jt. venture
4. Government duties	4. Goods sent to branches
5. Royalties, if any.	5. Closing stock
6. Direct wages	6. Stock completely spoilt
7. Other direct expenses	7. Gross loss carried down (c/d) to Profit & Loss Account.
8. Gross profit carried down (C/d) to Profit & Loss Account	

*Advantages of Trading Account*

- i. Helps in ascertaining whether the gross profits are as desired.
- ii. Helps in testing the efficacy of management's judgement about purchase policy.
- iii. Judgement can be had about the progress of decline of business by comparing sales over different periods.
- iv. Provides opportunity to adjust selling prices.
- v. In case of procuring and manufacturing activities, it enables to know the cost structure of goods manufactured and sold, as also helps in comparison of costs during previous years.

?	a) What does an enterprise want to know with the help of recording financial transactions?	) i. ) ii. ) iii. ) iv.
	b) How can an enterprise find out trading results?	) i. ) ii. ) iii. ) iv.
	c) How can it find out net result of business?	) i. ) ii. ) iii. ) iv.
	d) How can it ascertain its financial position?	) i. ) ii. ) iii. ) iv.

### 28. Profit and Loss Account

Profit and loss account is prepared to determine the net profit or net loss of the business during a given period. Firstly, the gross profit is transferred to the credit of P & L a/c. Then all the gains and incomes appearing as credit balances in the trial balance are credited to this account.

Coming to the debit side of the P & L a/c, all administrative, selling, distributive and financial expenses are debited. Gross loss, if any, is also transferred to the debit side.

From the above, the following picture of P & L A/c will emerge:

Items on Debit side		Items on Credit side	
1. Gross loss (if any)		1. Gross profits	
2. Administrative expenses, salaries, rent rates & taxes insurance, office expenses printing & stationery, postage & telegrams audit fee, general expenses		2. Non-trading incomes, Interest received/receivable, discount received/receivable income from investments, reserve for bad & doubtful debts, reserve for discount on debtors written back.	
3. Selling Expenses: Advertisement, Commission, Brokerage, agency expenses.		3. Net Loss, if any.	
4. Distributive Expenses: Carriage outward, travelling agents' remuneration, van expenses, etc.			
5. Financial Expenses: Interest paid/payable; Discount allowed; Bank charges; Bad debts; Reserve for Bad & doubtful debts; Reserve for discount on debentures; Repairs and renewals; Depreciation on assets; Loss by fire; Specific reserves; Sinking funds, etc.			
6. Net Profit, if any			
Total	Rs.	Total	Rs.

From the following Trial Balance of People's Marketing Co-operative, prepare Trading and Profit and Loss A.c as on 28.2.1991:

<i>Debit Balance</i>	<i>Rs.</i>	<i>Credit Balance</i>	<i>Rs.</i>
Furniture & fittings	640	Motor vehicles	6250
Buildings	7590	Capital	12890
Bad debts	125	Bills Payable	200
Sundry debtors	3800	Sundry creditors	2500
Stock on 1st Jan. '91	3460	Sales	15450
Purchases	5575	Bank overdraft	2850
Sales Returns	200	Purchases return	125
Advertising	450	Commission	175
Interest	118	Cash in Hand	650
Taxes & Insurance	1250	General charges	782
Salaries	3300		
<b>Total</b>	<b>34190</b>	<b>Total</b>	<b>34190</b>

TRADING AND PROFIT & LOSS ACCOUNT OF PEOPLE'S MARKETING COOP

<b>Debit</b>		<b>Credit</b>	
<i>Particulars</i>	<i>Amount Rs.</i>	<i>Particulars</i>	<i>Amount Rs.</i>
To Opening Stock	3460	By Sales	15450
To Purchases	5575	Less Returns	200
Less Returns	125	By Closing stock	3250
Gross Profit transferred to P & L a/c	9590		
	18500		18500

PROFIT AND LOSS ACCOUNT

To Salaries	3300	By Gross Profit	9590
To General charges	782	By Commission	175
To Tax & Insurance	1250		
To Interest	118		
To Advertising	450		
To Bad debts	125		
To Net Profit transferred to B/sheet	3740		
	Rs. 9765		Rs.9765

? Check (✓) correct answer:

- a) (Sales + Closing Stock) - ) Gross Loss \_\_\_\_\_  
 (opening stock + purchases) ) Gross Profit \_\_\_\_\_
- b) (Opening stock + purchases) - ) Gross Profit \_\_\_\_\_  
 (Sales + Closing stock) ) Gross Loss \_\_\_\_\_
- c) Indicate as to which side of Trading Account, the following items will go?:
  - i. Opening stock/inventory : Debit side/Credit side
  - ii. Net purchases : Debit side/Credit side
  - iii. Direct wages : Debit side/Credit side
  - iv. Net sales : Debit side/Credit side
  - v. Closing stock/inventory : Debit side/Credit side

**29. Balance Sheet**

The literal meaning of Balance Sheet is simple. It means certain balances shown on a single sheet. These balances mean debit and credit balances extracted from various ledger accounts. But not all balances are shown on the sheet. It is only the debit and credit balances of personal and real accounts that are incorporated in this. These are liabilities and assets. Thus balance sheet is a statement of assets and liabilities of an enterprise which shows its financial status on a particular date.

The balance sheet is prepared with the help of balances appearing in the trial balance. The debit and credit balances relating to nominal accounts, such as purchases and sales, expenses and incomes are incorporated in the Trading and Profit and Loss Account which reveals the net profit or loss of the year. Whatever debit and credit balances remain in the Trial Balance are incorporated in the balance sheet.

The Debit balances relating to real and personal accounts indicate assets. The credit balances relating to personal and real accounts indicate liabilities.

The following are the usual items appearing in a Balance Sheet.

BALANCE SHEET OF \_\_\_\_\_ AS ON \_\_\_\_\_

<i>Liabilities</i>	<i>Amount</i>	<i>Assets</i>	<i>Amount</i>
Share Capital		Cash in hand	
Reserve Fund		Cash at Bank	
Sundry Creditors		- Receivables	
Bank overdraft		- Securities	
Cash Credit		Loans advanced	
Loans & advances		Sundry Debtors	
Outstanding Liabilities		Closing Stock	
Deposits		Lands & Buildings	
Employees P.F.		Plant and Machinery	
Net profits		Tools and Implements	
		Transportation & vehicles	
		Net Loss	

From the following Trial Balance, prepare the Balance Sheet of People's MPCC on 28.2.1991.

<i>Debit Balance</i>	<i>Amount Rs.</i>	<i>Credit Balance</i>	<i>Amount Rs.</i>
Sundry debtors	1500	Capital	25000
Stock (Opening)	5000	Interest	600
Land & Buildings	10000	Sundry Creditors	7000
Cash in hand	1600	Sales	17000
Cash at Bank	4000	Bills payable	4000
Wages	3000		
Bills receivable	2000		
Interest	200		
Bad debts	500		
Repairs	300		
Furniture & fixtures	1500		
Depreciation	1000		
Rent, Rates & Taxes	800		
Salaries	2000		
Drawings	2000		
Purchases	10000		
Office Expenses	2500		
Plant & Machinery	5700		
<b>Total</b>	<b>53600</b>	<b>Total</b>	<b>53600</b>

**BALANCE SHEET OF PEOPLE'S MPCC ON 28.2.1991**

<i>Liabilities</i>	<i>Amount Rs.</i>	<i>Assets</i>	<i>Amount Rs.</i>
Share Capital	25000	Cash in Hand	1600
Less: Drawings	2000	Cash at Bank	4000
	23000	Bills Receivable	2000
Net Profit (+)	2300	Sundry Debtors	1500
Sundry Creditors	7000	Closing Stock	10000
Bills payable	4000	Furniture & Fixtures	1500
		Plant & Machinery	5700
		Land & Buildings	10000
	<b>36300</b>		<b>36300</b>

?a) Check (✓) the side where the following items will go in the Profit & Loss Account:

Items	Debit side	Credit side
i) Gross Profit	<input type="checkbox"/>	<input type="checkbox"/>
ii) Non-trading income	<input type="checkbox"/>	<input type="checkbox"/>
iii) Gross Loss	<input type="checkbox"/>	<input type="checkbox"/>
iv) Administrative Expenses	<input type="checkbox"/>	<input type="checkbox"/>
v) Net loss	<input type="checkbox"/>	<input type="checkbox"/>
vi) Selling expenses	<input type="checkbox"/>	<input type="checkbox"/>
vii) Distributive expenses	<input type="checkbox"/>	<input type="checkbox"/>
viii) Financial expenses	<input type="checkbox"/>	<input type="checkbox"/>

b) From the following trial balance of People's Marketing Co-operative, prepare the Trading and Profit & Loss account as on 28.2.1991:

Debit Balance	Amount	Crédit Balance	Amount
Furniture	640	Capital	12890
Motor vehicles	6250	Bills payable	200
Buildings	7590	Sundry creditors	2500
Bad debts	125	Sales	15450
Sundry Debtors	3800	Bank overdraft	2850
Stock on 1.1.91	2460	Purchase return	125
Purchases	5575	Communication	175
Sales Returns	200		
Advertising	450		
Interest	118		
Cash in hand	650		
Taxes & Insurance	1250		
General charges	782		
Salaries	3300		
<b>Total</b>	<b>34190</b>	<b>Total</b>	<b>34190</b>

c) Check (✓) correct answer below:

- i) The debit balances relating to real and personal accounts indicate (what) ) Assets
- ii) The credit balances relating to personal and real accounts indicate (what) ) Liabilities
- iii) The debit balances relating to personal and real accounts indicate (what) ) Liabilities
- iv) The credit balances relating to personal and real accounts indicate (what) ) Assets

d) Check (✓) the following items and indicate whether they are assets or liabilities:

	Assets	Liabilities
i) Share Capital	<input type="checkbox"/>	<input type="checkbox"/>
ii) Loan from CC Bank	<input type="checkbox"/>	<input type="checkbox"/>
iii) Sundry Debtors	<input type="checkbox"/>	<input type="checkbox"/>
iv) Loans to members	<input type="checkbox"/>	<input type="checkbox"/>
v) Plant & machinery	<input type="checkbox"/>	<input type="checkbox"/>
vi) Land & Buildings	<input type="checkbox"/>	<input type="checkbox"/>
vii) Sundry creditors	<input type="checkbox"/>	<input type="checkbox"/>
viii) Cash in hand	<input type="checkbox"/>	<input type="checkbox"/>
ix) Cash at Bank	<input type="checkbox"/>	<input type="checkbox"/>
x) Net profits.	<input type="checkbox"/>	<input type="checkbox"/>

e) From the following Trial Balance, prepare the balance sheet of People's MPCs as on 28.2.1991:

<i>Debit Balances</i>	<i>Amount</i>	<i>Credit Balance</i>	<i>Amount</i>
<i>Sundry debtors</i>	1500	<i>Share Capital</i>	25000
<i>Stock (Opening)</i>	5000	<i>Land &amp; Building</i>	10000
<i>Interest</i>	600	<i>Cash in hand</i>	1000
<i>Cash at Bank</i>	4000	<i>Sundry Creditors</i>	7000
<i>Wages</i>	3000		
<i>Bills receivables</i>	2000	<i>Sales</i>	17000
<i>Interest</i>	200		
<i>Bad Debts</i>	500	<i>Bills Payable</i>	4000
<i>Repairs</i>	300		
<i>Furniture &amp; Fixtures</i>	1500		
<i>Depreciation</i>	1000		
<i>Rent, Rates &amp; Taxes</i>	800		
<i>Salaries</i>	2000		
<i>Drawings</i>	2000		
<i>Purchases</i>	10000		
<i>Office Expenses</i>	2500		
<i>Plant and machinery</i>	5700		
<b>Total</b>	<b>53600</b>	<b>Total</b>	<b>53600</b>



## PART II

### Tools and Techniques of ensuring Accountability in Primary Co-operatives

#### 30. To whom primary co-operatives are responsible for the funds invested in them?

People joining co-operative buy shares issued by it and thus contribute share capital which becomes the source of foundation money. The share capital contributed by members is a measure of their stake in the business of their society. As such they are deeply concerned about the purpose and safety of their money. In case the society succeeds in achieving its objectives in adequate measure and regularly declares dividends to its shareholders, it can mobilise more and more share capital which will become the cheapest source of raising funds to meet its requirements. In fact, members' share capital is also a measure of self-reliance of the society, which is the fulcrum of co-operation.

