

Co-operative Book-keeping



4 Industrial Co-operatives

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INTERNATIONAL CO-OPERATIVE ALLIANCE

This CEMAS' series on Co-operative Book-keeping comprises four manuals:

- 1 Marketing Co-operatives
- 2 Consumer Co-operatives
- 3 Savings and Credit Co-operatives
- 4 Industrial Co-operatives

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- a production unit, producing prototype materials, manuals and reference booklets
- an ideas bank for the use of all co-operative educators and trainers

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Co-operative Education Materials Advisory Service



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Foreword

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

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

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

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

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

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

ACKNOWLEDGEMENTS

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

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

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

NOTE FOR TEACHERS

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

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

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

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1 Introduction

1.1 The industrial co-operative book-keeping system

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

1.2 Objectives of industrial co-operatives

Workers combine together as members of their industrial co-operative to obtain the following advantages:

- (a) The members want regular work and a regular income.
- (b) Their co-operative has more opportunities of obtaining loans and development funds than the members have as individuals.
- (c) The members can obtain the use of better tools, machines and equipment.
- (d) Raw materials can be obtained in bulk at better prices.
- (e) Skills in production can be better developed and products be improved.
- (f) Better marketing of finished goods can be achieved.

In summary, the objectives of an industrial co-operative are to enable the workers to use better methods of production, to buy the most suitable raw materials at the best prices and to obtain a reasonable price for their finished goods.

1.3 Problems with industrial co-operatives

In many ways the industrial co-operatives are the most difficult to operate and control. Some of the reasons for this are:

- (a) Co-operatives aim to be self-financing, but the funds required for the fixed assets, including land, buildings, machinery and equipment and for the working capital to buy raw materials, are not usually available from members.
- (b) The quality control of the products is difficult to operate. Members are reluctant to refuse to accept unsatisfactory work of other members.
- (c) Suitable managers and managerial experience and skills are not always available from within the membership.
- (d) Payments to members for products completed are not always related to products sold. The delay between the completion of a product and the sale of that product causes further strains on the limited funds available.
- (e) A complex system of financial book-keeping is required, together with a system of costing and cost control.

1.4 The industrial co-operative exemplified here

The industrial co-operatives are concerned with producing finished goods from raw materials. The members contribute their skills to this process. Industrial co-operatives can be of many types. The book-keeping system described in this manual refers to an industrial co-operative with about 50 members. They are engaged in the production of standardised products, which are made in the factory operated by the society. The society sells to the consumers through a small shop, which it operates in the market area at the end of the factory. Most of the products, however, are sold on a wholesale basis to marketing organisations.

The society has taken a loan from the development bank operating in the area. There is a manager and a book-keeper. They are not craftsmen, but they are members of the society and were appointed to these positions by the committee of the society. The society owns no vehicles and uses local transporters when required. Production is undertaken as efficiently as possible to cover at least the costs and to provide for reserves to build up the funds and stability of the society. When there is any remaining net surplus, distributions are made to the members in the form of a limited interest on their shares and a bonus on their contribution to this surplus as represented by their earnings.

1.5 The book-keeper's job

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

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

1.6 Importance of book-keeping

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

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

All societies therefore need books of account, so that they can provide the members, the committee and the manager with the information they need. In most countries there are laws which require co-operatives to keep proper books of account. This underlines the importance of an efficient book-keeping system. The system described in this manual will meet the needs of members, committees, managers and the main requirements of most co-operative laws.

2 Book-keeping system

2.1 Double entry system

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

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

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

In this system details of the money, or money value of the benefit transferred, are recorded twice into the accounts of the society. The account which imparts or provides, is credited (CR) and the account which receives is debited (DR). For every credit entry there must be a corresponding debit entry and vice versa, for every debit entry there must be a corresponding credit entry. When there has been corresponding postings made into the books of account they will balance. *The debits will equal the credits.*

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

2.2 Trial balances

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

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

1 Working ledger trial balance

The working ledger (Example 1) contains the debit and credit entries for all financial transactions. These entries are made as they arise into the records of original entry, then at the end of every week they are posted into the working ledger. The working ledger is balanced every week. This is checked by the preparation of a trial balance of all the *debit and credit totals of entries* to be made from the working ledger into the main ledger. See trial balance in Example 1 (page 7).

2 Main ledger trial balance

The main ledger (Example 2) contains the balances on the various accounts of the society. After the debit and credit entries have been made from the working ledger, the new balances on these accounts in the main ledger are ascertained. Then a trial balance of *all the debit and credit balances* in the main ledger will be prepared to check that the main ledger balances. See Example 17 (page 31).

2.3 Records of original entries

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

- (a) receipt books
- (b) invoices
- (c) cheque-books, bank paying-in books and the bank statements for bank charges
- (d) cash sales receipts
- (e) materials records
- (f) labour records
- (g) other expenses records
- (h) finished goods records.

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

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

2.4 Working ledger: Example 1

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

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

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

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

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

2.8 Debtors' ledger (accounts receivable): Example 5

Debtors are customers of the society who owe money to the society. The society should try to obtain immediate cash for sales of finished goods. The balances due from debtors will then be kept as low as possible. The debtors' ledger contains separate pages for each customer who is given credit by the society.

Example 5

DEBTORS' LEDGER					
Name of customer:			Account no:		
Address:			Credit terms:		
Date 1975	Detail	Ref no	DR	CR	Balance
Jan 1	Balance	b/f			DR 1020
Dec 31	from receipts & invoices	52	95000	94000	DR 2020

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

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

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

2.9 Other books and records

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

2.10 Annual budget

This manual explains a system of book-keeping. The opportunity is taken to emphasise that this is only a part of the financial control system of a society. The overall financial control stems from the preparation and use of the budget.

The *annual budget* is the forecast of what the committee hopes to achieve from its management of the society. It is prepared in two parts before the financial year begins. The first part is the *operating budget*. This contains the estimates of the income and expenditure for the coming year. The second part is called the *cash budget*. This part shows the estimated flow-in and flow-out of funds.

The funds available will finance the operations estimated in the operating budget. During the financial year the actual results being obtained will be measured against the forecasted results. The variances will be investigated and appropriate managerial action will be taken to correct any faults revealed.

