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# **BASIC CONTROL OF ASSETS**

*A Manual on Prevention of  
Losses in Small Co-operatives*

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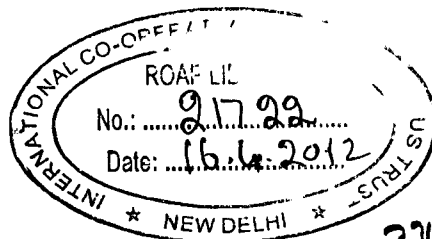
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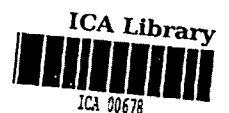
# BASIC CONTROL OF ASSETS

## A Manual on Prevention of Losses in Small Co-operatives

Co-operative Education Materials Advisory Service - CEMAS



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15 route des Morrillons, CH-1218 Le Grand-Saconnex,  
Geneva, Switzerland.

## FOREWORD

Studies of the development of the co-operative movement in many countries tend to reveal that losses of assets - money and merchandise in particular - are a very serious problem. Losses often render co-operatives incapable of bringing about the expected and potential benefits and they are quite often the cause of complete failure.

Closer studies of this specific problem tend, again, to show that one very frequent reason for losses is the inefficiency of the existing control systems. Control of assets is a management function of some complexity. There are many doors to be closed, and some of them might easily be overlooked.

This manual deals with measures of control of assets in small primary co-operatives; the type of co-operative enterprise most affected by the problem and most vulnerable to the harmful effects of it.

The manual is intended to serve as

- (a) - a guideline for the production of locally adapted handbooks on control procedures, to be made available to co-operatives and to those engaged in promotion and supervision. Some technical hints are given in the introductory "Adaptation Guide."
- (b) - a source of reference for trainers. The "Teacher's Guide" provides some advice for its use as a teaching resource.

October 1979

## LIST OF CONTENTS

		Yellow Pages
		Blue Pages
		Page
	ADAPTATION GUIDE ..	
	TEACHERS' GUIDE ..	
Chapter 1	<u>INTRODUCTION</u>	
	1 . 1 The need for control ..	1
	1 . 2 The elements of control ..	1
Chapter 2	<u>BOOKS AND RECORDS</u> ..	3
	2 . 0 Main recommendations ..	3
	2 . 1 Book-keeping system ..	3
	2 . 2 Forms and records ..	4
	2 . 3 Security of important books and records ..	6
	2 . 4 Balancing and audit ..	6
	2 . 5 Insurance ..	7
Chapter 3	<u>CASH CONTROL</u> ..	8
	3 . 0 Main recommendations ..	8
	3 . 1 The safe ..	8
	3 . 2 Staff management ..	9
	3 . 3 Receipt of cash ..	10
	3 . 4 Physical verification of cash balances ..	14
	3 . 5 Payment of cash ..	18
	3 . 6 Operating a bank account ..	22
	3 . 7 Surplus funds ..	23
Chapter 4	<u>PROPERTY CONTROL</u> ..	25
	4 . 0 Main recommendations ..	25
	4 . 1 Purchase of property ..	25
	4 . 2 Fixed asset inventory ..	25
	4 . 3 Maintenance ..	26
	4 . 4 Security ..	26
	4 . 5 Motor Vehicles ..	26
Chapter 5	<u>STOCK CONTROL</u> ..	28
	5 . 0 Main recommendations ..	28
	5 . 1 Introduction ..	28
	5 . 2 Ordering ..	29
	5 . 3 Receiving goods ..	31
	5 . 4 Storage of goods ..	32
	5 . 5 Selling operations ..	34
	5 . 6 Stock control systems and records ..	35
	5 . 7 Stock-taking ..	41
	5 . 8 Produce in marketing co-operatives ..	46
Chapter 6	<u>LOAN AND CREDIT CONTROL</u> ..	50

# ADAPTATION GUIDE

## ADVICE ON HOW TO PRODUCE LOCALLY ADAPTED MANUALS

This manual deals with methods for control of assets.

It may be used as a reference book by teachers, when planning training sessions on the subject of control.

*However, the manual may also be used as a guideline for similar manuals, adjusted to local requirements.*

*Manuals on techniques of control would, indeed, serve a useful purpose if made available to all those who are concerned with the problem: - managers of co-operatives, committees, supervisors and advisers.*

*We earnestly recommend that you should consider the production of a local version, in view of the crucial importance of the subject.*

*The following is a set of advice on the procedures of adaptation.*

### 1. COST, TECHNICAL FACILITIES, EDITORIAL SKILLS.

It is sometimes believed that you need considerable financial resources, access to fairly advanced printing facilities and expertise in editing of printed material in order to produce an acceptable manual for local use. That is not necessarily so! This model manual - the white pages - has deliberately been made in a way which can be used wherever you have

- A TYPEWRITER
- A TYPIST WHO IS EXPERIENCED IN ORDINARY TYPING LAYOUT
- DUPLICATING FACILITIES (e.g. a stencil duplicator)
- BINDING/STAPLING FACILITIES

These are normally available almost anywhere. The cost factor could be almost negligible - the cost of stencils and paper only.

But if you do have more advanced resources and/or skills available - make use of them. Our model merely shows what can be done in a simple, unpretentious and inexpensive way. You will find some suggestions on alternative ways of arranging the text on pages A12, A13, and A14.

## 2. STEPS OF THE ADAPTATION PROCESS

These are the steps you should follow:

- (1) Prepare an outline of the local version.
- (2) Draft a manuscript.
- (3) Edit the manuscript. Prepare a layout.
- (4) Reproduce the final manuscript in its edited shape.
- (5) Bind (staple).

## 3 OUTLINE OF LOCAL VERSION.

Use the model manual as much as possible!

Simplify your task by studying this model manual carefully. Follow the outline of it, and retain those sections which do apply to your particular circumstances. Use the same headings, types of examples, paragraphs and sections so long as they are applicable.

Mark all sections in the model which you feel you can transfer to your version with no or little changes, and take a note of them for inclusion in your outline.

Do not include irrelevant points!

The model may suggest control procedures related to some co-operative activity which is not relevant to your situation.

Do not include these sections! There is no point in confusing your readers.

However, be careful that the sections you remove are definitely unnecessary.

Add missing points!

Although the model covers quite a broad range of the most common control needs, there may be special ones in your particular case which still have to be added. Give this a careful thought, section by section, when you are preparing your outline. Keep the legal requirements in mind – they may differ, say, as to the books and records a co-operative must keep. (But remember that the law usually states minimum requirements – a good control policy includes many procedures and aids beyond what is said in the law.)

Add to the appropriate sections of the outline, whatever control procedures you feel should be included.

Consider the suggested procedures!

Consider carefully the suggested procedures which, as such, would be relevant in your manual.