Thus, the management of a society is, in the first place, responsible to its members for the safety of their funds. With the passage of time and increasing demands for funds for various activities, the funds contributed by members falls short of requirement. The society, thus borrows the required amount of funds from the financing co-operative or mercantile bank or an urban co-operative bank, as the case may be. The borrowed funds must be utilised properly and efficiently, so that the resulting incremental income of the society is enough to pay the instalment and the interest on loans from the financing bank. Therefore, the financing bank is also deeply concerned about the profitability and safety of its funds lent to the society. The management is thus responsible for the financing bank as well.

Sometime the Government of the country may also provide share capital, grants-in-aid and subsidies, besides allowing certain concessions and facilities to co-operative societies. Thus the Government too has a financial stake in the solvency and prosperity of the society. Apart from its own financial stake, the government is also responsible through the Ministry/Department of Co-operation, to safeguard the interest of public funds invested in the society. Hence, the management of a society is very much responsible to the government of the country.

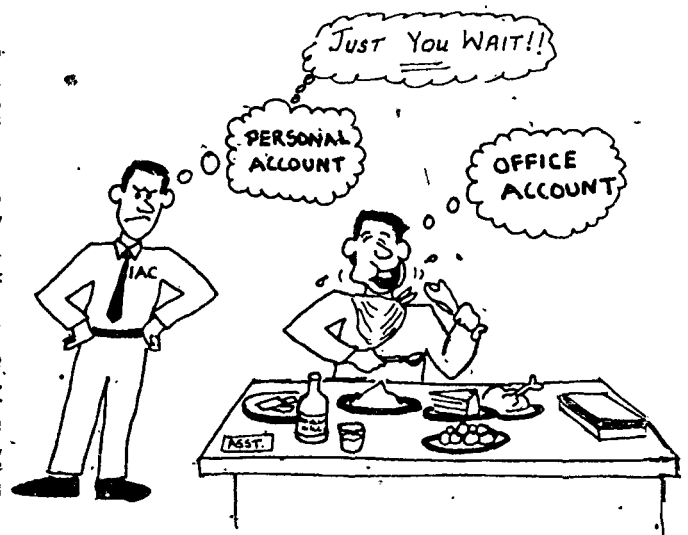
A co-operative society might also raise funds through thrift deposits from members and others. To that extent, the society is also responsible to the depositors for the safety of their money. The suppliers of goods and commodities to a co-operative who may be its creditors have also a stake in the society's liquidity and solvency. Since co-operative enterprise is a business institution with social purpose, it has social responsibility towards the society at large in which it is functioning. A co-operative is not a single entity, but a part of the total co-operative movement. Hence it owes fraternal responsibility to other co-operatives.

#### 31. Who is responsible to Check proper use of money?

Then the next question comes, who is responsible to check proper use of money made available to a co-operative by its members, bankers, government and other creditors?

As you know the owners, a large body of members, mostly laymen and scattered here and there, obviously cannot do this job. They cannot even take part in day-to-day management, what to speak of checking the use of money in the day-to-day business affairs of their society.

Of course, over all authority and control vests in the General Body of members. But they cannot meet at frequent intervals nor can they go into details of the management process. Hence they set the objectives, lay down the policy, approve the programmes and main



activities and budget of the society on annual basis. This is done in their Annual General Body (AGM) meeting. It is through such AGM, that they adopt the Annual Report on the progress of the society during the year as prepared and presented by the managing committee. They also scrutinize the annual financial statements and adopt the Audit reports of external/statutory auditors.

You will appreciate that this becomes more or less a post-mortem when every thing has taken place. It is hardly possible to prevent wrong decisions, faulty implementation of the policy and programmes, avoidable losses, etc. through the above said mechanism. Therefore, efficacious preventive measures are essential to ensure mid-course correction of errors of judgement, mismanagement of funds and deviation from the policy laid down by the General Body.

In order to carry out the policies and programmes and ensure proper management, the General Body constitutes a smaller and compact body of elected members in accordance with the Act, Rules and Bye-laws which is called the Managing Committee or Board of Directors. The tenures and terms and conditions of their appointment, duties and responsibilities are laid down in the concerned bye-laws.

Although this Board/Committee is supposed to exercise control over the expenditure and other financial affairs, they cannot do justice with the work of detailed checking. Firstly, they are responsible for most of the management decisions and as such may not be in a position to scrutinize their own decisions with impartial objectivity. Secondly, their number is large and it may not be possible for them to pay concentrated attention to detailed checking of accounts. Thirdly, checking of accounts to ensure efficient financial management in a co-operative organisation, is a complex job and requires proper aptitude and some amount of knowledge and skills. Hence, the need to have an internal audit organisation.

#### *The Internal Audit Organisation : Duties and Responsibilities*

Internal audit is a distinct function from general management and falls in the domain of a separate machinery. It is in view of this that bigger co-operatives appoint qualified professional Internal Auditors. But small village level co-operatives cannot afford to appoint highly paid professional staff. Hence, the General Body of a primary co-operative constitutes a small and compact committee known as Internal Audit Committee (IAC) in accordance with its Bye-laws. Members appointed on this committee should have aptitude for accounts and internal audit and some elementary knowledge of accounts and book-keeping. Their tenures and terms should be in accordance with the bye-laws. They will be responsible for carrying out regular internal checks and examinations of the accounts, maintain proper records of their examination and submit a monthly/quarterly internal audit report to the Boards of Directors/Managing Committee. They will ensure that books and registers prescribed are maintained properly and kept up-to-date. As a token of correctness, they should sign them. Periodical returns, progress reports to Registrar, financing bank and other concerned authorities should also be their responsibility. After getting these prepared, they should be checked by them before submission. At periodical intervals, say monthly, the IAC should undertake physical verification of stock/inventory. They should take all possible steps to prevent or detect errors, fraud and misappropriation by staff members responsible for handling goods and cash. At the end of the financial year, they will get the financial statements prepared and sign them.

Since the village level societies are located in rural areas, there may not be adequate qualified persons available to work in such audit committees. Therefore, it is necessary that persons having some aptitude for this type of work are taken in such committees and given some knowledge and skills required to carry out their functions efficiently.

To sum up, the Internal Audit Committee should have the following duties and responsibilities:

- a. Proper and up-to-date maintenance of books of accounts and records as prescribed in the Act, Rules and Bye-laws with the help of the Book Keeper and Accountant.
- b. Regularly check these books and sign at appropriate places as token of their correctness.
- c. Ensure the timely compilation of various returns and statements to be submitted to concerned authorities on time.
- d. Physical verification of cash in hand on a regular basis and ensure that cash in excess of the ceiling prescribed are remitted to bank and credited in society's accounts. Cash book to be signed as a token.

- e. Actual disbursement of cash, and loans to be supervised strictly so as to avoid irregularities and indiscriminate advancement. Ensure that they are correctly entered into loan ledger.
- f. Supervise recovery of loans from members and ensure that these are properly receipted, entered into the books and amounts remitted to the financing bank in time.
- g. Ensure proper and up-to-date maintenance of Stock Register and Dead Stock Register/Assets Register.
- h. Physical verification of inventory of goods for sale and for giving kind loans to members at monthly or quarterly intervals and submission of verification report to the management in time.
- i. Ensure that the personal liability accounts of staff dealing with inventories are kept up-to-date and shortages, if any, are accounted for in time.
- j. Ensure safe and proper storage of inventories to avoid losses through wastage, pilferage, obsolescence, etc.
- k. Proper records of empties to be checked regularly and their disposal arranged for the benefit of the society.
- l. Physical verification of Dead Stock and other physical assets like furniture and fixtures, etc. to be carried out periodically, at least once in a year.
- m. Get prepared Trial Balance, Receipt and Payments, Accounts, Trading and Profit & Loss Account and Balance Sheet at the close of the year to be made available to external auditors for final audit and for subsequent placement before the AGM. These should be signed by them as to their correctness.
- n. Help the Board/Managing Committee in preparing the Annual Report for the AGM.
- o. Study the statutory Audit Report given by external or Registrar's Auditors and get the compliance done of audit defects and compliance report submitted to the concerned authority before the next statutory or external audit.
- p. Generally, function as watch dog to safeguard the interests of members and others concerned.

? a) Check (✓) to whom primary co-operatives are responsible for funds invested in them:

	Yes	No
i) To Members	<input type="checkbox"/>	<input type="checkbox"/>
ii) To Government	<input type="checkbox"/>	<input type="checkbox"/>
iii) To Financing Bank	<input type="checkbox"/>	<input type="checkbox"/>
iv) To Public	<input type="checkbox"/>	<input type="checkbox"/>
v) To Suppliers	<input type="checkbox"/>	<input type="checkbox"/>
vi) To Depositors	<input type="checkbox"/>	<input type="checkbox"/>

### 32. What Information is required for checking?

Internal auditing of your society pre-supposes proper and up-to-date maintenance of all records and books of accounts required to be kept by it under the concerned Act, Rules and Bye-laws. Your Internal Audit Committee (IAC) shall direct the Book-keeper/Accountant at the Society to write all the subsidiary and principal books of accounts from day to day, so that there are no arrears. Vouchers supporting all the items of expenditure should be maintained in guard-file in a chronological order and while recording these in the books, proper referencing should be done.

Thus the Journal, Cash Book, General Ledger and other subsidiaries up-to-date in all respects, should be readily available to the Internal Audit Committee which can be periodically examined by them and monthly Trial Balance prepared. Physical verification of inventory and cash should be carried out through surprise checks at periodical intervals. Besides, the Minute Book of the Board of Directors/Managing Committee and other functional committees should be kept up-to-date and made available

to the Internal Audit Committee. Copies of Act, Rules and Bye-laws should be thoroughly read and understood by the Committee, so that their compliance can be checked. Then there are a number of circulars issued by the Registrar of Co-operatives, financing agencies and other concerned bodies. These also should be made available to the committee.

The books mentioned above have already been discussed in Part-I.

The Internal Audit Committee should be conversant with these books and various registers required to be maintained under the act, rules and bye-laws.

? a) Who is responsible to check proper use of money in primary co-operatives?