2.11 Other book-keeping terms

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

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

- (g) *Liabilities and assets*
Liabilities show what the society *owes*. They include members' shares and deposits, reserve funds, surplus not distributed, and balances owed to creditors. They represent the source of the funds being used by the society.
Assets show what the society *owns*. They include land, buildings, fixtures, equipment, stocks, investments, cash and balances owed by debtors. They indicate the uses being made of the funds of the society.
Fixed assets are held permanently to be used to earn income and include land, buildings, fixtures and equipment.
- (h) *Auditors*
The *auditor* is a skilled accountant whose responsibility it is to check and verify the accounts of the society at the end of the financial year and at any other time as the registrar of co-operatives may consider necessary. The auditor is independent of the society and reports to the registrar and the members.
Internal auditors are elected under some by-laws by the members at their annual general meeting. They are elected to conduct regular checks for the members on the books, assets and activities of their society.

3 The working ledger

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

3.1 Cash account

(a) Receipts

A receipt containing the details shown in Example 6 must be issued for all cash received.

Example 6

CASH RECEIPT	
	Number:15.....
RECEIVED FROM:F. Mayo.....	
.....One..... dollars andten..... cents	\$ 1.10.....
IN PAYMENT OF:Share contribution A/c no 19.....	
DATE:1.4.75..... FOR:Anywhere..... Co-operative Society Ltd	
SIGNED:S. Shan..... Cashier	
(New balance in pass book \$12.51)	Posted to working ledger page no16.....

All cash received is posted into the working ledger as follows:

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

(b) Payments

A receipt must be obtained or a voucher be made out in support of all cash paid out. This must contain similar details as shown in Example 6 and is signed by the person receiving the cash. The by-laws should provide that all disbursements in excess of say \$5 should be paid by cheque.

All cash paid out, including cash paid into the bank, is posted into the working ledger as follows:

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

(c) Cash-in-hand

One person should be responsible for receiving and paying cash. This should not be the book-keeper. A cash float should be kept to give change and from which payments can be made. The cash-in-hand should be checked from time to time by the committee and the internal auditors. The auditor appointed by the registrar of co-operatives will also check this on his visits to the society. Apart from the cash float, or other cash held to make known payments, all cash should be banked as soon after receipt as possible.

3.2 Bank account

A current account should be opened at the nearest bank. The bank will issue a *paying-in book* and a *cheque book* after they have received a copy of the resolution of the committee to open the account. The committee will also inform the bank of the officers who are authorised to sign cheques on behalf of the society. The bank will require specimen signatures from these officers. The person appointed to handle the cash of the society will make the deposits to this current account at the bank. All cheques and postal orders received are treated as cash. Generally cheques bearing a future date (post-dated) should not be accepted.

(a) *Bank deposits*

Entries to be made into the working ledger are:

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

(b) *Bank payments*

The book-keeper will present the bills to be paid with the cheque-book to the manager. The manager should make out the cheques. The officers of the society authorised to sign the cheques should only do so after they have compared the cheques with the bills for payment. The cheques are then sent off to the creditors concerned. The working ledger is then posted:

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

(c) *Bank statements and reconciliation statement*

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

- 1 The balance to begin on the statement is checked to ensure that it is the same amount as shown on the previous statement as the balance to end.
- 2 The cheque entries on the statement are ticked (✓) to ensure that all cheques posted on the statement have been enclosed.
- 3 Items remaining as withdrawals on the bank statement, if any, are for such items as commission and interest as will be seen by checking the prefix number of the posting with the number code shown at the bottom of the statement.
- 4 These *bank charges* are added and the total is posted to the working ledger as follows:
Date posted to working ledger
Detail bank statement – charges
Ref no number of bank statement
CR *bank* – bank charges
DR *other expenses* – bank charges
- 5 When this entry and all entries in the working ledger have been posted to the main ledger, the last balance on the bank statement has to be reconciled with the last balance shown on the bank account in the main ledger.
- 6 Cheques are sorted into their numerical order and ticked against the entries which were made in the working ledger when the cheques were drawn.
- 7 Deposits as shown on the statement are ticked against the entries which were made in the working ledger when the deposit was made.
- 8 The bank columns of *DR* – deposits, and *CR* – payments, now show ticked entries, indicating that they have been posted by the bank to the statement.

9 The reconciliation is then prepared as follows:

	\$
Balance in bank on bank statement	
ADD: deposits in transit (deposit entries in the working ledger not ticked (✓) as having been shown on the bank statement)	
Total	\$
LESS: cheques not presented (cheque entries in the working ledger not ticked (✓) as having been shown on the bank statement)	
TOTAL – being balance in bank account in the main ledger	\$

10 Where an overdraft (normally in red print) is shown as the balance on the statement – cheques not presented are added and deposits in transit are deducted, to produce the balance on the bank account in the main ledger.

11 Overdrafts arise when cheques have been paid from the account with the bank in excess of the funds held in the account. The bank has then in reality made a loan to the society. Overdrafts should first be arranged with the bank manager. They should only be used for short periods, since the rate of interest charged by the bank for an overdraft is very high.

3.3 Materials account

(a) *Purchase*

Materials should be ordered using a *materials order form* prepared in duplicate. The top copy of the order will be sent to the supplier after being signed by the manager of the society.

When the materials are received, the manager will check them as to quality, quantity and price against the bottom copy of the order, and the delivery note sent with the materials by the supplier. Immediately the materials have been accepted their details will be entered into the *materials received book* shown in Example 7, and into the *materials stock control record* shown in Example 8. A separate card is kept in this record for each of the different materials used in production.

Example 7

MATERIALS RECEIVED BOOK								Page no: 6	
Date received	Supplier	Description of materials	Quantity units	Unit price	Total cost	Delivery note no	Stock control page no	Invoice no	
1975									
Dec 31	Creditors (names)	from invoices	26500	2	53000	268	9	197	
" "	" "	" "	5000	2	10000	316	9		

Example 8

MATERIALS STOCK CONTROL RECORD								
Description of material:						Material no ⁹		
Unit:								
Unit cost price: ²								
Date	Materials received book page no	Production card no	Stock to begin b/f	+ Received	- Issued	Stock to end c/f	Physical stock checked	
1975							on: date	by: signature
Jan 1			530					
Dec 31	6			26500		27030		
" 31	6			5000		32030		
" 31		8			25000	7030		
" 31		Final A/cs			30	7000	Dec 31 st	UStun

Details are recorded in units, e.g. unit for nails could be kilograms or pounds weight, unit for cloth could be metres or yards. The cost price, which includes any delivery costs and similar expenses, for each unit is shown. This is obtained from the invoice. Unit prices should be changed when there are any price changes shown on the invoices as new materials are purchased and the old stock is used. Material should be charged to production at cost price, which includes any delivery costs and similar expenses in getting the materials to the society.