They are based on experience, but equally effective control could in some cases be achieved through other methods.

If control of that nature is entirely missing in your situation at present, or is inadequate, then we suggest that you should adopt the advice given in the model, provided you are satisfied that the method will work in your local circumstances. You may have to consider slight adjustments required by these circumstances, but if so these must not be allowed to reduce the effectiveness of the control.

If control is done at present through a different method on some point, and if you are absolutely satisfied that this method is effective, do not propose a change for the sake of change! Incorporate the now practised method in the appropriate section of your manual. You may also wish to include the method suggested in the manual as an alternative, but if your policy is one of uniform control procedures in the co-operatives, then make a choice and include only one of them.

*The production of a reference manual, as we are suggesting here, should be taken as an opportunity for a systematic and critical review of the problems of effective control in your co-operatives!*



Draw up the outline! Discuss and amend as necessary!

Once you have methodically researched the model, and considered alterations as discussed above, then you should draw up a detailed list of contents - i.e. an outline.

Page A5 shows an example, based on the model manual.

Discuss the outline with your colleagues and other experts in the field of operation of co-operative activities. Listen carefully to their advice and opinions. Probe for information which they might have, and which you might unknowingly have overlooked. Re-draft your outline if necessary.

#### 4. MANUSCRIPT.

You will now be ready to write a draft of a full manuscript, following the outline.

Important aspects to consider now are:

- (a) In which language(s) should the final version of the manual appear?
- (b) In which language should the first manuscript be drafted?
- (c) In which style and level of language should it be written?

(These are questions relating to the target group: - Who are the assumed readers? Their background knowledge? Their general level of education?)

#### Language

Your first consideration is whether your manual should be published in a local language or in English.

Our model manual will primarily be distributed in countries where English is widely used and/or where at least the senior level of co-operative workers master the language well. No special efforts have therefore been made to simplify the language and terminology of the model.

Which language to use for a locally adapted version depends on the target group, the assumed readers. We can foresee the following situations:

(Example of outline - see page A4)

CHAPTER 3. "CASH CONTROL"	
	<u>Remarks</u>
3.0 Main recommendations	Main rec. in the chapter, summarised in a box.
3.1 The Safe	To consider:
(a) Access to safe	Should a sub-section on the security of cash boxes be included as well?
(b) Responsibility of Secretary/Manager	
(c) Limit of cash held in safe	
(d) Action to be taken in case of loss of keys	
3.2 Staff Management	
(a) Possible risks in handling cash by staff	Guarantee bonding of staff handling cash?
(b) Staff selection	
(c) Staff training	To discuss with Co-op Dept. Legal Section before possible inclusion in manual.
(d) Organisation of handling money	
3.3 Receipt of Cash	Examples of filled-in Cash Receipts and Cash Sales Receipts to be included.
(a) How to issue a cash receipt	
(b) Importance of members demanding receipt	
(c) Supervision of cashier(s) by Secretary/Manager	
3.4 Verification of Cash Balances	Example of Cashing-up Slip and Cash Reconciliation statement
(a) (i) Daily verification of cash by Secretary/Manager	Procedures for control when cash registers are being used, to be studied before writing!
(ii) Cash registers as additional control	
(iii) Noting of cash in hand	
(b) Independent spot checks	
(c) Recording of transactions	
3.5 Cash Payment	Cash Payment Voucher, Wages Record Sheet.
(a) (i) Limit of amount to be paid in cash	Is our present CPV all right?
(ii) Receipt to cover transaction	Consider possible alternatives before exemplifying in manual
(b) Payments to members of the committee or staff.	
(c) Payment of wages	
3.6 Bank Account	National Bank's pamphlet for holders of current accounts as an appendix?
(a) (i) Formalities of opening bank account	Example: Bank Rec. Statement.
(ii) Deposit of cash in hand	
(b) Protection against loss of cash	
(c) Cheque signatories duties	
(d) Monthly check of bank statement	
3.7 Investment of Surplus Funds	This section could be excluded.

(1) Where English is the normal language for materials of this type.

The manuscript would be drafted in English, and applicable parts of the model could be copied. Thoughts ought to be given, however, to whether all the people in the target group are fluent readers of English. It is, after all, a matter of a manual supposed to serve the needs in small co-operatives, where English may not be all that much used. If that is so, it would be wise to rephrase the text in simpler terms, where deemed necessary. Keep this important point in mind!

(2) Where the manual is to be published in another language.

The manuscript could be drafted directly in the relevant language, in order to save time and effort. Relevant parts of the model would be translated, as the drafting goes along.

If the author finds it easier to write in English, particularly if use is made of the text in the model, it might, on the other hand, be better to draft a first manuscript in English and arrange to have it translated. (A situation like that will certainly not be uncommon!)

(3) Where publication in several languages is desirable.

In such cases it is recommended to draft a master manuscript in English, and arrange for translation into the relevant languages. There would, most likely, be an English edition anyhow.

The basic rule: - Always remember that there is little point in publishing a manual in a language, which is foreign to most of those who would most need it !

Style and level of language.

Your style of writing is of considerable importance. The simpler your style of writing is, the better. Try to avoid a rigid, authoritarian style. It could easily have an adverse effect. People could be turned away from your advice if you use a terminology which is seen by them as too academic or if it is in the style of somebody giving them orders to obey blindly.

Try to aim for interest and motivation, and in doing so you must consider the ability of your target group. Will they be able to read and understand the text? Remember that even if it is most common - far too common, in fact! - that the level is set too high, it could also be the other way round. Do not clutter your text with statements of what is already obvious to all your readers.

If possible, carry out actual tests of the understanding. Try to get opinions from average members of the target group, at an early stage of the drafting.

### 'Localise' as much as possible

Our model is by necessity universal in type and references. A good local version should carry a high degree of identification with the actual local problems and circumstances. Use realistic examples and references. For example : - if forms are in use which differ from those exemplified in the model, and if they are equally effective, then exemplify with the actual ones in your manual.

### Revision of first draft.

It is essential that your first draft goes through at least two processes of careful revision : - your own, and the revision made in consultation with others. Do your revision at this stage! It will be both annoying, complicated and costly to revise at a later stage of the production. Go through the draft yourself, slowly, and make adjustments, corrections and final additions or deletions.

When you are reasonably satisfied with it, ask some colleagues to check it over for you, the same as you did with the outline. Revise again, if they have made relevant suggestions.

After these revisions you have a basic manuscript of the text for the manual. You now need to shape it into the form in which you want it to appear in the manual. In other words, you need to do some editing.

## 5 EDITING, (LAYOUT).

One definition of the term "edit" in the 'Concise Oxford Dictionary' is: "Set in order for publication". Here we are using the term in that meaning. It is now a matter of appearance of the text, the way it is presented to the readers.