	Yes	No
i) General Body	<input type="checkbox"/>	<input type="checkbox"/>
ii) Managing Committee	<input type="checkbox"/>	<input type="checkbox"/>
iii) Treasurer	<input type="checkbox"/>	<input type="checkbox"/>
iv) Statutory Auditor	<input type="checkbox"/>	<input type="checkbox"/>
v) Internal Audit Committee	<input type="checkbox"/>	<input type="checkbox"/>

b) What are the duties and responsibilities of the Internal Audit Committee?

i)

ii)

iii)

iv)

v)

vi)

vii)

viii)

ix)

x)

xi)

xii)

xiii)

xiv)

Others \_\_\_\_\_

### 33. Internal Audit of Primary Co-operatives (Agricultural) Tools & Techniques

Internal Audit is virtually an audit through an internal arrangement. Thus the job of the Internal Audit Committee (IAC) is the same as that of any other Auditor. But the IAC is responsible to submit its report to the Board of Directors/Managing Committee. The external or statutory auditor is appointed with the approval of the Registrar or the concerned governmental authority and his report is meant for the General Body and the Government. The role of internal audit is complementary to external audit. In case the internal audit is efficient and reliable, the job of external auditor becomes easy.

#### Nature of transactions in primary co-operatives

Most of the village level primary co-operatives are small sized or large sized agricultural credit societies. They are either multi-purpose or service co-operatives. Their main transactions consist of collection and refund of share capital and deposits, receipt of loans from the co-operative bank or any approved

financing agency and their repayment with the repayment by them. Supply of agricultural inputs and machinery and implements, storage processing

investments, issue of loans to members and essential consumer goods, hiring out agricultural marketing of agricultural produce on behalf of

*? What information is required by the Internal Audit Committee for checking?*

- i)
- ii)
- iii)
- iv)
- v)
- vi)

### 34. System of Account Keeping

The rules framed under the Co-operative Societies Act also the bye-laws prescribe the books and registers to be maintained by societies. These books are known as statutory books. Wherever the rules do not prescribe, the Registrar of co-operative societies prescribes the books and records to be maintained. Double entry system of book-keeping with required modifications is generally followed by most societies.

Most village level primary co-operatives are required to maintain the following books and registers.

- i) Minute Book
- ii) Register of application for membership,
- iii) Admission book,
- iv) Nomination register,
- v) Cash book or day book,
- vi) Receipt book,
- vii) Loan ledger,
- viii) Ledger of borrowings,
- ix) Liability register,
- x) Monthly register of receipts and disbursements,
- xi) Register of immovable property,
- xii) Register of closed loans,
- xiii) Register of application for arbitration and execution,
- xiv) Voucher file,
- xv) Register of dividends,
- xvi) Property statement of members,
- xvii) Register of fluid resources,
- xviii) Dead stock register,
- xix) Purchase, issue and stock register (Trading Stock),
- xx) Sales Register,
- xxi) Liability of Salesman Register,
- xxii) Salary Register
- xxiii) Stock book of stationery, forms, etc.
- xxiv) Inward and outward register,
- xxv) General Ledger.

In addition, a co-operative may keep other subsidiary books as per requirement of its business. The Internal Audit Committee should ensure that the prescribed account books and registers are properly maintained and kept up-to-date by the staff concerned. This is the first and foremost duty. Accounts is the backbone of control. Unless, business transactions are recorded from day to day, the Committee cannot begin its checking and examination work. Arrears should never be allowed to occur and accumulate; otherwise this gives chance for manipulation and creates complications.

The programme of internal audit should be chalked out well in advance and the accounts staff should be instructed properly to keep the concerned books and records ready for examination by the Committee as per their schedule. There are certain books and transactions which will have to be checked on a daily basis, while others at given periodical intervals. As such the work of reconciling the books and internal audit must go hand in hand; otherwise it will have no meaning and may become a postmortem examination like the annual audit.

To whom Internal Audit Committee is responsible? Check ( / ) correct answer:

	Yes	No.
a) To General Body	<input type="checkbox"/>	<input type="checkbox"/>
b) To Managing Committee	<input type="checkbox"/>	<input type="checkbox"/>
c) To Government	<input type="checkbox"/>	<input type="checkbox"/>
d) To External Auditors	<input type="checkbox"/>	<input type="checkbox"/>
e) To Financing Bank	<input type="checkbox"/>	<input type="checkbox"/>

### 35. Checking of the Cash Book

Please note that checking of the Cash Book is the first task before your Internal Audit Committee. You have to ascertain whether the systems of handling cash and recording cash transactions in the Cash Book are in accordance with the systems laid down in the bye-laws of the society. Generally, the Accountant or Book-keeper is responsible to enter cash transactions in the cash book, while physical custody of cash remains with the cashier or the Treasurer of the society. It should be seen that these two functions are never entrusted to one person.

You have to make sure that for safe custody of cash balance, either cash box or cash chest is kept. In case of societies having larger volume of cash transactions every day, cash chest is desirable. Wherever cash chest is kept, the same should be operated under double lock system. Under this system, the two keys of the chest will be officially entrusted to two officials who must come together to open the chest for drawing cash at the opening of the day's business or for depositing cash balance at the close of the day's business. A small register known as Double Lock Register is kept for recording day-to-day operation of the cash chest.

In order to avoid accumulation of cash balance in excess of society's day's requirements, maximum cash balance is prescribed by the board/managing committee. Cash balance in excess of that has to be remitted immediately or on the subsequent day in society's account with the Bank.

In case your society is big, having regular remittances, challan system may be introduced where in the cashier will sign the challan as a token of having received the cash and send the same to the Secretary/Manager, who will sign it and give the counter foil to the remitter and return the foil to the Accountant for recording.

In sum, your Committee should check that handling cash and recording cash transactions are done by two separate persons, that cash balance is kept in safe custody, that the actual cash balance does not exceed the maximum cash balance prescribed.

Having satisfied that, the Committee should record the physical cash balance verified along with denominations of money and sign the cash book as a token of having verified the same. This verification can be done at the close of business every day or at the beginning of the business hours on the subsequent day. Occasionally, surprise checks should be carried out. This will have salutary effect on the concerned staff.

? What books and registers are prescribed in the bye-laws to be maintained by your co-operative society?

- |       |        |
|-------|--------|
| i)    | x)     |
| ii)   | xi)    |
| iii)  | xii)   |
| iv)   | xiii)  |
| v)    | xiv)   |
| vi)   | xv)    |
| vii)  | xvi)   |
| viii) | xvii)  |
| ix)   | Others |

### 36. Vouching of Receipts

The daily cash receipts in your society come from various sources. Similarly, payments of cash might be made to various parties. Unless the original proofs of these receipts and payments are verified by your Internal Audit Committee, physical verification of cash would not reveal the true amount of cash which should be available with the Cashier/Treasurer. While physical verification by you will reveal whatever cash is actually present in the cash chest, the checking of proofs of cash receipts and cash payments will reveal the amount of cash which should be available as per the entries in the cash book. However, the next step is to check the receipts, cash memos and vouchers and compare them with the corresponding entries in the cash book.

Your Committee should be aware as to the items or sources of cash receipts, the person authorized to receive the cash and the person authorized to sign receipts to be issued to the remitter.

The main evidence of cash receipt in your society is the duplicate or counter foil of receipts issued. The Committee should ensure that receipt books are printed under appropriate authority, serially numbered and kept in safe custody. The account of receipt books printed, issued and balance should be maintained properly lest there may be a chance of their misuse.

Counter-foil of receipts and cash memos is an internal evidence of cash having been received. Hence, there is much need for precaution while examining their genuineness.

As such whenever receipts are issued, it should be made compulsory that the signature of the remitter or payer is taken on the back of the duplicate or the counter foil. This may help in preventing manipulation of amount of cash in the counter foil. Then the Committee should compare the entries on the receipt side of the cash book with the duplicates or counter foils of receipts issued. While doing so you should see:

- i. that the date, month, year and amounts tally in both;
- ii. that the name of the party making the payment and the concerned account are properly recorded;
- iii. that amounts written in figures and words tally;
- iv. that the receipts are signed by authorized persons;
- v. that receipts are in prescribed forms and serially numbered;
- vi. that the signature of the remitter is obtained on counter foil;
- vii. that all items of receipt have been brought into account;
- viii. that entries in the Bank or Post Office pass book are checked and compared with those in cash book;
- ix. that withdrawals from Current Account are checked from counter foils of cheques issued; and
- x. that a list of items not supported by counter foil is prepared for further investigation and necessary action to rectify the situation.

? Check (✓) correct answers:

	Yes	No
a) Should Cash book be written by the same person who handles cash in your society?	<input type="checkbox"/>	<input type="checkbox"/>
b) Is it necessary that your society should have cash chest for safe custody of cash?	<input type="checkbox"/>	<input type="checkbox"/>
c) Should the cash chest be operated by two officials?	<input type="checkbox"/>	<input type="checkbox"/>
d) Should your society prescribe ceiling for keeping cash?	<input type="checkbox"/>	<input type="checkbox"/>
e) Should the Internal Audit Committee undertake surprise verification of cash balance in your society?	<input type="checkbox"/>	<input type="checkbox"/>

### 37. Checking Receipts on account of Share Capital and Entrance Fees

Your Internal Audit Committee should be well conversant with the rules regarding eligibility for membership in their society and the minimum and maximum share holding limits laid down in the bye-laws. The receipts on this account should be examined with reference to these provisions. While vouching the receipts of the share capital and entrance fees, the Committee should take into account the following important points:

- i. That duplicates of receipts issued to members for payment of share capital and entrance fees are compared with corresponding entries in the cash book;
- ii. That there has been no book adjustments, showing share capital receipts on the one hand and payment of loans of similar amount on the same date, on the other;
- iii. That receipts are properly prepared with all the necessary details and signed by authorized person;
- iv. That the necessary details about members are also entered in the cash book;
- v. That applications for admission are in order, duly approved by the board/managing committee under appropriate resolution recorded in the Minute Book;
- vi. That collection of share capital and entrance fee is in accordance with the bye-laws;
- vii. That signatures of members are obtained in Admission/Member's registers;
- viii. That share certificates are issued under the signature of appropriate authority and under the seal of the society, duly acknowledged by members; and
- ix. That necessary entries are made in the Liability Register of members and the General Ledger.

#### *Deposits*

Your Internal Audit Committee should check to ensure that all deposits received are in accordance with the bye-laws and the resolutions of the board/managing committee.

In case of thrift and savings deposits, the internal audit party should check the application form, the pay-in-slip used for depositing the money, the deposit ledger and the general ledger. In case pass books are issued to members, that can also be checked. The entries in the cash book should be compared with the corresponding entries in the above books. In case of discrepancies, immediate action should be taken to reconcile.

While scrutinizing Fixed Deposit receipts, the committee should check the applications for fixed deposits filed in the Register in chronological order. Then the counter foil of the Fixed Deposit Receipts (FDRs) issued and the Fixed Deposits Due Date Register should be checked to find out the amount received in FD, the terms and conditions on which received, as also the due date for refunds. It should also be seen, in case of FD, that the unused receipt forms are duly accounted for and kept in safe custody.