When the invoice for the materials is received it will be checked and when accepted it will be signed by the manager. The invoice will be numbered by the book-keeper and details of this number entered against the entry for the materials made in the materials received book.

The working ledger would be posted from the invoice to show:

- Date of invoice
- Detail name of supplier
- Ref no invoice number
- DR materials – with total of charge
- CR creditors – with total of charge

The details of the invoice would also be entered into the account for the supplier kept in the creditors' ledger shown in Example 4. The invoice would then be filed in number order ready for audit.

(b) *Issue of materials*

For all work to be undertaken, the manager issues a *production card* as shown in Example 9.

Example 9

PRODUCTION CARD					
Product number:17.....		Description:		Card number:....8....	
Number of units: ..8900.....		Started: date/time			
		completed: date/time			
	Ref no	Number of units	Unit cost \$	Cost \$	Total cost \$
Materials: Descriptions	9	25000	2	50000	
TOTAL materials					50000
Labour: Names	16	8900	3.37	30000	
TOTAL labour					30000
TOTAL materials and labour					80000
ADD: Direct expenses					1000
Other expenses at oncost rate 10% of (\$80000)					8000
TOTAL cost					89000
Unit cost 10					
Products accepted: Signed: Manager					
Posted to finished goods control page no. 17...					

The products are standardised as shown on their *specification card* in Example 10, and are produced in batches. The type and number of units of material have been ascertained for each unit of production. The materials required for each batch are then calculated as follows: *material required for 1 unit of production x number of units of production in the batch.*

Example 10

SPECIFICATION CARD			
Production item:	No:		
Description:			
Length	_____		
Width	_____		
Diameter	_____		
Height	_____		
Surface	_____		
Weight	_____		
Colour	_____		
Pattern	_____		
Other details	_____		
Costs for 1 unit:			
Materials: No	Type	Quantity	Price
Labour:	Type	Rate	_____
		TOTAL	_____
Direct expenses:	Type	Price	_____
Other expenses: Oncost at	%		_____
	TOTAL COST		_____
ADD mark-up at	%		_____
	SELLING PRICE		=====
Average production time – hours	_____		

The materials issued to production are entered on the production card and in their materials stock control card. Entries are made into the working ledger as follows:

- Date materials issued to production
- Detail production description
- Ref no production card number
- DR *production account* – with value of materials
- CR *materials account* – with value of materials

(c) *Control of materials*

One member should be responsible, under the manager, for the control of the stocks of materials. The manager, the internal auditors and the auditor should check the physical stock with the book stock as shown on the materials stock control cards. Any differences should be located.

Material is charged out at cost price. This may mean that where old and new stock of the same material are issued to the same batch, there will be more than one cost price. However, this system avoids the calculations involved by using the average price. Price changes in materials should also be shown on the specification cards concerned.

At the end of each financial period the materials in stock will also be valued at cost price on the stock sheets. Their total cost value should be agreed with the debit balance in the main ledger for materials. Any differences will be transferred to the production and trading account, as will be shown later in this manual.

3.4 Labour account

(a) *Calculation of earnings*

The manager and the book-keeper are paid a fixed wage. The other members are paid on a *piece-work basis* as far as possible. A fixed sum, set by the committee, is paid for each unit produced, job performed, or number of operations completed. These are shown on the specification cards. The labour payment made to the members will depend upon their

output, rather than the time they spend at work. Since this industrial society is producing standardised items, the earnings of labour for each item is known.

Example 11

MEMBER'S OUTPUT CARD							
Name:		Share number:					
Occupation:							
Date completed <i>1975</i>	Initials of manager	Production card no	Output			Posted Earnings Date	To record No
			No of units	Earnings per unit	Total earnings		
<i>Dec 31</i>	<i>AM</i>	<i>8</i>	<i>8900</i>	<i>3.37</i>	<i>30000</i>	<i>31 Dec</i>	<i>16</i>

Each member will be issued with a member's output card (Example 11). As their production is completed and the batch of finished goods is accepted by the manager, their output cards will be entered and initialled by the manager. At the end of every week the book-keeper will collect all the output cards and post the entries to the books and records.

He will then return the output cards to the members. The entries to be made by the book-keeper from the output cards will be as follows:

1 *Production card: Example 9*

The name of the members, their share numbers and their earnings will be posted to the production cards for the batches completed.

2 *Member's earnings record: Example 12*

The total of the earnings of each member is posted to his earnings record card.

Example 12

MEMBER'S EARNINGS RECORD							
Name: Occupation: Share no: ..16..							
Week ending date	Production card no	Earnings	Month ending date	Gross earnings	Less tax etc	Net cash	Signature of member
1							
2							
3							
4		_____1					
5							
6							
7							
8		_____2					
9							
10							
11							
12		_____3					
and so on							
49		5000					
50		10000					
51		8000					
52		7000	12	30000	3000	27000	
TOTAL earnings for year		<u>30000</u>					
Bonus at 10%		3000	Bonus:				
			Received in cash		Signature of member		
			OR				
			Transferred to Share account no				
			Deposit account no.				

3 Working ledger

The working ledger is posted from the production cards as follows:

Date week ending date

Detail production card details

Ref no production card number

DR production account – with total earnings

CR..... labour account – with total earnings

(b) Payment of earnings

The sooner raw materials are made into finished goods and sold, the sooner there will be funds from which the earnings of members can be paid. This society has a regular market for its products. It has obtained a loan to help provide the working capital for raw materials, payments to members and other costs. This loan bridges the time gap between undertaking production and receiving the proceeds for the finished goods. The members are aware that without this source of finance they would have to wait until the proceeds of the sale of their finished goods had been received before they were paid for their work.

At the end of every four weeks the members are paid. Their earnings for the four weeks, as shown on their earnings record, are totalled. This total is shown on their earnings record as their 'gross earnings'. From this any tax or other agreed deductions are made.