However, "to edit" also has the meaning of refining a text into a final version. When arranging the text for reproduction you may therefore wish to give it another critical study: - rephrase if something is not quite clear, change some words and generally give it the finishing touches.

### Elements

Your manuscript text is divided by headings - main headings and sub-headings. Text and headings are two elements to work with in the arrangement of the manual. A further element is space - blank space surrounding text and headings. A fourth element would be illustrations.

### The Model.

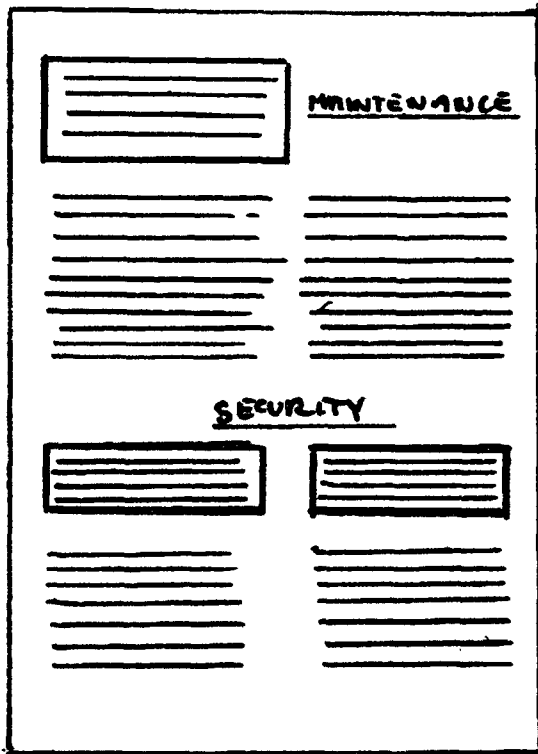
If you look again at our model - the white pages - you will realise that what we are demonstrating to you is a very simple and unsophisticated way of presenting the text. It does not require any special experience of layout work, and it would be fairly easy to copy this style. It is, by and large, a matter of straightforward typing, and therefore not placing any particular demands, neither on 'the editor' nor on the typist.

We are therefore not suggesting that you should produce your manual in exactly the same style. The disadvantage of the 'straightforward typing' method is that the pages may give a somewhat heavy impression. The text is set out in massive blocks, and somebody who is not a frequent reader of material of this type might find it tiresome, and perhaps even difficult to refer to it for some particular information. Users of a local reference manual might be helped by a layout with more generous use of space, and with the main points highlighted, e.g. through use of capital letters or through framing the relevant text in boxes, etc.

### Alternative models

On pages A12, A13, A14, we are showing some different ways of arranging the same text. The main tool used for the preparation of them is a common typewriter.

Page A11 is a reproduction of page 26 of our basic model. You will note that we have used underlined standard typing for the sub-headings. (CAPITAL LETTERS have been used for main headings, although none of these appear on this page.) Certain important statements are also underlined. Not much space has been used to separate the blocks of text. The text is on the whole set out as in an ordinary typed document. A qualified typist can do the job straight from the draft manuscript.



Page A12 shows the text arranged in two columns. The statements which were underlined in the other example have been typed in capital letters and are framed into boxes. They stand out as main rules, catching the eye, with further comments underneath each of them.

This style of arrangement is obviously more time-consuming at the preparatory stage. You need to consider it sub-section by sub-section, and prepare clear instructions for the typist, preferably through a simple layout sketch, as shown here.

It would, however, be worthwhile taking the time and trouble to do this in the case of a reference manual which is to be widely used in the field.

A more spacious arrangement requires altogether more pages. Some of the text in the first example has been transferred to the following page in the second example.

Page A13 shows an example of the use of 'instant lettering' or 'dry transfer lettering', the method whereby letters printed on the back side of a transparent sheet can be transferred to another sheet of paper, in this case a master sheet for a manual, by a rubbing procedure. ("Letraset" is a well-known brand name.)

The use of such lettering for headings in an otherwise typed text adds variety, and gives - if well applied - an appearance of 'proper' printing. Not only letters in a variety of type faces and sizes are available, but also various typographic patterns, symbols, illustrations and so on.

You need, however, to have access either to a photo-electric stencil cutter ('scanner') for preparation of stencils from master sheets with instant lettering headings or an offset plate duplicating machine.

If you are limited to the ordinary stencil to be cut by typing, you can nevertheless prepare headings by using a special ruler with the letters of the alphabet cut out, and a sharp-pointed stylus:



Page A14 is an example with simple illustrations. Illustrations can be used either as a part of the instruction given in a manual - clarifying or exemplifying certain points visually - or as a way of giving the pages an attractive outlook.

## 6. REPRODUCTION AND BINDING

Which method to use for reproduction of the edited manuscript depends quite obviously on available resources and also on the number of copies to be produced.

Our advice has mainly been directed to those who may consider to prepare a locally adapted version within the constraints of limited means and facilities and in not too large a number of copies. We have actually had in mind those who would resort to the ordinary stencil duplication method or to a simple form of offset printing. We assume that no special advice on the duplication methods as such are needed here.

If you need a large number of copies and if you can afford to pay the cost - or expect to recover the cost through the sale of manuals - you may wish to have the manual professionally printed. Our remarks on editing and layout remain largely the same in that case.

For binding a heavy-duty stapling machine would be sufficient for a manual of, at most, 50 sheets of paper, if no special binding facilities are available.

May we, finally, wish you good luck in your adaptation work!

#### 4.3 Maintenance

Property should be regularly maintained and serviced to minimise the loss of funds through expensive repairs.

The Operating Manual (see Page 4) should provide for the regular servicing of all property as a matter of routine. Preventive maintenance can save a great deal of expense. Such actions as the inspection of all buildings before the rainy season begins and the treatment of floors and equipment to control pests can result in substantial cost savings if the Co-operative runs the risk of being badly damaged by a leaking roof, or needing major repairs to rotting timbers caused by termites. Particular care must be taken that the Co-operative is aware of and abides by government regulations concerning the maintenance of equipment under its control. This is often the case as far as fire-fighting equipment is concerned and weighing equipment subject to weights and measures legislation.

#### 4.4 Security

- (a) Property should be left securely at the end of each working day to safeguard the Co-operative's assets.

The Secretary/Manager should be responsible for the security of the property. In particular he should develop a regular routine of inspection at the close of business each working day. This will include making sure that cash and books are in the safe, water taps and lights are turned off, windows closed, and the safe and doors are locked.

- (b) No-one should borrow the property of the Co-operative for personal use without authorisation. Such action can easily lead to loss or damage.