### *Loans from Co-operative/Financing Bank*

As you may be aware, generally the village level primary co-operatives borrow from the higher financing agency/central co-operative bank or an approved commercial bank. Their maximum borrowing power is limited by provision in bye-laws, resolution of General Body or the instructions of the Registrar of Co-operatives. The power to borrow within this limit vests with the Board of Directors/Managing Committee. Whenever money is required to be borrowed, the Board/Managing Committee records a resolution with all necessary details such as the amount, the terms and conditions, security, etc. Some office bearer is authorized to draw the money.

While checking the amount of cash received as loan, the Internal Audit committee should examine the following important points:

- i. Resolutions of the board/managing committee;
- ii. Whether borrowing is in accordance with the bye-laws;
- iii. Whether loan obtained was disbursed immediately without any delay;
- iv. Whether amount disbursed to member borrowers is the same as borrowed;
- v. Whether undisbursed loan remitted back to bank to the credit of the loan account of the society, and
- vi. The duplicate receipt issued by the society for the loan amount should be checked with Loan Sanctions Order received from the financing bank.

### *Repayment of Loans by Members*

When members remit cash to the society by way of repayment of loans, the amount has to be appropriated to various accounts in accordance with the rules and bye-laws. The committee should see that appropriation of the amount is done properly. They should verify the counter foil/duplicate of the receipt issued to members. While doing so, it should be ensured that the member concerned has signed on the back of the counter foil as a token of having obtained the original. A system of random checking of a certain percentage of the original receipts with the members as also personal verification may exert a salutary influence and keep the concerned staff alert. In case pass books are issued to members to record transactions, between them and the society, the committee should verify the repayment on the pass book and compare with corresponding entries in the cash book.

### *Sale of Essential Consumer Goods*

Your society like other multi-purpose co-operatives might be undertaking supply of essential consumer goods to members and others.

Your Internal Audit Committee should ensure that sale proceeds received in cash every day are correctly entered into the cash book. As a measure of preventive check, the Liability Register meant for recording salesmen's liabilities on account of stocks issued from the godown for sale from time to time, should be kept up-to-date.

Then the cash memo's counter foil and Sales Register should be verified. It should be ensured that the total receipt on account of sales every day are entered appropriately in the Cash book the same day. Stock of Goods Register should also be verified from time to time. Physical verification of stock should be carried out monthly.

### *Sale of Fertiliser and Agricultural Implements*

These sales should also be verified from the respective registers and cash memo's counter foils. Then it should be checked that the same are entered into the cash book appropriately. At periodical intervals stock taking should be done, so as to ensure correctness of accounts and availability of stock.

### *Sale of Investment and Securities*

Some times bigger and older societies might dispose off their investments in Government Securities and National Savings Certificates or papers. Generally, these sales are effected through the financing bank or the concerned agents. In such cases, the correspondence with the bank and society's pass book should be verified to find out the correct sales and their entry into relevant records including cash book. In case of sales through agent/broker 'Sold Note' issued by them should be verified.

*Miscellaneous Receipts*

Then there may be receipts on account of dividend on shares in other co-operative institutions, financing bank and interest on deposits and investments in securities, godown rents, etc.

Receipts on account of dividend and interest should be verified with reference to dividend and interest warrants.

If received through Bank, the pass book should be checked for entry. If directly received in cash, the counter foil of receipt given should be verified and compared with corresponding entries into cash book.

<p>? a) From what sources cash is received in your society?</p> <p>i)</p> <p>ii)</p> <p>iii)</p> <p>iv)</p> <p>v)</p> <p>vi)</p> <p>vii)</p> <p>viii)</p> <p>Others.</p>		
<p>b) Check (✓) correct answer:</p>		
	Yes	No
i) Has your society authorized some one to receive cash and to sign cash receipts?	<input type="checkbox"/>	<input type="checkbox"/>
ii) Have the receipt books and cash memos been properly numbered and accounted for?	<input type="checkbox"/>	<input type="checkbox"/>

**38. Vouching of Payments**

*General*

Like any other primary co-operative, your society makes a large number of payments to various parties in the course of the days' business. Some of them are frequent in nature and may relate to revenue expenditures or contingent expenses, while others may be seasonal or periodical in nature.

Whatever the nature or periodicity or seasonality of the payment, invariably every payment has to be supported by a valid voucher. A voucher is a valid documentary evidence for a financial transaction. Every voucher should relate to the society concerned and the period under examination. It must indicate the nature of the transaction or the account. The date and amount in figures and words must be mentioned on it. It must bear the signature of competent authority. It should bear the required revenue stamp unless issued by a co-operative institution, exempt from stamp duty under the relevant Act. However, in case of certain payments the evidence of payment can be in the form of acquittance obtained on the bills themselves, such as Salary Register, T.A. Bills, etc.

For remittances made through money order, postal order and bank drafts, the evidence may be the M.O. receipt, the counter foil of postal order and the counter foil of the application form for purchase of bank draft. In case of payments to members, their signatures should be verified from the specimen available with the society in the Admission Register, so as to avoid benami transactions or bogus payments.

While checking the entries in the Cash book, they should be compared with the corresponding vouchers, which ought to be kept in a guard file in chronological order from day-to-day. After a voucher has been found correct, it should be stamped "Paid & Cancelled". This is just to avoid that the same cannot be produced as evidence for another transaction. It may help in preventing double payment.

## Now something about important items of payment:

### *Salary, Allowances & Honorarium*

Salary is to be paid to properly appointed staff members of a society and as per the scale and terms and conditions laid down in the rules and bye-laws and the appointment letter issued under the order of a competent authority. While checking the payment of salary and allowances, the Internal Audit Committee should examine the Salary Bill Register or the Acquittance Roll. Besides verifying the amount disbursed, they should investigate in to the points mentioned above, so as to ensure that the payments are in order in every respect.

Honorarium and sitting fees are sometimes paid to office bearers who attend meetings or perform some special duties. They may also be paid Travelling Allowance to defray expenses incurred by them for performing duties on behalf of the society. These should be in conformity with the provisions of the bye-laws.

These payments should have the prior approval/sanction of the competent authority and within the budgetary provisions approved by the Board/Managing Committee.

### *Contingent Charges*

These consist of sundry expenses, such as postage, rent, rates, cost of stationery, electricity charges, cartage, freight, insurance and so on. While checking the payments on these and similar accounts, the Committee should check not only the relevant vouchers but also satisfy that the expenditure was necessary and reasonable, besides having been sanctioned by the competent authority in accordance with the bye-laws and within the approved budget.

### *Disbursement of Loans to Members*

As you are already aware, giving of productive loans to members is the most important function of co-operative society. While examining the loans disbursed, the IAC should first see the acknowledgements given by the members. Their signatures or thumb-impression on acknowledgements should be compared to that in the Admission/Members Register.

Besides, the audit party should examine the eligibility of the borrowers, credit limits fixed, purpose and kinds of loans, security taken, sanctions accorded by the central co-operative/financing bank, and the actual disbursement statement and certificate about its correctness. It should also be seen that these are in accordance with the bye-laws and resolutions of the board of directors/managing committee.

### *Payment for Shares in C.C. Bank or other Co-operatives*

Besides checking the voucher, the Committee should see the receipts issued by the Bank for the amount paid for the shares. It should also be examined that these investments are in accordance with the rules/bye-laws and have been duly approved by the competent authority of the society. In case of fully paid shares, share certificates should be verified.

### *Repayment of Loans to Financing Bank*

As regards repayment of loans by primary co-operatives to their financing bank/agency, there are three modes; viz. (i) in person, (ii) by money order, and (iii) by bank draft.

In the first case, provisional receipt might be issued by the bank. In case of M.O., the postal receipt will be there. If paid by Bank draft, the financing bank will issue a receipt. There may be tentative evidence for the payment. The final receipt will be issued after the financing bank has actually appropriated the amount towards the principal, interest and other charges.

The audit party should also see the final receipt and ensure that details of appropriations are also correctly entered into the cash book of the society along with the total amount.

In case of repayment of government loans or dues, the internal audit committee should verify the amount in the copy of the Treasury Challan which should bear the number and signature of the Treasury Officer and his seal.

### *Refund of Share Capital*

The share capital subscribed by members can be refunded in accordance with the act, rules and bye-laws and with the prior sanction of the competent authority, may be the board/managing committee

or the general body. Besides verifying the voucher for payment, the audit committee has to ensure the compliance of the above conditions. It should also be checked that before the payment all dues from the members have been recovered.

In case of refunds arising out of death of a member, the share can be transferred to a legal nominee as named in the records of the society, provided the nominee is prepared to become a member and the society agrees to enrol him; as such. If not, the amount should be refunded to the nominee after obtaining valid discharge.

#### *Refund of Deposits*

Deposits can be withdrawn either by means of cheques or withdrawal forms/slips tendered at the counter by the depositor. It should be seen that they are properly drawn and endorsement on them are genuine. The signature of the drawer should be verified with the specimen. The numbers of cheques issued can be checked from the Cheque Issue Register to ensure their genuineness.

In case of Term/Fixed Deposits, the refund is regulated by provisions of bye-laws and terms and conditions stipulated for such deposits. The audit committee should see that the refund is in order and proper discharge is obtained on the back of the Fixed Deposit Receipt (FDR).

#### *Payments for Purchases*

Purchases may be of saleable goods as also of fixed or immoveable assets for which the society makes payments.

In case of purchases of goods for sale, important points to be checked are:

- i. Bye-laws provision about purchases;
- ii. Purchase policy;
- iii. Sanction of competent authority (Purchase committee);
- iv. Procedures followed for purchases;
- v. Decision about the suppliers;
- vi. Terms and conditions of purchases;
- vii. Invoice received from the supplier;
- viii. Final Receipt issued by the supplier.

In case of purchases of immoveable property; the IAC should check whether it was necessary to buy the particular asset in view of the utility to the society. It should be in accordance with the bye-laws. It might be a purchase of the property of a defaulter of loans in the public auction or it might have been effected through negotiations. It should be ensured that purchases have been effected with prior sanction of competent authority. While vouching, the agreement of sale, registered Title Deed, and relevant records of the society should be examined, besides the receipt for the amount issued by the seller.

#### *Verification of Daily Balancing & Closing of Cash book*

To recapitulate, the daily balancing of the cash book should be thoroughly checked since errors in casting and carry forward of balances would affect the agreement of the Statement of Receipts and Disbursements. The Internal Audit Committee should thoroughly check the totalling, casting of balances and carry forwards on daily basis. This may help in arriving at correct arithmetical accuracy of accounts and in discovering frauds by manipulation of totals, balances and carry forwards.

*?a) What points the Internal Audit Committee should take into account, while vouching the receipts of share capital and entrance fees from members?*

- i)
- ii)
- iii)
- iv)
- v)
- vi)
- vii)
- viii)
- ix)
- x)

b) While checking the amount of cash received as loan from the Co-operatives/Commercial Bank, what points should be examined by the Audit Committee?