The net payment is made to the members by cheque or in cash. Where cash is paid the total required is drawn from the bank on one cheque. The total drawn is ascertained by adding the amounts shown as 'net cash' on all the members' earning records. Cheques are also drawn to pay over the tax and other deductions to the authorities. As the members are paid they sign their member's earnings record as a receipt.

The working ledger is posted from the cheque book stubs as follows:

Date of cheque
Detail labour payment
Ref no cheque number
DR *labour* – with amount of cheque for net cash and for tax deductions
CR *bank* – with amount of cheque for net cash and for tax deductions

3.5 Other expenses

(a) Charges

All other expenses, including the wages of the manager, the book-keeper and any other members whose earnings cannot be charged directly to production, are debited to this account. Office and selling expenses together with depreciation charges are included. Debit (DR) entries to the working ledger will be made for expenses from receipts, invoices, vouchers and cheque stubs. Other expenses will be debited and the corresponding credit entry will be made in the imparting account. The expenses will be charged to production.

(b) Direct expenses

Where an expense has been directly incurred by a particular batch of production, it can be directly charged to that batch.

The entries for this would be made on the production card for the batch and then from this card to the working ledger as follows:

Date of entry
Detail description of expense
Ref no production card number
DR *production account* – with amount of direct expense
CR *other expenses* – with amount of direct expense

(c) Indirect expenses

Generally, the expenses of the society are not directly incurred by any particular batch of production. Therefore, the expenses remaining after the direct expenses have been charged to production, have to be *apportioned* over production. This spreading of the indirect expenses over the products can be done by adding a predetermined percentage to the total costs of labour and materials directly charged to the units of output.

This percentage on cost will have been calculated when the annual budget was being prepared. It will be based on past experience, current trends and forecasted performance.

As batches of finished goods are completed their production cards will be posted with their part of the other expenses. The total cost of each batch as shown on each production card may be obtained as in the following example:

Total units of production	<u>170</u>		\$
Materials – direct charge			500
Labour – direct charge			<u>1000</u>
	Total		1500
+ Any direct expenses			50
+ Other expenses at 10%			<u>150</u>
	Total cost		<u><u>1700</u></u>

Total direct materials and labour were \$1500

Other expenses were charged to production at the *oncost* rate of 10% on this amount $\frac{1500 \times 10}{100} = \150

Since 170 units were produced, the average total cost of producing one unit is $\frac{\text{total cost}}{\text{number of units produced}} = \frac{1700}{170} = \10

Entries to be made in the working ledger for indirect expenses to be charged to production during the financial period will be made from the production cards as follows:

Date of completion of production
Detail production card details
Ref no production card number
DR *production account* – with amount of other expenses
CR *other expenses* – with amount of other expenses

(d) *Adjustments*

At the end of the financial year adjustments will be made for the charge (DR) for the depreciation of the fixed assets, for expenses used but not charged and for the credit (CR) for any expenses paid in advance. After these have been calculated the ledgers are posted with these adjustments.

Should the percentage oncost have been completely accurate there would then be no balance in the other expenses account. Since any forecasting is subject to error, there will usually be a balance remaining. Where the balance is a credit, the percentage oncost has been too high. Where the balance is a debit, the percentage oncost has not been enough. The balance is transferred to the production and trading account as will be shown later in this manual.

3.6 Production account

(a) *Specification card: Example 10 (page 19)*

Each product will be standardised as far as possible. Items to be produced will be determined by the committee, based on customer demands, for the products *must* sell. The selling prices must be competitive, so costs must be strictly controlled. There will be a specification card for each type of product. This will show the specification, cost and other details of each type of product. These will be followed in the production process.

(b) *Production card: Example 9 (page 19)*

Production is undertaken on the issue, by the manager, of a production card. This is the production order for a batch to be made. The costs of each batch will be recorded on these cards.

(c) *Book-keeping entries*

Entries to the columns in the working ledger for production will be made from the details on the production cards.

The *debit* (DR) entries in these columns will be:

DR for materials
 DR for labour
 DR for direct expenses
 DR for oncosts for other (indirect) expenses

The *credit* (CR) entries will be those, made from the completed production cards, of the total costs of products completed and transferred to finished goods. Any remaining DR-balances in the production account will be part of work-in-progress.

(d) *Work-in-progress*

As far as possible all work started by the issue of a production card should be completed before the closing of the books at the end of the financial period. When there is incomplete work-in-progress at the closing of books, it will be valued by the manager. The valuation will include the costs of any materials, labour and direct expenses already charged to the batch. Oncosts will not be included.

The production account will be credited (CR) with the value of work-in-progress at the end of the old financial year, and the debit entry (DR) will be carried down to begin the new financial year. The valuations will be shown as a note on the production cards concerned.

3.7 Finished goods account

(a) *Received from production*

As products are completed, they will be checked for quality by the manager. When accepted they are transferred into the stock of finished goods section of the shop at the end of the factory. A finished goods stock control record will be kept by the book-keeper. An example of this record is shown in Example 13.

Example 13

FINISHED GOODS STOCK CONTROL RECORD								
Product: description			Product group no:17.....					
Unit selling price:11.....			Unit cost price:10.....					
Date	Product card no	Invoice or cash sales receipt no	Stock to begin b/f	+ Received	- Sold	Stock to end c/f	Physical stock checked	
							Date	Signature
1975								
Jan 1			369					
Dec 31	8			8900		9269		
" 31		24			8745	524		
" 31		Cash sales			455	69		
" 31		Difference			9	60	Dec 31	A. Member

A separate record will be kept for each of the separate lines of product. The details of receipts of finished goods will be posted from the production card into the finished goods stock control record. Entries will also be made into the working ledger as follows:

- Date finished goods accepted
- Detail from the production card
- Ref no production card number
- DR finished goods account – with total costs of finished goods
- CR production account – with total costs of finished goods

(b) *Cash sales of finished goods*

The selling price of items of products will be their total cost price plus a mark-up agreed by the committee which is shown in the annual budget on the specification card. To assist in the control of the stock of finished goods a *product group number* is shown on the finished goods stock control record for each line of product. These numbers are recorded against the items sold for cash on the sales receipt issued for all cash sales (see Example 14).