Where the lending of property to staff and members is part of the services offered by the Co-operative it should be subject to the same clearly defined procedures, agreed by the membership, as any other service. Unauthorised personal use of assets should be strongly discouraged as this removes the property from the controls regulating its use, thereby risking loss or damage.

#### 4.5 Motor Vehicles

Motor vehicles of the Co-operative should be controlled so that they are used for authorised business purposes only. The misuse of vehicles can involve the Co-operative in considerable losses; they are valuable assets and running costs are high.

A log book must be kept for each vehicle of the Co-operative; in it the driver should note the journey, times and distance for each journey undertaken. It should also contain details of refuelling, (the date, amount of fuel and number of kilometers or miles on the tachometer at the time of refuelling) so that fuel consumption can be checked, as well as details of any servicing and repairs. The log-book should be the complete history of the vehicle and the Secretary/Manager must check regularly that it is properly filled in.



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THROUGH EXPENSIVE REPAIRS

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## maintenance

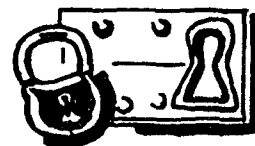


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# TEACHERS' GUIDE

## ADVICE FOR TEACHERS ON A SHORT TRAINING COURSE ON "BASIC CONTROL OF ASSETS"

How to control the assets so as to prevent losses should, indeed, form a very important part of the training of personnel and management committees of co-operatives, as well as of the training of supervisory officers.

One purpose of this manual is to provide those engaged in such training with subject matter information and examples related to the basic control of assets.

Various control methods, applying to the most common risk areas, have been suggested. We hope that the suggested methods could form a basis for adaptation to local circumstances, so as to enable co-operative teachers to use the information when planning and implementing training sessions. This, of course, requires flexibility and judgement since training requirements quite naturally differ between different types of co-operatives, different countries and regions and different stages of co-operative development.

As a teacher you may wish to make use of the manual :

- (a) As a general source of reference on control procedures, when you are planning a session in which the discussion will enter into questions of control.

The section on "Books and Records" may provide useful complementary material for teaching of book-keeping, the sub-section on "Produce in an Agricultural Marketing Co-operative" could be used in connection with produce marketing techniques, and so on.

- (b) As a source material for a short course on "Basic Control of Assets" or as a separate subject in a complete programme in Co-operative Management.

The latter has the advantage of emphasising the importance of mansided and efficient control, as well as showing how different control measures link up with each other to form a complete system, one element of which supports and strengthens the other elements. Efficient control is of such importance that the upgrading of it to an independent subject of training is recommended whenever possible.

## SUGGESTED SYLLABUS FOR A SHORT COURSE ON "BASIC CONTROL OF ASSETS"

Teaching time: Minimum 10 hours (as indicated) if treated as a concentrated overview only. If participative methods (case studies, workshops etc) are being used, at least two hours should be added for each.

In the actual training situation such factors as the relative importance of the different topics, the target audience and the teaching methods will undoubtedly influence the timing.

- Aim:
- (a) To enable trainees to identify risk areas and critical points, and to apply control measures which eliminate or reduce the risk of losses.
  - (b) To strengthen their awareness of the need of a comprehensive control system.

1. Introduction  
1 hour
 

Discussion on the need for control and the elements of control.

Most of the topics to be dealt with could each constitute a course in itself – trainees should be made aware that the aim of this short course is to provide them with an overview of the system of control required in a small co-operative, and with examples of methods of control.

  - Brief introduction by teacher.
  - 'Brainstorming session'. Trainees suggest areas and points where losses could occur. Teacher writes these on the blackboard or flip charts, organised into groups or areas
  - Comments, discussion, additions to the lists.
  - Discussion of how the areas interlink.
  - Discussion of the main elements of control.
  
2. Books and Records  
1½ hours
 

Requirements of the book-keeping systems, forms and records, security of books and records, balancing and audit, insurance.

Discuss "Main Recommendations". Trainees to suggest why these should be followed and possible effects, if they are not followed.

Exercise: - Prepare specimens of incomplete forms (see p.14, 2.2)  
Hand out, ask trainees to identify what is missing and mark and return forms individually.

3. Cash Control  
1½ hours

Areas in this section are:

- Handling of the safe and money in the safe.
- Receipt of cash, payments.
- Payments by cheque and operation of a bank account.
- Management of staff handling money.

Apart from conventional teaching this section invites the use of the case study technique and of workshops.

Example of case study:

Describe a situation where it is discovered that some of the cash kept in a safe has disappeared.

Trainees should discuss - in groups - possible causes of the loss and methods to keep such causes under control.

Workshop:

(In situations where standard forms are not already designed and in use.)

Trainees divided in groups to design cash control forms. (Each group different forms.) Presentation discussion and refinement of the forms in plenary sessions.

4. Property Control  
1 hour

Purchase of property, fixed asset inventory, maintenance, security, motor vehicles.

If control of motor vehicles is relevant, give special attention to that. Proper checking of the vehicle log-book is the key factor.

The same type of exercise as in Session 2 could be applied:

- Prepare a specimen page of a log-book with one or two suspect entries. E.g. unusual low mileage between two instances of purchases of fuel. (Driver might have sold petrol.)  
A trip entered on, say, the second line of the page and a similar trip entered further down, but with more mileage recorded. (Driver might have made extra trips on his own.)

Trainees to identify. Techniques of checking to be discussed.

5. Stock Control  
3 hours      Ordering, receiving goods, storage of goods, selling operations, systems and records, stocktaking.

Stock of merchandise – and of agricultural produce in storage pending onward transport – is a common source of losses, because of the many points at which losses could be caused in the handling of the stock.

Trainees should be made aware of all these critical points and of methods of control at each point. The limitation of time in the short course suggested here allows for a detailed overview only. A training course for persons responsible for stock management would require more thorough treatment, including practical exercises.

The session could be initiated by group discussions. Trainees could e.g., be asked to consider the flow of goods through a retail co-operative from ordering to sales, and list systematically all risks of losses they can think of. (Physical loss and losses related to e.g., the sales operations.) Either generally or exemplified by, say, a 100 kilogramme bag of sugar.

When the lists have been presented, consolidated, completed and discussed in plenary session, a good starting point has been created for discussions and instruction of control methods related to the listed risks.