- |        |       |
|--------|-------|
| i)     | ii)   |
| iii)   | iv)   |
| v)     | vi)   |
| vii)   | viii) |
| ix)    | x)    |
| Others |       |

c) Check (✓) the correct answer against each of the items below:

- |  |                             | Yes                      | No                       |
|--|-----------------------------|--------------------------|--------------------------|
| i) Repayment of loans from members can be checked with the help of what?           | ) Counter foil Receipt      | <input type="checkbox"/> | <input type="checkbox"/> |
|  | ) Member's Passbook         | <input type="checkbox"/> | <input type="checkbox"/> |
|  | ) Personal confirmation     | <input type="checkbox"/> | <input type="checkbox"/> |
| ii) Cash received from sales of consumer goods and fertilizer can be checked with? | ) Cash memo's counter foils | <input type="checkbox"/> | <input type="checkbox"/> |
|  | ) Sales Register            | <input type="checkbox"/> | <input type="checkbox"/> |

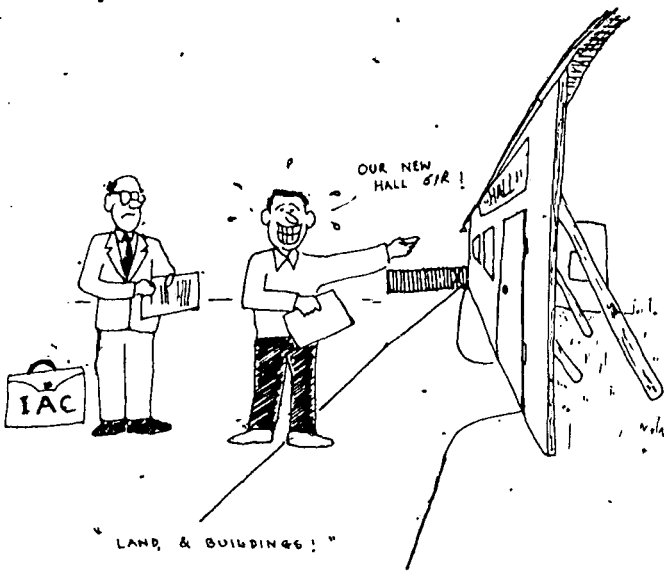
d) Check (✓) the correct answer against each of the items below:

- |   |                                       |                          |                          |
|---|---------------------------------------|--------------------------|--------------------------|
| i. Disbursement of salaries and honoraria can be checked with?                  | ) Terms and conditions of appointment | <input type="checkbox"/> | <input type="checkbox"/> |
|   | ) Salaries/Bill Register              | <input type="checkbox"/> | <input type="checkbox"/> |
|   | ) Relevant Resolution                 | <input type="checkbox"/> | <input type="checkbox"/> |
| ii) Contingent expenses can be checked with the help of what?                   | ) Sanctions of competent authority.   | <input type="checkbox"/> | <input type="checkbox"/> |
|   | ) Relevant voucher                    | <input type="checkbox"/> | <input type="checkbox"/> |
|   | ) Budgetary Provision                 | <input type="checkbox"/> | <input type="checkbox"/> |
| iii) Disbursement of loans to members can be checked with the help of (what?)   | ) Sanction order of financing bank    | <input type="checkbox"/> | <input type="checkbox"/> |
|   | ) Resolution of MC                    | <input type="checkbox"/> | <input type="checkbox"/> |
|   | ) Acknowledgement by Loanees          | <input type="checkbox"/> | <input type="checkbox"/> |
|   | ) Loan Register/Ledger                | <input type="checkbox"/> | <input type="checkbox"/> |
|   | ) Personal confirmation of member.    | <input type="checkbox"/> | <input type="checkbox"/> |
|   |                                       | Yes                      | No                       |
| iv) Payment for Shares in other co-ops can be checked with the help of what?    | ) Allotment letter                    | <input type="checkbox"/> | <input type="checkbox"/> |
|   | ) Receipt given by concerned          | <input type="checkbox"/> | <input type="checkbox"/> |
|   | ) Share certificates                  | <input type="checkbox"/> | <input type="checkbox"/> |
|   | ) Resolution of M.C.                  | <input type="checkbox"/> | <input type="checkbox"/> |
| v) Repayment of loans to financing bank can be checked with the help of (what?) | ) Provisional Receipt                 | <input type="checkbox"/> | <input type="checkbox"/> |
|   | ) Final Receipt                       | <input type="checkbox"/> | <input type="checkbox"/> |
|   | ) M.O. Receipt                        | <input type="checkbox"/> | <input type="checkbox"/> |
|   | ) Bank Draft voucher                  | <input type="checkbox"/> | <input type="checkbox"/> |
| vi) Payments to government can be checked with (what?)                          | ) Duplicate Treasury challan          | <input type="checkbox"/> | <input type="checkbox"/> |
| vii) Refund of deposit can be checked with the help of?                         | ) Cheques presented                   | <input type="checkbox"/> | <input type="checkbox"/> |
|   | ) Withdrawal slips                    | <input type="checkbox"/> | <input type="checkbox"/> |
|   | ) Receipts                            | <input type="checkbox"/> | <input type="checkbox"/> |
|   | ) FDRs (discharged)                   | <input type="checkbox"/> | <input type="checkbox"/> |
| viii) Payments for purchases can be checked with the help of?                   | ) Purchase Committee's decision       | <input type="checkbox"/> | <input type="checkbox"/> |
|   | ) Quotations received                 | <input type="checkbox"/> | <input type="checkbox"/> |
|   | ) Supply order                        | <input type="checkbox"/> | <input type="checkbox"/> |
|   | ) Invoice                             | <input type="checkbox"/> | <input type="checkbox"/> |
|   | ) Final Receipt                       | <input type="checkbox"/> | <input type="checkbox"/> |

**39. Checking of Postings into Ledger**

Having checked the entries into the cash book, the Committee should proceed to check the posting of these entries into General and Special Ledger, if any. Ledger is the final place of entries from the book of original entry. The main object of checking is to find out omissions and commissions in postings. While checking the postings, the heads of account, the amount and the date of transactions as per Cash book should be compared with corresponding entries in the Ledger.

**40. Verification of Property Statement**



Certain type of primary co-operatives might be required to maintain Property Register of members. Your society might also be maintaining one. This statement contains particulars of immovable property of members comprising of land and house property. This register has to be revised at required intervals so as to always reveal the real position about members' assets. This is particularly important where mortgage loans are given to members on the security of land and other immovable properties. The Committee should ensure that this statement contains correct and up-to-date entries of such assets and their latest valuation.

**Demand, Collection & Balance Statement**

Members pay towards share capital and may take refund. They make deposits and withdraw. They take loans and repay. Thus they may owe certain amounts to the society under certain heads and under certain heads the society may owe to them.

After checking all the Ledger Accounts with the Cash Book, a list of outstanding under share capital account, loans and other borrowings should be prepared from the Ledger. This will reveal the position of Demand, Collection and Balance. It should thus be checked that totals arrived at tally with those in General Ledger.

In case of share capital, the total of share capital collected and refunded should tally with total of share capital account in the General Ledger. In case of loans to members, the totals under disbursements and repayments should tally with totals under members' loan accounts in the General Ledger. Similar will be the case with deposits.

? Check (✓) correct answers:		Yes	No
a) Will the share capital collected from & refunded to members tally with the total of share capital account in the General Ledger?	<input type="checkbox"/>	<input type="checkbox"/>	
b) Will the total of all loans disbursed to members and repayments made by them tally with total under members' loan account in the General Ledger?	<input type="checkbox"/>	<input type="checkbox"/>	

**41. Outstanding Assets & Liabilities**

The General Ledger will reveal the position of assets and liabilities which have come in the record and got posted under their respective heads. But there are certain items pertaining to this category but not recorded in the books.

Hence their lists have got to be prepared and their amount calculated so that they are taken to the final Balance Sheet at the end.

**Outstanding Assets**

The following are some of these assets:

- i. Interest accrued on members' loans,
- ii. Interest accrued on investments,
- iii. Dividends accrued on shares in other institutions,
- iv. Rents receivable,
- v. Expenditures paid in advance or prepaid expenses.



**Outstanding Liabilities**

- i. Interest payable,
- ii. Salaries and wages outstanding,
- iii. Interest collected in advance,
- iv. Others.

? a) Indicate the category of the following assets:

	Current	Fixed	Outstanding
i) Interest accrued on members loans	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
ii) Interest accrued on investments	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
iii) Dividends accrued	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
iv) Rents receivable	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
v) Prepaid expenses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
vi) Cash	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
vii) Land and Buildings	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

b) Indicate the correct category of the following liabilities:

	Current	Fixed	Outstanding
i) Interest payable	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
ii) Salaries & wages payable	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
iii) Interest received in advance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**42. Valuation and Verification of Assets and Liabilities**

The closing of Ledger Accounts and their balancing as discussed in Part I, results in Debit and Credit Balances. By using these balances, the co-operative can prepare its final accounts, comprising of Trading, Profit & Loss Account and Balance Sheet.

Balance Sheet is a statement of assets and liabilities at a given date which should reveal the true financial position of the society. Hence the valuation and verification of assets and liabilities assumes special significance for the Internal Audit Committee. If the assets do not actually exist or if they are over valued, the Balance Sheet would not reveal the true position of the society. Similar is the case with liabilities. They have also to be verified and evaluated.

Hence, a thorough analysis of Balance Sheet by the Committee is necessary.

### 43. Balance Sheet Analysis

Balance Sheet comprises of two words - 'balance' and 'sheet'. Therefore, its literal meaning may be that it is a statement, the two sides of which balance each other. The balances on the two sides of the statement comprise of what an enterprise owns and of what it owes to others. Whatever it owns are its property and assets and what ever it owes to others are its liabilities. A Balance Sheet is a statement of what enterprise owns and what it owes to others at a particular date and reveals its true financial position.

Thus the Balance Sheet of your co-operative also is a statement of its assets and liabilities, revealing its financial position at a particular point of time. Whatever a co-operative owns and whatever its members and others owe to it are its assets and properties. Whatever a co-operative owes to members and others are its liabilities. Thus assets of a co-operative may include cash in hand and at bank, securities, loans outstanding against members deposits, closing stock, land and buildings, plant and machinery, etc. Share capital subscribed by its members (owed to them), borrowings from financing bank, thrift deposits of members, outstanding expenses and sundry creditors are its liabilities.

#### *Assets of a Co-operative*

The liabilities in the Balance Sheet of a co-operative show what money and funds have been made available to the society by its members in the shape of share capital and by co-operative banks/ financing institutions by way of loans and advances, and its assets show how funds have been used for giving loans and advances to members and others, as also for acquiring useful properties like land and building, shares in other co-operatives, government securities, bank deposits and trading/ manufacturing stock.

#### *Example*

Assets of a co-operative may be broadly classified into two categories, viz. fixed and current assets.

Like any other co-operative, your society might have acquired lands and buildings, fixtures and fittings, furniture, office equipments to run its office. For procuring and processing activities, it may own plant and machinery, tools, transport, warehouses and godown for storage and marketing activities.

The above mentioned assets are meant for use over a relatively longer period in the business activities of a co-operative enterprise. These are long-term assets and do not vary from day-to-day. In view of their long term nature, they are called fixed assets.

The name current assets indicate that they are fluctuating in nature and might vary from day-to-day. Generally, current assets are acquired for running day-to-day business or arise out of day-to-day business transactions. It may comprise of cash and such other things that may be normally-converted into cash. A co-operative organisation may keep necessary cash for current expenses, some cash may be kept in bank to facilitate bigger payments by cheques. Surplus funds from business may be invested in government and other securities, short-term loans and bills might be recoverable from members and others. There may be stock of raw materials, work-in-progress and finished goods in the business.

While preparing a Balance Sheet, the assets may be marshalled in order of liquidity, so as to enable to understand the liquidity position of an enterprise.