Example 14

CASH SALES RECEIPT					
					Number:87.....
Sold to:H. J. Cook.....					
Description of goods	Product group no	Quantity	Selling price per unit		Total value
Wooden table	14	1	10	60	10 60
Chairs	19	4	2	00	8 00
					\$ 18 60
Cash received:Eighteen..... dollarssixty..... cents					
Date:8.9.75..... ForAnywhere..... CO-OPERATIVE SOCIETY LTD					
Signed:S. Pule.....					

(d) *Control of finished goods*

One member should be responsible, under the manager, for the control and sales of the stocks of finished goods. The manager, the internal auditors and the auditor should check the physical stocks with the book stocks as shown in the finished goods stock control record. Any differences should be located.

At the end of each financial period the finished goods in stock would be listed on stock sheets and valued at their total cost price. The number of units of each product line on these lists should agree with the units shown as in stock on the finished goods stock control records. Any differences would be investigated.

3.8 Fixed assets and depreciation

(a) *Purchase of fixed assets*

Fixed assets are acquired and held permanently for the purpose of earning income, and include land, buildings, fittings, fixtures, equipment and machinery.

From the invoice obtained when the items were purchased the following entries will be made into the working ledger:

- Date* of purchase
- Detail* supplier/fixed assets
- Ref no* invoice number
- DR* *fixed assets* – with cost
- CR* *creditor* – with cost

Details of all fixed assets are also entered into the fixed assets inventory and schedule of depreciation in Example 16. This inventory can be kept on a card system with a separate card for each fixed asset.

An inventory should also be kept of all tools purchased. These are usually for small amounts and their cost may have been charged to other expenses. A check should be kept on them, and their whereabouts always known to the manager.

(b) *Depreciation*

The charges made for depreciation in the accounts of the society are internal entries, representing the allocation of the cost of the fixed asset over its estimated working life. The years of useful working life will depend upon the type of asset and local conditions. As the charge for depreciation is made each financial year, these depreciation charges are aggregated year by year so that the book value of the fixed asset is correspondingly reduced, by the total charge for depreciation. The *equal instalment method of depreciation* is recommended here. This method spreads the cost of a fixed asset equally over its years of useful working life. The annual charge for depreciation will be calculated as follows:

$$\frac{\text{Cost of fixed asset}}{\text{Estimated years of useful working life}} = \text{Annual charge}$$

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

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

- Date* last day of financial year
- Detail* depreciation fixed assets
- Ref no* inventory page number
- DR* *other expenses* – with annual charge for depreciation from inventory
- CR* *depreciation provision* – with annual charge for depreciation from inventory

(c) *Insurance*

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

Example 16

FIXED ASSETS - INVENTORY AND SCHEDULE OF DEPRECIATION									
- financial period ended: 31.12.75									
Date purchased	Detail	COST			DEPRECIATION			Book value	
		b/f	+ Purchased this period	To date c/f	b/f	+ This period	To date c/f		
	<u>Buildings</u>								
	Land	500		500	10	25	35	465	
	Buildings	1500		1500	90	75	165	1335	
	TOTAL	2000		2000	100	100	200	1800	
	<u>Fixtures & fittings</u>								
	Shelves	500		500	100	100	200	300	
	Cash register	500		500	100	100	200	300	
	TOTAL	1000		1000	200	200	400	600	
	<u>Machinery & equipment</u>								
	Sewing machine		400	400		80	80	320	
	Machine 1	1000		1000	200	200	400	600	
	Machine 2	1000		1000	200	200	400	600	
	Equipment	2000		2000	300	400	700	1300	
	TOTAL	4000	400	4400	700	880	1580	2820	
	GRAND TOTAL FIXED ASSETS	7000	400	7400	1000	1180	2180	5220	
				agrees with balance sheet		agrees with production & trading A/c		agrees with balance sheet	

3.9 Shares and deposits

(a) Entrance fees

An *application for membership form* should be completed by applicants wishing to join the society. After acceptance into membership, the applicant pays an entrance fee to the society as may be required under the by-laws. A receipt for the fee is issued containing details similar to those in Example 6 (page 15).

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

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

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

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

(b) Share contributions

Contributions of at least the minimum share holding shown in the by-laws should be paid in by the member. Receipts as shown in Example 6 (page 15) are issued and the details will be posted to the working ledger as follows:

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

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

(c) Share withdrawals

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

(d) Share interest

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

(e) Bonus

Should there be any surplus at the end of the financial year, and a bonus be declared, it will be calculated in relation to the earnings of each member. The record of earnings for each member will be shown on the member's earnings record. These earnings will be add-listed for each member. The totals for each member will be add-listed to produce the total earnings for all the members. The wages of the manager, book-keeper and any other staff paid on a time basis will be included.

The amount of surplus available for distribution of the bonus will be divided by the total earnings and multiplied by 100 to produce the percentage rate of distribution. Individual members will receive their bonus, calculated as follows:

$$\frac{\text{Member's total earnings} \times \text{rate of bonus}}{100} = \text{a member's bonus}$$

Members should be encouraged to leave their bonus with their society, either in their share accounts or in their deposit accounts. Entries for bonus distributed will be made from the member's earnings record. The book-keeper will add-list the bonus paid by cash as shown on these cards. The total paid will be posted to the working ledger as a credit (CR) to cash and a debit (DR) to surplus. The bonus transferred to shares or deposit accounts will be separately listed and posted to the working ledger as a credit (CR) to shares or deposits and a debit (DR) to surplus.

(f) *Deposit accounts*

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

3.10 Creditors and debtors

(a) *Creditors*

Entries concerning creditors are made in the columns in the working ledger and then into the creditors' ledger.

When materials or services are obtained by the society on credit, the creditors' accounts are credited (CR). When the creditors are paid, their accounts are debited (DR). Should the society obtain a cash discount from the creditor, the entries to be made in the working ledger are:

debit (DR) creditors and credit (CR) other expenses.

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

(b) *Debtors*

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

3.11 Loans

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

When the loan was received the loan columns and account would have been credited (CR). When repayments are made the loan columns and account would be debited (DR). Interest charged on loans owed by the society will be posted as a credit (CR) to loans and a debit (DR) to other expenses.