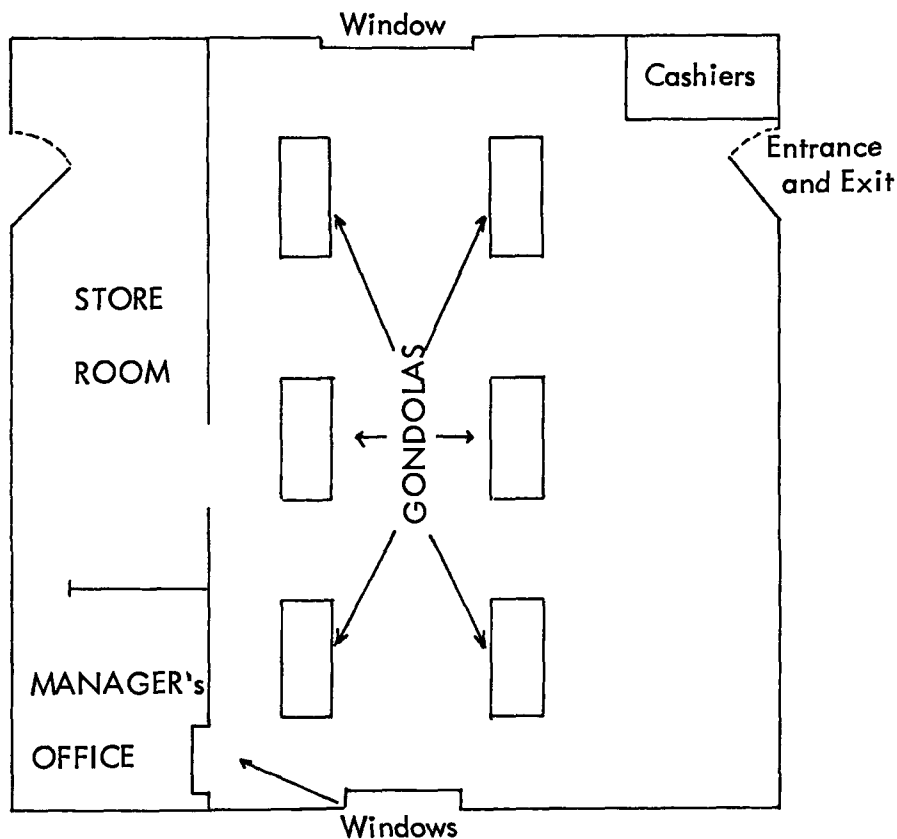
Stock control is another topic inviting the case study method. On the next page is just one example. Many stimulating case studies could be constructed around stock control problems.

### CASE STUDY ON A CONTROL PROBLEM

A consumer co-operative operates a small shop selling groceries and provisions. Apart from the manager, there are 4 employees - 1 cashier, 1 night-watchman and 2 store personnel. The shop is self-service.

Recently, leakage - probably through theft - has become a serious problem, and tends to be concentrated upon small, expensive and profitable items, such as sweets, toothpaste and biscuits. There are no effective security measures during the day.

The manager records incoming goods in detail, and sale of goods is recorded on the cash register, which is read at the end of the day and the total recorded. No stock records, apart from incoming goods records are kept. There is only one entrance and exit which customers must use, as outlined below.



The manager wishes to eliminate the sale of small, expensive and profitable items because of the high incidence of leakage, and because the shop is becoming unprofitable as a result of this leakage.

The Committee of Management does not agree. What do you suggest ought to be done?



6. Loans and Credit Control  
1½ hours

Credit policy, credit authorisation, credit supervision.

It will be helpful to explain and discuss the credit policy laid down before dealing with matters related to the actual control.

In this context the "ranking exercise" method could be used. (It could also to advantage be applied in other contexts in the course.) Trainees are given a list of considerations related to a certain decision, and should rank them in order of importance, as they see it. Group work is most effective for this exercise.

The exact order in the lists is of less importance than the considerations and discussions around each aspect. The example overleaf relates to loan applications.

### RANKING EXERCISE ON CREDIT AUTHORISATION

In evaluating applicants for loans the Management Committee would consider the following kinds of questions.  
Put them in order of importance!

- |                            |   |   |
|----------------------------|---|---|
| a) APPLICATION             | - | Is the application properly completed and signed?   |
| b) PURPOSE OF CREDIT       | - | Is it for productive purposes, e.g. agricultural implements, fertilizers, seeds, farm improvement etc. Is this acceptable under the credit policy?                      |
| c) NEED                    | - | Is the amount applied for needed for the purpose? Can the applicant manage with less? Will he require more? Does he need it in cash or kind?                            |
| d) CREDIT LIMIT            | - | Is the amount needed within the limits set by the credit policy?  |
| e) SECURITY                | - | What security is provided by the applicant and his guarantors?  |
| f) TIME LIMIT              | - | Is it for a reasonable period?  |
| g) ABILITY TO REPAY        | - | Is the applicant in a position to repay the credit in the manner proposed by him?<br><br>What is his income? What are his other commitments? What crops has he planted? |
| h) PREVIOUS CREDIT RECORD. | - | What is the applicant's previous credit record? Has he neglected past repayments? Should the committee grant him credit despite his past record?                        |

### ORDER OF IMPORTANCE

- |         |         |
|---------|---------|
| 1. .... | 5. .... |
| 2. .... | 6. .... |
| 3. .... | 7. .... |
| 4. .... | 8. .... |

## GENERAL

Control of assets is not an academic or theoretical subject matter. It is an everyday problem in co-operatives. Trainees will have no difficulties in grasping the realism and importance of control.

Therefore - do not treat it 'academically' in your teaching. Use actual examples from the field to illustrate your points. Or better still : Let the trainees provide examples both of losses caused by poor control and of effective control, from their own sphere of experience. A lively discussion of "What could have been done to prevent it?", following a striking example of losses provided from among the trainees is a real learning situation.

Also show, by way of examples, what losses caused by inefficient control means to the individual member. If the financial position is harmed by losses, this will make it less possible for the co-operative to pass on economic advantages to the member.

It is often so that a point will be brought home more effectively, if related to human beings, than if dealt with in impersonal terms only.

Awareness of the need of good control lays the foundation for improvements.

## 1. INTRODUCTION

### NOTE:

In this text monetary units are called "Local Currency" units, abbreviated "LC's": On adaptation of this material to local requirements it is recommended that "LC's" be replaced by the symbol of the currency in actual use.

Reference is occasionally made to an earlier series of four publications on co-operative book-keeping published by CEMAS.

These are: Co-operative Book-keeping for:-

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

These publications can be obtained from:-

CEMAS/INTERNATIONAL CO-OPERATIVE ALLIANCE,  
15 ROUTE DES MORILLONS,  
CH-1218 LE GRAND-SACONNEX,  
GENEVA, SWITZERLAND.

### 1.1 The need for control:

One of the major problem areas in the establishment and running of any co-operative enterprise is the need to safeguard the limited, financial resources at its disposal.

Financial resources can be lost through trading losses but this manual is more concerned with preventing losses caused by neglect, ignorance, error and dishonesty in the care and handling of the assets of a society.

Such assets represent the use made of the funds or financial resources contributed by outside organisations as well as by the members themselves and losses could prevent the society from both providing its members with the goods and services they need and repaying the funds it has borrowed.