This may be done in the following order:

#### *Current Assets*

- Cash in hand,
- Cash at Bank,
- Deposits (short-term) with banks,
- Employees Accounts (Recoverable advances),
- Other accounts outstanding,
- Loans and advances outstanding against members,
- Prepaid expenses,
- Finished goods,
- Work-in-progress,
- Raw materials
- Other Supplies.



*Fixed Assets*

Land,  
Buildings  
Plant and machinery,  
Transport vehicles, etc.  
Furniture and fixtures,  
Office equipments and appliances.

*Liquidity of Assets*

In principle all assets of a co-operative society should help in earning income and be convertible into cash. But normally, fixed assets would not be sold to raise cash for running the day-to-day business. These are meant for long-term use by the society.

*Quick Assets*

Quick assets are those which can be quickly converted into cash to meet the co-operative's obligations. Fixed assets, on the other hand, are the least convertible assets.

Among the quick assets, cash is a perfectly liquid asset, since it consists of legal tender money and does not require conversion. Then there are accounts receivable and marketable securities which can be converted into cash at short notice. But among the quick assets, they can be called as less perfectly liquid assets. Though inventories are saleable, they are not quick assets, since it may not be always possible to sell them at short notice. To sum up, quick assets are part of current assets and serve as a measure of the capacity of a society to immediately meet its financial obligation when called upon to do so.

**44. Valuation of Assets**

Please note that the values assigned to assets in the Balance Sheet of a co-operative will be meaningless to its shareholders/members and creditors unless they are realistic. The interests of shareholders and creditors will be considered safe, if the value shown against each of the assets is equal to its real worth it can fetch if converted into cash. In that case, it can be said that the Balance Sheet reveals the true financial position of the society.

Each asset when acquired by a co-operative society costs a certain sum of money. But when offered for sale, its market value may be either higher or lower than the cost price. Thus there could be a choice between showing it in the Balance Sheet at cost price, or showing them at its market value.

But the cost price of an asset and its market value at the time of showing in Balance Sheet may not be the same. Then the question arises whether they should be shown at cost price or market value. In order to lend credibility to the Balance Sheet for the sake of its shareholders and creditors, a prudent and cautious management would adopt the principle - 'Value them at cost or market price, whichever is less'. Your IAC has to bear this in mind, while conducting internal audit of your society.

There is no problem about the valuation of cash in hand and cash at bank. They have to be shown as per the balance struck in the cash book as on the date of the Balance Sheet.

While you are checking accounts receivables and loans and advances outstanding against members, care should be taken to ensure that reasonable provision is made for the doubtful recoveries which may result in default and bad debts. Then there are the marketable securities. These could be shown either at cost or at current market value. But since their market value fluctuates widely, it is shown at cost price. But their market values should also be appropriately indicated at the bottom of the Balance Sheet.

In case of credit institutions, the loans outstanding against borrowing members are shown as per the loan ledger. But it should be seen that appropriate provisions are made for bad and doubtful debts as per the bye-laws and rules of the society.

Inventories (finished, semi-finished and raw materials) form part of current assets. But these are not part of the quick assets. A prudent management should show them in the Balance sheet at cost or market value, whichever is less. Some times, it may be still necessary to make reasonable provision for driage, wastage, obsolescence, etc.

### Valuation of Fixed Assets

Fixed assets as indicated above are meant for long-term use in the business. With their constant use, they are worn out, wasted or become obsolete over a period of time and are reduced in value. In other words, they will depreciate in value.

Hence the fixed assets are shown in the Balance Sheet at original cost minus estimated amount of depreciation. The amount of depreciation is determined on the basis of cost of the particular asset and its estimated useful life. In case of heavy duty assets such as heavy transport, the intensity of use is kept in view. In case of co-operatives, the percentage of depreciation may be fixed by the Registrar of Co-operative Societies or the government auditors as per the Act and Rules. In case of land, however, generally, the value is shown at cost unless the land is going to be sold.

? Cancel the word not applicable:

a) Balance sheet is a statement of what an enterprise owns/owes and what it owes/owns.

b) Fill up the gaps:

i) Whatever a co-operative \_\_\_\_\_ and whatever its members and other \_\_\_\_\_ to it, are its assets and properties.

ii) Whatever a co-operative \_\_\_\_\_ to members and others are its liabilities.

c) Indicate against each of the following items, whether it is an asset or liability:

Item	Asset/Liability Type
Cash in Hand	
Cash at Bank	
Members' Share capital	
Thrift deposits of members	
Loans from Co-operative Bank	
Suppliers' Dues	
Plant & Machinery	
Fixtures & fittings	
Loans to members	
Investments	
Outstanding Expenses	
Accrued income	
Land & Buildings	

d) Fill up the gaps:

Liquidity is the \_\_\_\_\_ of an asset to be \_\_\_\_\_ into cash to meet financial obligations.

e) Quick assets are those which can be \_\_\_\_\_ into cash to meet the co-operative's obligations.

### 45. Liabilities

As we have seen earlier liabilities of a co-operative society are what it owes. A co-operative acquires certain assets to run its business. For doing so, it must raise the necessary finance. From what sources funds have been raised can be known by looking at the liabilities in the society's Balance Sheet. A glance at its assets in the Balance Sheet will show how it has used the funds raised by creating liabilities. Generally speaking, current assets give rise to current liabilities. Fixed assets might have been acquired by creating fixed or long-term liabilities and by raising shareholders' fund. The picture may

be as under:

<i>Assets</i>	<i>Liabilities</i>
Current Assets	Current Liabilities
Fixed Assets	Fixed Liabilities
Total	Shareholder's fund

Current liabilities are those which must be met at short notice. Hence they have to be met out of the current assets. It must be seen that current assets are enough to meet the current liabilities. In a co-operative organisation, current liabilities may be in the form of bank overdraft, cash credit, trade creditors, accounts payable, outstanding expenses, provision for taxes, etc. Those have to be met within a relatively short period. It should be ensured that the society's current assets are enough to discharge short-term liabilities. The ratio of 2:1 is considered safe. Please apply this norm while conducting internal audit of your society.

Fixed liabilities of a co-operative represent medium and long term mortgage loans from the financing banks. These are covered by long-term or fixed assets. Generally, land and building belonging to the society and its members may form the security for such loans.

Paid up share capital and owned funds of a society are the long term finance made available by its members and represent their stake in the society's business.

Members' share capital in a society is the cheapest source of fund and provides a measure of its self-reliance which is one of the cardinal principles of co-operation. Although share capital is shown in the Balance Sheet as a fixed liability, it will never be completely paid to shareholders until the society goes into liquidation. As such it is considered as permanent finance.

? Fill up the gaps:

- a) A prudent management would adopt the principle - Value at \_\_\_\_\_ or \_\_\_\_\_ price, whichever is less.
- b) Since market value of securities fluctuate widely, it is shown at \_\_\_\_\_ price in the Balance Sheet.
- c) In Co-operative credit societies, loan outstanding against members are shown as per the \_\_\_\_\_ ledger. But it should be seen that adequate \_\_\_\_\_ is made for \_\_\_\_\_ debts.
- d) The value of inventories should be shown in the Balance Sheet at \_\_\_\_\_ price or \_\_\_\_\_ price, whichever is \_\_\_\_\_.
- e) The fixed assets should be shown in the Balance Sheet at \_\_\_\_\_ cost minus estimated amount of \_\_\_\_\_.

#### 46. Complete Balance Sheet

A look by the members at the complete Balance Sheet of their co-operative society will throw light on three main aspects - its solvency, its liquidity and its profitability. Liquidity is the capacity of the society to meet its current liabilities. If its current assets are more than current liabilities, they should think that society's liquidity is satisfactory, otherwise not. Its solvency can be measured by comparing its total assets with total outside liabilities. The total outside liabilities are equal to current liabilities and fixed liabilities.

Their society should be considered as solvent if it can meet its outside liabilities out of its total assets. In other words, the society's total assets should always be more than its outside liabilities.

However, a single figure of either assets or liability does not tell much. The members can learn more by comparing two or more figures of the Balance Sheet and by comparing the figures of Balance Sheet at one particular date with figures of the immediately preceding balance sheet. For example, if they compare current assets with current liabilities, it would reveal the liquidity position of the society. By

comparing these figures in the Balance sheet on two different dates, the members will know the comparative position. Similarly, the society's comparative solvency position can be known by comparing its total assets with total outside liabilities at two different points of time.

- ?a) Current liabilities are those which must be met at \_\_\_\_\_ notice.
- b) Fixed liabilities of a co-operative society represent \_\_\_\_\_ loans from the financing banks.
- c) Current assets should be enough to \_\_\_\_\_ current liabilities.

#### 47. Limitations of Balance Sheet

Please note that the balance sheet of a society gives only incomplete picture of its affairs, since it is concerned mainly with factors which can be expressed in monetary terms. Even monetary values given in the Balance Sheet cannot be completely accurate. This may be particularly true of assets like unsold stocks. Value assigned to fixed assets may also be incorrect because allowance for depreciation might not have been calculated properly.

Moreover, the monetary value assigned to assets do not take into account the fluctuating real purchasing power of money on account of inflation or depression.

In case of loans outstanding, the real value of money in terms of purchasing power may vary at the time of repayment by borrowers as compared to its value when loans were advanced.

In view of the above, the Balance Sheet can not give correct picture about the profitability of the society nor about the true financial position. Hence it should not be accepted without question. It is, therefore, necessary that the basis of valuation of assets shown in the Balance Sheet are properly indicated. In case of preceding Balance Sheet, it should be seen by your Internal Audit Committee that the external auditors have certified that the Balance Sheet reveals true and fair picture of the society's position.

- ?a) The total outside liabilities are equal to \_\_\_\_\_ liabilities and \_\_\_\_\_ liabilities.
- b) A society should be considered solvent if it can meet total \_\_\_\_\_ liabilities out of its total \_\_\_\_\_.

#### 48. Assessing Profitability

In simple terms, profitability is the relationship between the profits made and the funds employed in business activities. Net profit or earned surplus is generally shown in the balance sheet. But it does not reveal how it has been earned and whether it is adequate and reasonable.

Your society's net profit is arrived at by deducting all expenses from the incomes from various sources. Incomes may comprise of interest earned on loans and advances and income from trading activities. The expenses may include interest on borrowings by your society, wages and salaries, and other overheads.

An important measure of profitability is the ratio of return on total investment. Return on total investments indicates the relation between profit and total fund employed. The formula is as under:

$$\frac{\text{RETURN} \times 100}{\text{TOTAL INVESTMENT}}$$

Your Internal Audit Committee would do well, if they analyse the Trading and Profit & Loss Account of your co-operative society every year. The results of such an analysis is of great importance to members, financing bank and the government concerned. Members are interested in getting economical and efficient service from their society and also some return on the share capital subscribed

by them by way of dividend or interest. The creditors and the financing bank are also interested in the profitability of the enterprise besides its solvency. If the society's earnings are rising, they can be sure of repayments of their dues. A declining trend in profitability may cause alarm among them and further finances may be choked.