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

3.12 Surplus

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

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

3.13 Reserve fund

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

3.14 Education fund

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

3.15 Balancing

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

4 The main ledger

4.1 Posting

The main ledger is kept as a control record of all the accounts of the society. It contains separate pages for each of the accounts for which columns are kept in the working ledger. An example of the accounts of the main ledger is shown in Example 2 (pages 8–11). The opening balances in the main ledger will be the assets and liabilities brought down from the previous financial year and shown in the last balance sheet of the society.

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

4.2 Trial balance

At the end of every four weeks a trial balance will be prepared from the balances in the main ledger. An example is shown in Example 17. This example shows the balances on each of the accounts in the main ledger. Where for example the total of share contributions is required to be known, all the relevant credit entries in the share account in the main ledger are added together. In a similar manner debit, or credit, entries on other accounts in the main ledger can be 'grossed-up' in this way.

The cash balance will be checked with the actual cash-in-hand. The bank balance will be checked with the bank statement. The share balance, the deposit balance, the debtors' balance and the creditors' balance shown on the trial balance will be checked with the totals of lists made from the individual accounts for these kept in the various ledgers. The actual results of the production and trading activities of the society will be ascertained using the information from the trial balance and they will be compared with the forecasted results shown in the budget.

Example 17

TRIAL BALANCE OF MAIN LEDGER AT 31.12.75			
Account	Ref no	DR	CR
Cash	1	140	
Bank	2	9500	
Materials	3	4060	
Labour	4		
Other expenses	5		750
Production	6		
Finished goods	7		7310
Fixed assets	8	7400	
Depreciation provision	9		1000
Shares	10		3480
Deposits	11		2800
Creditors	12		1000
Debtors	13	2020	
Loans	14		4750
Surplus	15		30
Reserve fund	16		1900
Education fund	17		100
TOTAL		23120	23120

4.3 Monthly report to committee from manager

The members are the owners of the co-operative society. At their annual general meeting they elect a committee who shall conduct the business and be responsible for the general direction and control of the affairs of the society. The committee appoints the manager to run the day-to-day business under their direction. The manager is required to submit his report to the committee at the end of every four weeks when the trial balance of the main ledger has been prepared by the book-keeper. An example of this report is shown in Example 18.

Example 18

MONTHLY REPORT OF MANAGER TO COMMITTEE					
4 weeks ended					
1 Membership					
Number to begin year _____					
ADD: New members this year _____					
				TOTAL _____	
LESS: Withdrawn this year _____					
Total present membership this year				_____	
To date last year				_____	
Increase or Decrease				No _____	
2 Share capital and deposits					
		Shares	Deposits		
		\$	\$		
Total balances to date _____					
To date last year _____					
Increase/decrease		\$	%	\$	%
3 Finished goods					
		This year	Last year	Increase	Decrease
		\$	\$	\$	\$
Sales this month				%	%
Sales to date				%	%
Stocks in hand		\$ _____ units			
4 Materials					
Stocks in hand		\$ _____ quantity			
5 Trial balance of main ledger attached					
6 Report on production matters – (including labour and materials)					
7 Report on selling matters – (including stocks of finished goods)					
8 Report on education and training –					
9 Report on action taken on committee instructions –					
Signed: Manager Date:					

5 Final accounts and balance sheet

The final accounts and the balance sheet are presented briefly below. They are dealt with in detail in the manual on Accounting.

5.1 Procedure and preparation

At the end of the financial year the final accounts and balance sheet shown in Example 19 (page 35) are prepared. The following is an outline of the procedure to be followed in this preparation:

- 1 Stocks of finished goods are listed and valued. These lists would be checked with the balances on the finished goods stock control records.
- 2 Stocks of raw materials are listed and valued. These lists would be checked with the balances on the materials stock control record.
- 3 Any materials received and not invoiced are listed and priced. Details of these items would be obtained from the materials received book.
- 4 To avoid, as far as possible, numerous adjustments with work-in-progress, production authorised by the issue of production cards should be completed. The members' earnings records would be posted up to date.
- 5 Any adjustments for expenses accrued or paid in advance should be listed:
 - (a) *Expenses accrued*

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

The full benefit of expenses that have been debited may not be received until the next financial period. In these cases credit adjustments are made to carry forward part of the debit charged, to the next financial period.
- 6 The charge for depreciation would be calculated and the inventory of fixed assets and schedule of depreciation would be completed and balanced off. The actual fixed assets would be checked against their inventory.
- 7 Tools would be checked against their inventory.
- 8 Deposit interest would be calculated and posted through the working ledger to the deposit ledger accounts.
- 9 Cash-in-hand would be checked and certified.
- 10 A bank statement would be obtained and a bank reconciliation statement would be prepared.
- 11 A statement of any loan would be obtained from the lender. Any interest due would be posted through the working ledger to the loan account as an adjustment.
- 12 Share, deposit, creditors' and debtors' balances in their ledgers would be add-listed and agreed with their control balances in the main ledger.
- 13 The trial balance of the main ledger would be prepared.
- 14 Adjustments would then be posted through the working ledger.
 - (a) *Materials received not invoiced*
 - DR Materials – to be included in production and trading a/c
 - CR Materials – to be included in balance sheet
 - (b) *Materials stock to end (at cost)*
 - CR Materials – to be included in production and trading a/c
 - DR Materials – to be included in balance sheet
 - (c) *Expenses accrued*
 - DR Other expenses – to be included in production and trading a/c
 - CR Other expenses – to be included in balance sheet

- (d) *Expenses prepaid*
 - CR Other expenses – to be included in production and trading a/c
 - DR Other expenses – to be included in balance sheet
 - (e) *Depreciation*
 - DR Other expenses – to be included in production and trading a/c
 - CR Depreciation provision – to be included in balance sheet
 - (f) *Finished goods stock to end (at cost of production)*
 - CR Finished goods – to be included in production and trading a/c
 - DR Finished goods – to be included in balance sheet
- 15 The income and expenditure accounts in the main ledger would be closed and their balances would be transferred to the production and trading account for the year.
 - 16 The surplus disposable account would be prepared.
 - 17 The balance sheet would be prepared from the balance of assets and liabilities remaining in the accounts in the main ledger.
 - 18 The audit would be completed.
 - 19 The annual return would be prepared and sent to the registrar.
 - 20 The annual general meeting would be held.
 - 21 Any surplus would be distributed as resolved by the annual general meeting.