### 1.2 The elements of control:

The object of any control procedures is therefore to ensure that all property of the society is safeguarded, and not misused either by error or intent.

In order to achieve the above objective the system of control must include the following important elements:-

#### DIVISION OF DUTIES

A suitable division of duties should exist within the society and staff members should be clear about the scope and limitation of

their responsibilities.

If possible, the division of duties should prevent one person only being responsible for the recording of a complete transaction. For example, a cashier should not also be responsible for writing up the sales and purchases ledgers.

Very often, however, the size of the society prevents there being a sufficient number of staff for a suitable division of duties. In practice most of the responsibility for the daily control of assets in the average primary society rests with the Secretary/Manager and a good deal of the success of the society depends on his work. In those cases there is a much greater responsibility on members to exercise control over the work of the Secretary/Manager through their committee to ensure that procedures designed to safeguard the assets are carried out.

#### APPROPRIATE ACCOUNTING SYSTEMS

The books and records should be arranged to cover all aspects of the society's business, to record all transactions and to include features which enable the book-keeper to check whether any errors have been made. The system should produce relevant information to help the committee guide the business operations of the society.

#### ROUTINE CHECKS

Accounting and control procedures should ensure that at least two people are involved in the authorisation, recording and conduct of each transaction. In this way the work of one person would be cross-checked by the work of another to prevent or detect error or fraud as soon as possible.

#### MANAGEMENT SUPERVISION AND REVIEW

The supervision of staff is primarily the responsibility of the Secretary/Manager who should ensure that all work is periodically reviewed. Examples of management supervision and review would be the bank reconciliations and cash counts carried out by him to verify the accuracy of the cashiers records.

The Secretary/Manager in turn is subject to supervision by the members through their committee. In this manual it is suggested that members exercise this supervision directly through the election of an "Internal Auditor", appointed to verify and to report on whether the control system is working correctly by carrying out such checks as cash and stock counts, and indirectly, through a "Duty Committee Member" chosen by the committee to represent them at stock-taking and to carry out special reviews of particular items such as wages, transport costs, etc.

The annual audit by the staff of the Registrar of Co-operatives cannot be considered as replacing the need for continuous management supervision and review by the staff and elected representatives of the society.

The chapters which follow outline the ways in which losses can arise and the controls which can be established to help to avoid them. Within each chapter it will be shown that the Secretary/Manager, the committee, the staff, the members and the Auditors can all contribute to the control of assets to prevent losses.

## 2. BOOKS AND RECORDS

### 2.0 Main Recommendations in this Chapter:

1. Procedures should be written down in a "Book-keeping Manual" and an "Operating Manual".
2. A "Register of Forms" and a "Register of Books and Documents" should be kept.
3. Un-issued forms and important records should be locked away.
4. A filing system should be designed and operated.
5. Routine balancing of books of account should be made at frequent intervals.
6. Independent checks of the books should be carried out by elected representatives of the members, such as an "Internal Auditor" and a "Duty Committee Member".
7. Proper insurance cover should be arranged.

### 2.1 Book-keeping System

- (a) Losses can occur and remain undetected where there is no proper book-keeping system in operation.

The Law and the by-laws will state that proper books of account and records are to be maintained by the co-operative society. The actual book-keeping system in use will depend upon the activities undertaken and on local needs and conditions. However, whatever the system in use, the records should disclose the following with reasonable accuracy at any time:-

- (i) Day to day entries for all money received and paid.
  - (ii) How much the Co-operative owes. This refers to the funds being used, which are the liabilities.
  - (iii) How much the Co-operative owns. This refers to the uses being made of the funds, they are called the assets.
  - (iv) Whether the Co-operative is financially stable and able to pay its debts as they arise.
  - (v) Whether the Co-operative is operating efficiently, covering its costs and providing a net surplus.
- (b) Losses can occur when the agreed book-keeping or other systems are not followed.

Operating procedures should be laid down by the Committee in consultation with the Auditor and Secretary/Manager. Those procedures which concern the recording and control of financial transactions, should be written down in a "Book-keeping Manual" along with specimens of the forms to be used. Other procedures to be followed in the management and operation of the Co-operative should be written down in an "Operating Manual".

Experience may lead to the adoption of better procedures and new systems and these manuals should then be revised. The manuals should be readily available to the Secretary/Manager and staff at their place of work. Training courses could also be arranged using the manuals as training material so that everyone is familiar with the agreed procedures.

## 2.2 Forms and Records

Losses can occur where records are incomplete and supporting documentation inadequate.

All transactions which affect the funds of the Co-operative should be substantiated by informative supporting documentation. Inadequate forms and records encourage negligent and fraudulent practice and prevents effective control. To minimise such losses through negligence or dishonesty the following steps should be taken:-

- (i) All forms and records should be standardised as far as possible. This is cost effective as it allows bulk buying of this type of stationery and it also helps later to control the use of the forms.
- (ii) The design of forms should always be simple but informative. A cash receipt, for example, must contain the following information:-
  - Name of Co-operative.
  - Cash receipt number.
  - Name of person paying the cash.
  - Purpose for which cash is received.
  - Amount of cash received in words and figures.
  - Date cash received.
  - Signature of person receiving cash.
  - Reference number of page in which receipt has been recorded into the books of account.

Example 2 shows a completed "Cash Receipt".

- (iii) Each type of form should have a pre-printed consecutive numbering system to enable each form to be traced and to ensure that all forms are accounted for. Cancelled forms should always be kept and marked as such. The forms should be in books of 25 or 50 pages to ease handling. Where carbon copies are needed, the copies should be printed with the same number as on the original form so that copies and originals can be easily matched.
- (iv) A "Register of Forms" (See Example 1) should be kept to help control the receipt and issue of numbered forms.
- (v) Once their quantities have been entered into the register, the stock of unissued forms should be kept by the Secretary/Manager under lock and key.
- (vi) When forms are issued by the Secretary/Manager they should be issued in the order in which they are numbered and the person receiving the forms should sign for them on the register and become responsible for those issued to him.
- (vii) When a completed book of forms is returned, usually containing copies of the original forms used, the details should be entered in the register and the Secretary/Manager should sign and become responsible for them keeping them locked in a cabinet to await audit. After the Auditor has checked them, they should be filed away for a reasonable period, depending on local requirements, before they are destroyed.





### 2.3 Security of Important Books and Records

Losses can occur when important books or records are lost or destroyed.

When important records are lost, the assets of the co-operative can be in danger for the following reasons:

- (i) The books are very often the only record of the assets belonging to the Co-operative. The recoverability of certain debts, for example, could be jeopardised if the books in which they are recorded are lost.
- (ii) Funds could be stolen after such a loss; there would be no way of verifying what funds should have existed at the moment when the loss occurred.
- (iii) Dishonest practices prior to the loss of the records would never be traced and any misappropriated funds would be irrecoverable.