You should be bear in mind that a simple analysis of the year's Profit & Loss Account will not be of much help. It is necessary that P & L accounts for a few successive years are analyzed to determine and study the trends in gross and net sales, cost of goods sold, gross margin, operating and non-operating income and the final net profit. This is in relation to trading activities of the society. Similar exercise should be undertaken to compute the cost and return in respect of every important business activity. The other important activity of your co-operative is borrowing from Cooperative/ Commercial banks and lending to members. Here again, your IAC should calculate the average cost of borrowings by the society from various sources and the average return on lending to members. This will help in ascertaining the margin in the loan operations which must be maintained at a profitable level so that the society is left with adequate surplus to meet its running expenses and also leave a balance for giving dividends to members and creating various reserves as per the Rules and by-laws.

Thus you will see that Trend analysis of costs and returns in respect of various services rendered by your Society will help in locating the factors which may be responsible for rising costs and declining incomes. If these are known in time, the management can be advised to keep a check on costs and increase the variety and volume of profitable activities to maximize its earnings.

It may be helpful if certain norms or standards are fixed for various expenses and through variance analysis, causes of variations are studied on a continuous basis and remedial measures are taken to keep them under check.

? Check (✓) your answer in yes or no.

	Yes	No.
i) Does the Balance Sheet give complete picture of a society's affairs?	<input type="checkbox"/>	<input type="checkbox"/>
ii) Can Balance Sheet give correct picture about the profitability of a co-operative society?	<input type="checkbox"/>	<input type="checkbox"/>

**49. Verification of Assets and Liabilities**

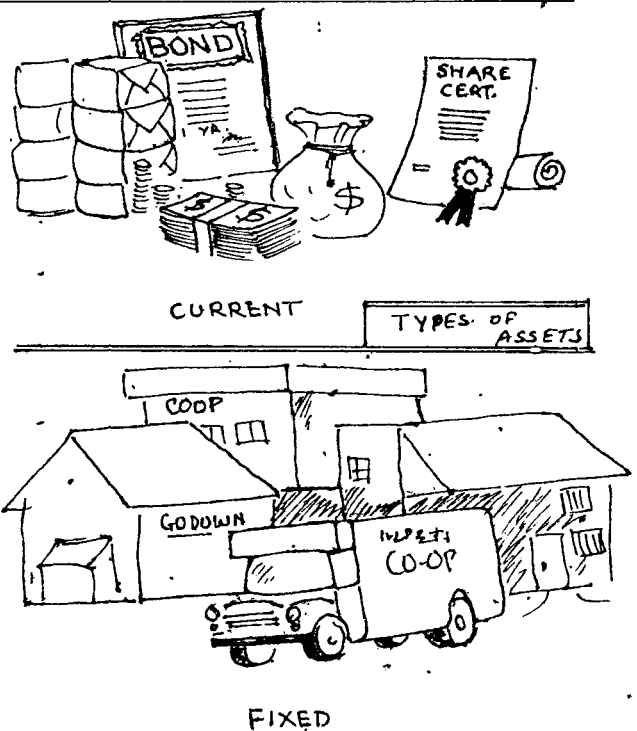
**Assets**

Balance Sheet of a co-operative society, like any other enterprise, should reveal true and fair picture of its financial position at a particular point of time. But how to vouch safe for this statement. To ensure that it does reveal true picture, the following facts must be found out:

- i. That the assets listed in the Balance Sheet do exist;
- ii. That the Society has physical and legal possession;
- iii. That the net value shown against the assets is correct; and
- iv. That the presentation of the assets in the Balance Sheet is correctly done.

**Fixed Assets**

While verifying the fixed assets, the Internal Audit Committee must confirm the following aspects with regard to every asset:



- i. Actual/physical existence,
- ii. Actual cost,
- iii. Legal and physical ownership,
- iv. Completeness of assets shown.
- v. Correctness of value shown,
- vi. Proper presentation in the Balance Sheet.

The physical existence of land and buildings, plant and machinery, transport vehicles, etc. can be verified by actual inspection with reference to concerned records/ documents.

The cost could be verified by referring to previous audit reports, the account records, the quotations, tenders and invoice/bills and other related documents received from suppliers and insurance company and the resolution of the board/managing committee approving the purchases of the respective assets. Ownership can be verified and confirmed by referring to Title Deed and documents and insurance policy relating to purchase and insurance, etc.

Value can be checked by referring to cost and the estimated useful life of the assets. Some times, the Registrar or Chief Auditor of Co-operatives might prescribe the percentage for calculating depreciation. Accordingly, value should be arrived at by deducting appropriate depreciation from the cost. Completeness can be checked by referring to previous Balance Sheets appearing in Audit Reports, Assets Register and Minute Book resolutions regarding write off of old assets. Nature of activities of the society and assets required for operating them is also relevant for giving clues in this regard.

#### *Current Assets*

Stock-in-trade, comprising of saleable goods should be physically verified with reference to up-to-date stock register. It should be done with the help of staff to the extent of 100% by counting, weighing and measurement. Its valuation has to be done by following the principle 'cost or market price, whichever is less'. Condition of stock has also to be taken into account and mentioned in the report, so that correct picture can be known. The quality of storage, safety and insurance are other relevant factors for the Committee to note in this regard.

#### *Cash*

Verification of cash balance with reference to Cash Book has to be done on daily basis. This must be done by actual counting. After verification, the cash balance found should be written on the Cash Book along with details of denomination. The audit party should sign the same as having verified.

#### *Bank Balance*

The balance as per the Cash Book should be verified with the reconciliation statement furnished by the society's banker. It should also be checked with the Bank Pass book or the Post office Savings Pass book. If necessary, confirmation of the balance can be obtained direct from the bank or the Post office.

#### *Investments*

The following action should be taken to verify investments:

- i. See constitutional sanction,
- ii. Vouchers obtained and other documents of titles,
- iii. Fixed Deposit receipts,
- iv. Share Certificates,
- v. Government securities.

Apart from examination and physical checking of vouchers and documents, the Committee can obtain confirmation from the institutions with whom funds of the society have been invested.

#### *Loans to Members*

You will agree that verification of loans to members of a society is of utmost importance. In case of credit societies, this is by far the largest investment and major source of income. Hence this requires utmost attention of the Committee.

As there is seasonality in loan operations, the Committee should undertake verification of loan outstanding against members at appropriate intervals.

Before proceeding with the work of verification, a list of loan outstanding against members should be got prepared on the basis of the loan ledger or loans register. In case General Body can be held, the list should be read out and got confirmed by means of a resolution. If not possible, the Committee should meet every borrower appearing in the list and get his or her confirmation of the amount by means of signature or thumb impression against his name. The verified list should be enclosed with the Committee's report.

In case Pass books are issued to members for recording all transactions with the society, the entries therein should be checked and dues against the members should be compared with the list of outstanding.

The second aspect of loan verification is the security. The Committee should also ensure that the securities obtained from members are adequate to safeguard the interests of the society.

#### *Furniture & Fixtures*

The list of furniture and fixtures obtained should be compared with the relevant Register. Thereafter these should be physically verified as to its correctness and conditions of their existence. A comparison with the earlier list may also be helpful.

*?Fill up the gaps:*

- a) Profitability is the relationship between the \_\_\_\_\_ made and the \_\_\_\_\_ employed in business activities.
- b) An important measure of profitability is the \_\_\_\_\_ of return on total investment.
- c) Trend analysis of \_\_\_\_\_ and a \_\_\_\_\_ in respect of various services rendered by the society will help in locating \_\_\_\_\_ which may be responsible for rising costs and declining incomes.
- d) What aspects the Internal Audit Committee should confirm, while verifying fixed assets of a co-operative society?
  - i)
  - ii)
  - iii)
  - iv)
  - v)
  - vi)
- e) Fill up the gaps:
  - i) Physical existence of fixed assets can be verified by actual \_\_\_\_\_.
  - ii) Ownership of land and buildings can be verified and confirmed by referring to \_\_\_\_\_ and \_\_\_\_\_.
  - iii) The bank balance as per the cash book should be verified with the \_\_\_\_\_ statement furnished by the society's bankers.
- f) What steps the Committee should take to verify the loan outstanding against members?
  - i)
  - ii)
  - iii)
  - iv)
  - v)

## 50. Verification of liabilities

The following are the important liabilities of primary co-operatives:

- i. Share capital,
- ii. Trade Creditors,
- iii. Loans from the bank,
- iv. Deposits from members,
- v. Outstanding Liabilities.

### *Share Capital*

Share capital subscribed by members should be verified from Application for Admission, Resolutions of the Board/Managing Committee, Members' Register, Share Register, Share Certificate counter foils, Cash book entries and Share capital account in the General ledger. In case pass books are issued to members, the same can be verified from there. It would be desirable to obtain confirmation personally from members on random sample basis.

### *Trade Creditors*

As you know trade creditors represent the amounts due to suppliers from whom the society receives supplies of consumer goods, implements, seeds, pesticides, fertilizers, etc. on credit for resale to members and others.

In order to verify this, the Committee would require a list of creditors, individual creditors' ledger account, and the suppliers' statements.

The Committee should also check the original invoices received from suppliers and the proof of payments made to them, so as to ascertain the outstanding. This can be compared with the individual suppliers' account in the Ledger. The differences revealed between the suppliers' statements and the record of the society should be reconciled.

It is also necessary to obtain confirmation of dues from individual suppliers or creditors.

### *Sundry Creditors*

Sundry creditors might arise out of outstanding dues, such as salaries, wages and other expenses which have fallen due but not cleared by the society. These can be verified from the relevant documents, such as outstanding bills and claims, salary and wages register, etc. Normally, they should find place in the journal. But in case the society does not keep a journal, then the list of all such outstanding claims should be called for from the staff concerned and these could be verified from the claimants. This could help in determining whether the claims actually exist, that the amounts shown in the list are correct and that they had not been paid earlier.

It should be ensured that no liability is kept out of the Balance Sheet and that they are presented properly and amounts shown are correct.

### *Loans from Central Co-operative Bank (Financing bank).*

The amount of borrowings, drawals, and outstanding can be verified from the Loan sanction order received from the Bank, entry in the Cash book about drawals and repayments, their postings in the ledger and the bank pass book. These should be cross checked with the figures furnished by the Bank in the Statement furnished to the society. If necessary, the amount of loan outstanding can be got confirmed by the bank in writing.

### *Deposits from members*

The amount of deposits received from members can be verified by referring to cash book, individual member account in the Ledger and pass book issued to members. In case of fixed deposits, the same can be verified with the counter foil of Fixed Deposit Receipts (FDR) issued to members. Reference to cash book, F.D. Register and General Ledger may also help. If necessary, the original FDR issued to members can also be called for.



? Fill up the caps:

- a) Members' share capital should be verified from \_\_\_\_\_ for admission \_\_\_\_\_ of the Board/Managing Committee \_\_\_\_\_ Register, \_\_\_\_\_ Account in the ledger.
- b) In order to verify trade creditors, the Committee would require \_\_\_\_\_ of creditors, individual \_\_\_\_\_ ledger account and the suppliers \_\_\_\_\_.
- c) The amount of borrowings from CC Bank draws, and outstanding can be verified from \_\_\_\_\_ received from the Bank entry into \_\_\_\_\_ book, and postings in the \_\_\_\_\_ and the bank \_\_\_\_\_ book.

## 51. Detection and Prevention of Errors and Fraud

An error is a mistake in the accounts caused without any intention. A deliberate manipulation of records and accounts with an intention to have some financial gain amounts to fraud.