Notes to Example 19:

- 1 *Sales* – total of cash and credit sales obtained by adding credit entries for year in main ledger account for finished goods.
- 2 *Costs charged to production* – details obtained from completed production cards. Total production costs will be agreed with the total of debit entries made for the year to the main ledger account for finished goods from these cards.
- 3 *Oncosts* – the total for oncosts is obtained from the completed production cards. The wages of the manager and book-keeper and the charge made for depreciation included in the total of oncosts will be separately shown. The *other expenses* will be the remaining balance of oncosts charged to production.
- 4 *Other costs – materials*. The difference between the value of the actual stock of raw materials carried forward to the new year and the balance at the end of the old year for materials in the main ledger, will be written off by this transfer to the final accounts. Where there is a debit balance to write off, this will be debited to the production and trading account. Where there is a credit balance to write off, it will be credited. *Other expenses*: After the expenses adjustments are made, any balance remaining in this account in the main ledger is written off by transfer to the final accounts.
- 5 Comparisons will be made with last year's results and the forecasted results in the budget.

Example 19

FINAL ACCOUNTS AND BALANCE SHEET			
I Production and trading account for year			
	\$		\$
Sales			100 000
LESS: Costs charged to production:			
Direct materials	50 000		
Direct labour	300 000		
Direct expenses	1 000		
Oncosts: Wages	1 500		
Depreciation	1 180		
Other expenses	<u>5 320</u>		
Total production costs		<u>89 000</u>	
		TOTAL	11 000
LESS: Finished goods stocks:			
(Stock to begin \$3690 less stock to end \$600)			<u>3090</u>
		TOTAL	7 910
LESS: Other costs:			
Materials	60		
Other expenses	<u>530</u>		<u>590</u>
NET SURPLUS TO ACCOUNT II			<u><u>7320</u></u>
II Surplus disposal account at end of year			
			\$
Balance of surplus from previous periods			30
ADD: Surplus from Account I			<u>7320</u>
		TOTAL FOR DISPOSAL	7350
Proposed allocations:			
Reserve fund	3500		
Education fund	500		
Interest on shares	120		
Bonus on earnings	<u>3000</u>		
			<u>7120</u>
Balance of surplus carried forward			<u><u>230</u></u>

III Balance sheet at end of year			
Source of funds (liabilities)			\$
Members' shares			3480
Members' deposits			2600
Reserve fund			1900
Education fund			100
Surplus for disposal			<u>7350</u>
		TOTAL from members	15 630
Loans			4750
Creditors (A/c 3+12)			11 000
Expenses accrued			<u>250</u>
		TOTAL	<u><u>31 630</u></u>
Use of funds (assets)			
Fixed assets	Cost	Depreciation	\$
Land and building	2000	200	1800
Fixtures and fittings	1000	400	600
Machinery and equipment	<u>4400</u>	<u>1580</u>	<u>2820</u>
	TOTAL	<u>2180</u>	<u>5220</u>
Stocks: Materials		14 000	
Work in progress		—	
Finished goods		<u>600</u>	14 600
Debtors			2020
Expenses paid in advance			150
Cash at bank			9500
Cash in hand			<u>140</u>
		TOTAL	<u><u>31 630</u></u>

6 Summary

6.1 Book-keeping system

The outline of the book-keeping system for industrial co-operatives is now completed. The system can be summarised as follows:

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

6.2 Control systems

Within the book-keeping system control systems operate:

1 *Efficiency*

The actual business performance of the society is compared from time to time with the forecasted results in the annual budget, which ought to be prepared.

2 *Materials*

- (a) Written orders are made for all materials.
- (b) The receipt of materials is recorded in the materials received book.
- (c) The issue of materials is recorded on the production cards.
- (d) The stock of materials is controlled in the materials stock control record.
- (e) Physical stocks are counted and checked from time to time.

3 *Labour*

- (a) Generally, payments are only made for output on a piece-work basis.
- (b) The committee decides on the payments to be made for each unit of output.
- (c) The output of each member is recorded and valued on his member's output card.
- (d) The earnings and payments for earnings made to each member are recorded on his member's earnings record.
- (e) Any bonus due on earnings is distributed based on the information on these records.