Consequently, all important records of the Co-operative should be locked away in a special, preferably fire-proof, cabinet at the close of business each day. One member of the staff can be instructed to do this and the Secretary/Manager should check to make sure that this has been done. There should only be two keys for the lock on the cabinet. One kept by the Secretary/Manager, the other by the member of the staff responsible for the ledgers.

Valuable documents not used in the daily running of the Co-operative such as documents of title (e.g. Property deeds) insurance policies, and other similar legal and financial papers should be kept in the safe or alternatively at the bank.

An additional recommended precaution is to keep an updated "Register of books and documents" in the same manner as the "Register of forms" showing for all the important books and documents details of what they are, where they are being kept, and who is responsible for their security.

Finally, all documentation should be properly filed to avoid loss and to make it easy to trace. A filing system should be established in secure files. The system, whether it is based on an alphabetical method, date order, or simply consecutively numbered in accordance with the order that entries have been made in the books, must be continuously maintained and should make papers easy to locate. It is often advisable to keep a list of files to help easy reference. The Secretary/Manager should also ensure that a secure area is made available to store outdated documentation for a reasonable period.

### 2.4 Balancing and Audit

Losses can be difficult to locate and change when the books of account are not regularly balanced and subject to audit.

Regular book-keeping controls should be carried out to ensure that any loss of assets or errors which could result in losses are quickly discovered so that immediate action can be taken. These controls include

such tasks as the daily balancing of cash with the cash records, monthly or weekly bank reconciliations, reconciliations of debtors and creditors with their control accounts and the extraction of a monthly trial balance.

Accounts usually have to be audited annually by law. However more frequent independent checks of the books should be carried out by the members either through the Internal Auditor or on a more select basis, by a duty committee member. Good auditing should reveal where, when, and how losses have taken place and should include advice on what changes can be made to ensure that they do not re-occur.

## 2.5 Insurance

Insurance cover can be obtained to minimise the financial burden resulting from the loss of some or all of the assets.

There are many risks of loss or damage to the assets of a Co-operative. The Co-operative can, however, be covered against some of these risks by taking out insurance policies with reputable companies.

Different forms of insurance include cover against:-

- (i) Fire, flood and other accidental damage to the property and stock.
- (ii) Theft of property, stock and cash.
- (iii) Damage to persons and property caused by anything owned by or under the control of the Co-operative.
- (iv) The dishonesty of staff members responsible for handling money.
- (v) Loss of profits.

Not all of the above forms of insurance will necessarily be available. The Committee should try and obtain expert advice and, where possible, consult a number of insurance companies to get the most favourable terms.

Where insurance is available, the Committee would be neglecting its responsibilities if it did not obtain insurance cover against at least the very common risks of fire, flood accident and theft. The Committee should also ensure that the policies they do arrange are regularly reviewed so that the amounts at which the assets are insured are revised to reflect their current insurable value otherwise the cover may be inadequate and the Co-operative may be unable to recover the full loss, or alternatively too high, and money is lost through paying excess insurance premiums.

### 3. CASH CONTROL

#### 3.0 Main Recommendations in this Chapter:

1. A secure safe should be obtained for cash and valuable documents.
2. Insurance cover for cash held in the safe should be arranged.
3. When selecting staff to handle cash, character references should be obtained.
4. Whenever cash is received an official "Cash Receipt" should be issued.
5. Cash reconciliations should be frequently carried out by a person independent of the cashier.
6. Balances in members pass-books should be regularly checked with the ledgers of the society.
7. All cash payments should be evidenced by a signed receipt or Cash Payment Voucher.
8. A bank account should be opened to protect cash not immediately required.
9. All cheques should be signed by three people approved by the members.
10. Cheques should only be signed after the supporting evidence for payment has been examined and approved.
11. The statement of account from the bank should be regularly compared and agreed to the books of the society.
12. Funds in excess of short-term requirements should be withdrawn from the bank current account and deposited to earn interest.

#### 3.1 The Safe

- (a) Cash can easily be lost or stolen, if it is not securely locked in a safe as soon after receipt as possible.

All cash remaining in the Co-operative at the close of business each day must be locked away in the safe. Every Co-operative which handles money on a regular basis must have a safe.

It should be fire and burglar-proof and should be cemented into the inside wall or floor of that part of the building which the Co-operative uses as the office.

There should only be two keys to this safe. One key should be left for safe custody at the bank used by the Co-operative. The bank should be instructed to release this key only on the signature of the Secretary/Manager. The other in daily use should be kept safely by the Secretary/Manager. When the Secretary/Manager is away on holiday, or sick, his duly appointed deputy should hold

the key as authorised by the Committee. At the hand-over of the key the contents of the safe should be checked and will be checked again when the key is returned. As with all keys in use, there should be no label attached to indicate which lock it opens, in case the key is lost by the Secretary/Manager and then found by an outsider who could make use of this information.

When a safe with a dual lock is obtained further security is provided. In this case a key to one of the locks would be kept by the Secretary/Manager and the key to the other lock kept by a member of the committee specifically delegated with this duty. Duplicates of both keys should be kept at the bank used by the society.

- (b) The Secretary/Manager is guilty of negligence if he leaves the safe unlocked and is responsible for any consequent losses.

The safe should be unlocked and opened only by the Secretary/Manager. Before he leaves the Co-operative at the end of each day he should, as part of his regular security routine, check to make sure the safe is locked.

- (c) There is a risk of loss where the cash held in a safe exceeds the limit permitted by the Co-operative's insurance policy.

As far as possible cash should be cleared from the safe and banked, as often as the banking facilities are available. Therefore as little cash as possible should be held overnight or over week-ends. However, since it is inevitable that at times large amounts of cash will need to be held in the safe, it will be necessary to obtain insurance cover.

Care must be taken to ensure that the cash held does not exceed the sum insured.

- (d) The loss of the key of the safe may mean that a new safe has to be purchased to avoid the future loss of the contents of the safe.

Should the key to the safe be lost, the Secretary/Manager must report this immediately to the police and the Committee. Having collected the duplicate key from the bank, the Secretary/Manager should then open the safe, and check and list its contents in the presence of an independent witness. Alternative arrangements should, if possible, be made for the safe custody of the contents until the Co-operative has a secure place of its own again. Depending upon the circumstances of the key's loss, it may be advisable either to purchase a new safe, or to engage a local welder to weld a bar and hasp on the front of the safe so that a large padlock could be used to replace the lock.

### 3.2 Staff Management

Negligent and dishonest work habits lead to the loss of funds. This can be avoided by the careful selection, training and organisation of staff handling cash.