Errors in accounts of a Society might crop up in various ways. They may arise due to omissions of certain transactions while writing the books of accounts. If an item of credit purchase of fertilizer is not entered in the subsidiary book concerned, the Trial Balance will not be affected. Hence such errors might be difficult of detection.

However, such errors can be detected by comparing the original documents, such as receipts, invoices, cash memos, voucher and bills, etc. by examining the statements of accounts and confirmation received from the parties concerned. Errors of commission might arise due to wrong entry of transactions in the books original entry, wrong posting, wrong casting, and wrong carry forward.

These errors can be detected by routine checking of postings, calculations and castings.

Errors of principle arise due to violation of accepted principles of accounting while recording financial transactions in the books of accounts. Following are few examples of such errors:

- i. A revenue item treated as a capital item,
- ii. Wages paid to labourers debited to Trading Expenses;
- iii. Incorrect allocation of expenditure between revenue and capital,
- iv. Inadequate provisions for depreciation and bad debts, etc.

It is not easy to detect such errors. A thorough search and investigation is called for. Compensatory errors may arise when one error or a series of errors get counterbalanced by another error or a series of errors. Such errors do not affect the agreement of Trial Balance.

Compensating errors can be detected by careful verification of postings, castings and carry forwards and by intelligent investigation of ledger accounts.

## 52. Detection of Frauds

Frauds are results of deliberate manipulation of accounts and record with an intent to misappropriation or defalcation of cash or goods. Such fraud may take place even in co-operatives. Hence the Internal Audit Committee should be well conversant with the nature and cause of frauds.

### Misappropriation of Cash or Goods

Such frauds are committed by contriving to conceal the misappropriation by including fictitious payments and by omitting receipts. In order to detect fictitious payments, the Audit Committee should undertake careful examination of vouchers, salary bills, bills for other payments and other original documentary evidences in support of payments. For detecting frauds through omission of receipts, the committee should check the



debit side of Cash Book with original documentary evidence, such as cash scrolls or diaries and counter foils of receipts issued, etc. If cash received from borrowers is misappropriated, it can be detected by checking the counter foils of receipt book, loan ledger and personal verification from borrowers and statements of confirmation from debtors.

It is very difficult to detect misappropriation of goods. However, if movement of goods both inward and outward are systematically regulated and stock and issue registers are kept up-to-date, it may be possible to detect fraud in respect of goods through periodical and surprise physical verification of stock. Proper storage, adequate security and insurance covers may also help in this regard.

? Fill up the gaps:

- a) An error is a mistake in the accounts, without any \_\_\_\_\_ while a fraud is a \_\_\_\_\_ of records and accounts with an intention to secure some financial gains.
- b) How errors can be checked?
- i)
  - ii)
  - iii)

### 53. Prevention of Fraud

'Prevention is better than cure' is an old adage. It is equally applicable to fraud and errors. A regular system of internal audit and internal check do exert moral influence and create fear in the minds of those susceptible to committing errors and frauds. The accounts staff also becomes more vigilant and cautious and try to keep the records up-to-date and free from errors.

? Fill up the gaps:

- a) If cash received from borrowers is misappropriated, it can be detected by checking \_\_\_\_\_ of receipt books \_\_\_\_\_ ledger, and personal \_\_\_\_\_ from members.
- b) It may be possible to detect fraud in respect of goods through periodical and surprise \_\_\_\_\_ of stocks.

### 54. Internal Checks

The following are some important tips in this regard:

#### Receipts

- i. The person handling cash should have no access to books of original entry and ledger accounts.
- ii. Cash should be kept in safe custody, preferably under double lock system.
- iii. Cash should not be kept in excess of the maximum prescribed.
- iv. Proper custody and accounts in respect of receipt books and cash memos should be kept.
- v. Daily Dak, Registered letters, insured covers, money orders, V.P.P., cheques, postal orders, etc. should be received and opened in the presence of a responsible person and these should be noted in a special register, before being passed on to staff concerned.
- vi. Entries of remittances of cheques and cash should be made by one person and they should be paid into the bank by another person.
- vii. All receipts should be banked daily.
- viii. Receipts prepared by the Cashier should be countersigned by another.

- ix. Cash book balance should be reconciled with Bank Pass book at frequent intervals.
- x. Proper and efficient check should be exercised on daily cash sales.
- xi. Sales of empties and sales proceeds should be effectively controlled.

#### *Payments*

- i. Inward invoices and bills should be checked with reference to tenders/quotations approved and orders placed.
- ii. All payments except petty ones should be made by crossed cheques.
- iii. Despatch of cheques should be under the control of a responsible person.
- iv. Cheques for payments should be signed at least by two persons authorized by the board/managing committee.
- v. Receipts received from payee should be checked for their genuineness by a responsible person and filed properly.
- vi. Statement received from suppliers/creditors should be reconciled with concerned ledger accounts.
- vii. An effective control should be exercised on payment of daily wages and contingent expenses.

*? How internal audit and internal check can prevent fraud?*

*What steps should be taken to exercise internal checks in a primary co-operative?*

- i)
- ii)
- iii)
- iv)
- v)
- vi)
- vii)
- viii)

### **55. Internal Audit Report to Management**

As members of Internal Audit Committee you have finished the job of checking the various books of accounts, records and financial statements. Do you think your job is over? No, the exercise undertaken in the course of your internal audit is not an end in itself. Your findings are of great importance to the management of the society, its members, its creditors, the financing bank, the government and others concerned. Hence the necessity for preparing a clear, comprehensive and concise internal audit report for submission to the Managing Committee or Board of Directors.

But then what your internal audit report should contain? Should it contain only the defects/mistakes you have found out in the books of accounts, merely the arithmetical accuracy of the financial statements and failures to observe certain rules and regulations and such other matters of routine nature? But such narration may not be of much use to the management in rectifying the mistakes made in decision making. It may not also help in improving its operational efficiency nor in measuring the success of the society in achieving its main objectives. Then what should be the approach in drafting your report?

As you know, the members/shareholders who are also the main users of the society's services, are interested in knowing about the safety of their funds invested in the society. They would also like to know if their society is solvent and that it earns sufficient profits, so as to declare some dividend to them besides meeting all its financial obligations.

The creditors of the society would like to know if their money is safe and that the society earns enough profits to boost up its repaying capacity.

The government may like to know that the affairs of the society are being managed in accordance with the Act, Rules and Bye-laws and in the interest of its shareholders and the public at large.

Thus the audit report should reveal not only the defects in accounting and arithmetical accuracy, but it should also throw sufficient light on the managerial efficiency of the society, reflected in business results.

In some places it has been found that elaborate questionnaires or proformae are prescribed in which audit reports are presented to the management. But it has its own disadvantages, since you cannot go beyond the proformae and certain important facts noticed during the internal audit may not find place in the report. Hence a rigid format is out of question. Still, however, some guidelines can be followed while drafting the internal audit report.

The audit report as indicated above must be clear, comprehensive and concise. It should be clear in the sense that the points made in it are easily grasped and understood without any ambiguity. It should be comprehensive in the sense that all important aspects are covered.

It should be concise in the sense that it does not become boring to go through it.

As members of Internal Audit Committee, you may consider to present your report in four parts as under:

- i. Statutory information;
- ii. Narrative portions;
- iii. Defect sheets; and
- iv. Financial statements with schedules.

All along, it should be borne in mind that the report gives a true picture of the affairs of your society. In fact, it should be a frank statement of the working of the society over the period covered, whether provisions of the law, rules, bye-laws have been violated by the society, whether accounts have been up-to-date and maintained satisfactorily. While doing so, the following guide lines may be kept in view:

*i) Management*

Constitution of Managing Committee/Board of Directors and other functional committees or sub-committees in accordance with Act, Rules and Bye-laws, meetings of the general body, managing committee and important sub-committees, relationship between the Board and Chief Executive, delegation of authority, management information system, expenditure on meetings, etc.

*ii) Membership and Share capital*

Maintenance of members/shareholders register, trend of enrolment of new members, completion of related formalities, share capital contributions in accordance with bye-laws, dues from members, defaulters, trend analysis of paid-up share capital over a few years, maintenance of share allotment register, issuance of share certificates, transfer of shares, custody of share certificates, etc.

*iii. System of Book-keeping and accounts*

Single or double-entry system, peculiarities if any, system of reconciliation of books of accounts, maintenance of principal and subsidiary books, maintenance of assets and liability registers and defects found.

*iv. Budget and Budgetary control*

Comparison of budgeted production and sales targets with actual results, analysis of efficiency in output and input cost, comparison of actual cost with pre-determined standard cost, factors responsible for variation (variance analysis); comparison of actual expenditure with budgeted expenditure, reasons for variation.

v. *Manufacturing & processing*

In case of manufacturing and processing activities, comparison of capacity utilisation against installed capacity, procurement, consumption and utilisation of raw materials, study of parity between consumption of raw materials and finished products, accounts in relation to rejections of products, costing and cost control, cost audit.

vi. *Analysis of Financial Statements*

a) *Trading, Profit & Loss Account*

Determination of selling prices, break-up of turnover, valuation of closing stock and work-in-progress, comparison of gross profits over a few years, methods of charging depreciation, creation of bad debt reserves, etc.

vii. *Balance Sheet Analysis*

Verification and valuation of assets and liabilities- current assets; fixed assets- current liabilities, fixed liabilities, inventory control, procurement and disposal of stores, shortages and leakages, fixation of responsibility.

Analysis of important financial and accounting ratios, liquidity test (current ratio), profitability test ratio, solvency test ratio, etc.

viii. *Management of Funds*

Working capital management - sources and uses of funds, Funds flow analysis - ratio of working capital to production/sales turnover, cash control, control of bank accounts, reconciliation, frauds, embezzlement, analysis of loans and advances, recovery and adjustments.

ix. *Appropriation of profits*

Provisions in the Act, rules and bye-laws, determination of dividend, creation of statutory and other funds out of net profits.

x. *Casting, posting and balancing*

Verification of correctness of transactions in the books of original entry, verification of cash in hand, balancing of ledger and sub-ledger accounts.

xi. *Purchase Management*

Purchase policy and procedures - purchase authority and proper control, storage and stores control, wastage/leakages control, inventory turnover.

xii. *Imports & Exports*

Mechanism and control, criteria for pricing.

xiii. *Follow-up action on previous audit reports, rectification of defects pointed out, tax matters, sales-tax, income-tax, etc.*

xiv. *Staff matters.*

xv. *Enclosure of financial statements with the reports,*

## 56. Maintenance of Working papers/Work-sheets

You cannot prepare the internal audit report in a clear, comprehensive and systematic manner, unless you have kept proper notes of your findings and evidence collected in the course of your work.

In fact, before starting your work, you have to plan it meticulously and proceed along the charted lines and use work-sheets to record audit evidences, which are relevant, reliable and sufficient. Some of the important points on which notes can be made are as under:

1. The technical terms used in the business,
2. Accounting methods followed,
3. Important errors that are discovered,
4. Questions raised during the work,
5. Explanations and information received from staff,
6. The particulars of missing vouchers, invoices, etc.,
7. Matters that need reference from day-to-day,
8. Points which need discussion with authorities,
9. Points to be incorporated in audit report,
10. Important calculations and schedules,
11. Financial statements finalised,
12. Rough financial analysis.

The work-sheets from one internal audit to another should be properly maintained for future reference.