4 *Other expenses*

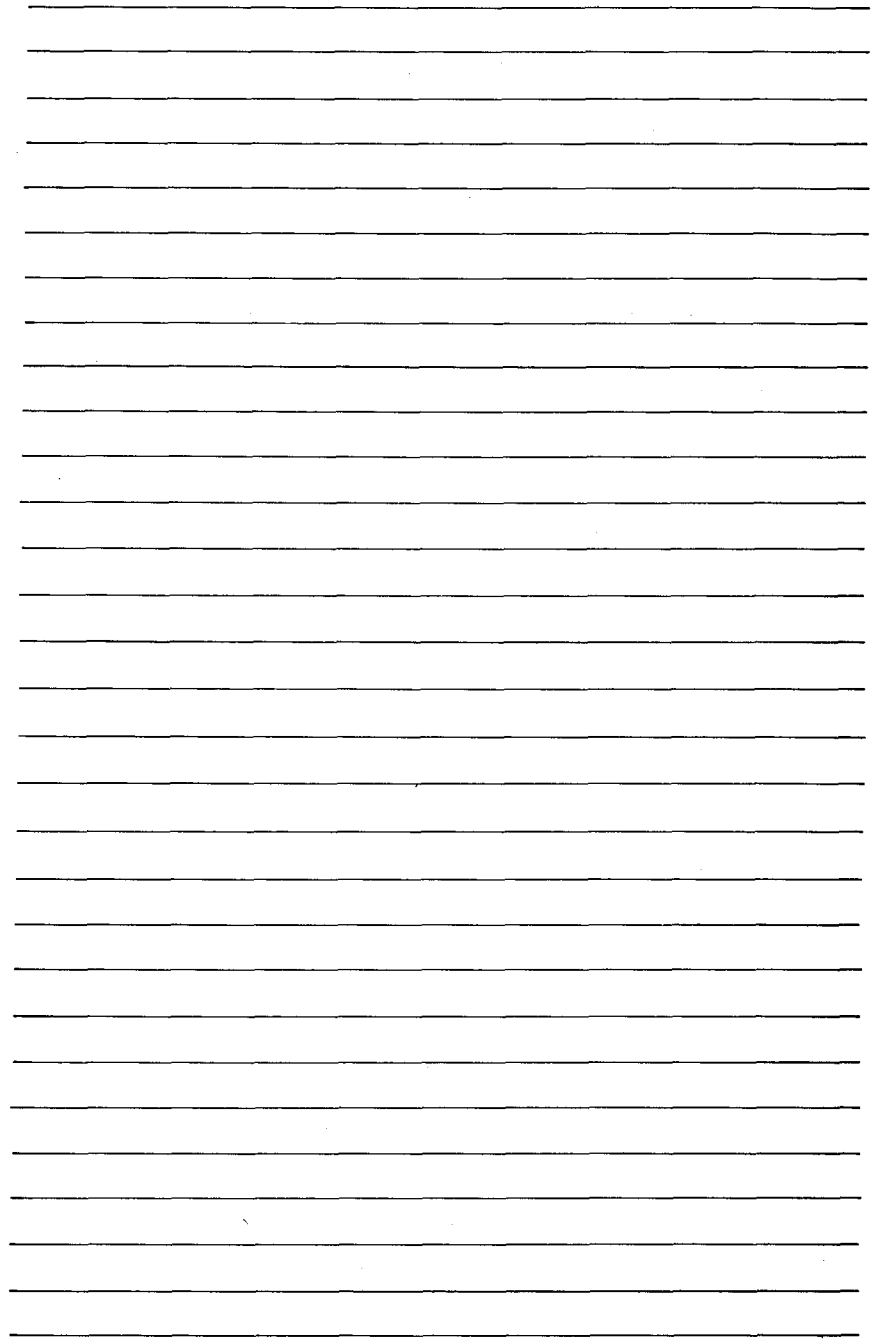
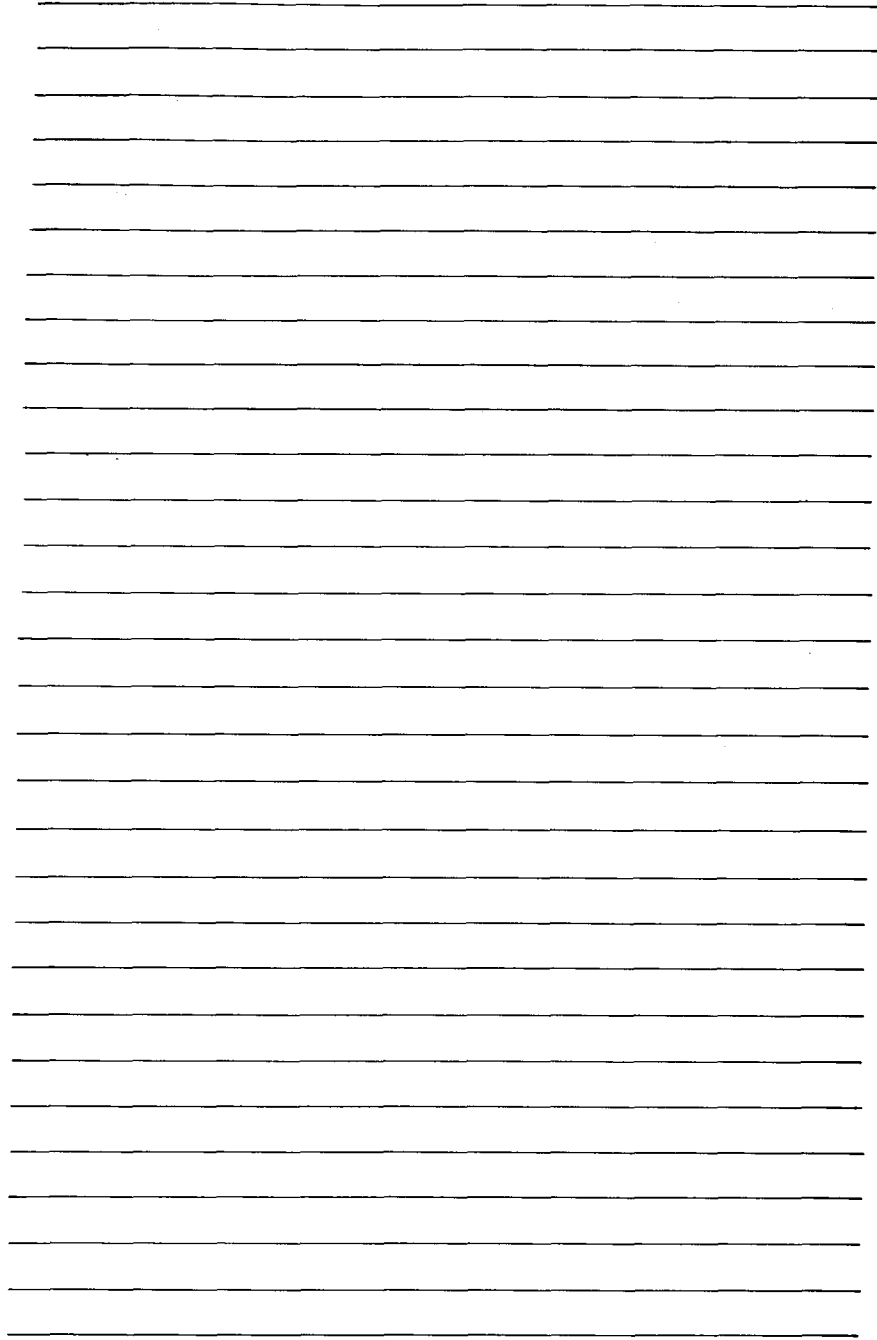
- (a) Where possible expenses are charged directly to production.
- (b) All other expenses are recovered by adding a pre-determined percentage oncost to the total of direct materials and labour for each batch of production.

5 *Finished goods*

- (a) There is a specification card for each type of item produced.
- (b) Production is only undertaken on the issue of a production card by the manager.
- (c) Receipts of finished goods are accepted on completion of production as shown on the production card.
- (d) Sales of finished goods are supported by the cash sales receipts or the invoices sent to debtors.
- (e) Stocks of finished goods are controlled by the use of the finished goods stock control record.

REMEMBER:

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



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