Cash must be handled with the utmost security and care. Where possible only one person within the Co-operative should handle all the

cash under the direction and control of the Secretary/Manager. However, where the Co-operative has several trading sections or branches a number of cashiers may be required and the Secretary/Manager will be unable to maintain the same degree of control over their activities. The following points should help to minimise the risks:-

- (i) Selection:- To avoid dishonest cashiers being appointed care must be taken to select the right staff. Before any person is appointed, references should be obtained from the person's previous employer or if a school-leaver from the school's headmaster. This applies even if the person is a close relative of the Secretary/Manager, a member of the staff or a committee member. The chairman or Secretary/Manager should make direct contact with the applicant's referees and not rely on written references produced by the applicant which may not be authentic. The successful candidate must be reliable and trustworthy.
- (ii) Training:- To prevent mistakes and negligent work, newly appointed cashiers should be familiar with the procedures of the Co-operative. A system of on-the-job training with an experienced employee is essential.
- (iii) Organisation:- Each cashier should have clearly defined responsibilities as laid down in a job description and these should not include making entries into any books or ledgers other than his own cash records. (This also applies to any person responsible for opening incoming letters, since payment to the society may be made through the mail).

All staff handling cash should be separately responsible for the cash they receive. A fixed sum of money should be issued to each cashier as a cash balance or float and as an acknowledgement of his or her responsibility for the sum involved the cashier should sign a receipt presented and kept by the Secretary/Manager.

It may well be advisable to make the different cashier positions interchangeable so that staff can be switched from time to time to deter collusion between the individual cashiers and the people they are dealing with, as well as help to ease any staffing problems which may arise when cashiers fall ill or go on holiday.

### 3.3 Receipt of Cash

Those paying cash to the Co-operative should always be given a cash receipt. If not, the control of cash is difficult and it may be stolen.

Whenever cash is received, a "Cash Receipt" containing the details shown in Example 2 must be made out in duplicate with the use of

EXAMPLE 2: A completed cash receipt

MAENDELEO CO-OPERATIVE SOCIETY LTD.	
C A S H            R E C E I P T	
Number :	<u>65</u>
<u>RECEIVED FROM:</u>	<u>S. Abdul</u>
<u>Three</u> LC's and <u>fifty</u> cents LC	<u>3-50</u>
<u>IN PAYMENT OF:</u>	<u>Share Contribution A/c 65</u>
<u>DATE:</u> <u>23-9-77</u>	FOR: MAENDELEO CO-OPERATIVE SOCIETY LTD.
SIGNED:	<u>J. Magras</u>
<i>New balance in pass book</i>	
<i>LC 21-65 cents</i>	Posted to Working Ledger Page No: <u>22</u>

carbon paper. The top copy of the receipt is issued to the person paying in the cash.

The Committee should instruct the Secretary/Manager to display a notice close to the place where the money is received in the store, reminding members and others that when they pay over cash they must obtain a signed official receipt from the Co-operative before they leave, otherwise they will have no authentic evidence of payment and may be required to pay again.

On the receipt the amount of cash should be shown in words and figures to help prevent the cashier, or the payer, from making alterations.

Receipts given for cheques, postal orders and money orders should be treated in the same way as those given for cash. Cheques, however, should not be accepted from strangers and only from members known to be honest by the Secretary/Manager or where a prior arrangement has been made. Post-dated cheques (those with a date in the future) should never be accepted.

During the course of the day, the Secretary/Manager should occasionally check the receipt-book immediately a payer leaves to ensure that the cashier has correctly made a carbon-copy of the receipt issued.

When a cash sale is made, customers should be given a list of what they are paying for showing the price of each item purchased and the total amount of the sale. In a consumer Co-operative this record is best produced by a cash register but in other types of co-operatives, where only a few items may be stocked, a 'Cash Sales Receipt' can be used. (See Example 3).

Members should be encouraged to check these machine lists or cash sales receipts to make sure that they have been charged the correct price for each of the items purchased and that the total amount of the sale is correct. If they do not, they could be overcharged by the cashier to help cover up losses.

The Secretary/Manager should also use the machine lists or the cash sales receipts to supervise the work of the cashier(s). Occasional spot-checks should be made by comparing total sales as shown by the cash register, or the bottom copies of the cash-sales receipts, with the total amount of cash in the till or cash-box. The total cash should be the total sales made plus the cash-float at the beginning of the day. The Secretary/Manager should also watch as customers are being served and investigate unusual events or suspected irregularities. When the co-operation of a customer is required to verify the accuracy of a transaction the customer should be approached with courtesy and tact. A request to examine the goods purchased by a customer should be accompanied with all due explanation, and the comparison of prices and total cost with the audit roll locked in the cash-register, or the bottom copy of the cash-sales receipt, should be carried out as quickly as possible. Examination of customer purchases should be done rarely and only when the Secretary/Manager has good reason to suspect an improper transaction.

EXAMPLE 3: A completed Cash Sales Receipt

MAENDELEO CO-OPERATIVE SOCIETY LTD.			
<u>CASH SALES RECEIPT</u>			
		Number:	130
<u>SOLD TO:</u>	<u>R. Teaki</u>	<u>SHARE NO:</u>	<u>94</u>
Description of Goods	Quantity	Selling Price	Total value LC's
Fertilizer Type 6	50 Kilos	5 cents/kilo	2-50
Fertilizer Type 4	50 Kilos	4 cents/kilo	2-00
Seeds Size 10	10 Kilos	40 cents/kilo	4-00
TOTAL:			8-50
<u>CASH RECEIVED:</u>		<u>Eight</u>	<u>LC's</u> <u>fifty</u> <u>Cents</u>
<u>DATE:</u>	<u>22-4-77</u>	<u>FOR MAENDELEO COOPERATIVE SOCIETY</u>	
		<u>LTD.</u>	
<u>SIGNED:</u>	<u>M. Abel - CASHIER</u>		



### 3.4 Physical Verification of Cash Balances

- (a) The balance of cash in the till or box after the last-cash sale of the day should be physically counted and verified with the cash-sales receipts or till-roll to ensure that all funds are accounted for.

At the end of each working day the Secretary/Manager should verify that the cash balance with each cashier is what it should be, taking into account the sales for the day. This should be done on a "Cashing-up Slip" similar to Example 4. The cash-float with which the cashier began the day should first be taken out of the till or box and put aside in the safe for use the next day; the remainder of the cash then counted and entered onto the "Cashing-up Slip". The total sales for the day should then also be noted. This total is obtained by adding up the cash-sales receipts, or where cash-registers are in operation from the total as shown by the audit roll in each register. The totals of cash counted and sales are compared on the slip and any difference is clearly shown. The cashier is required to give an explanation of any differences revealed over a set limit (say LCl). It should be noted that minor differences are normal especially where there are a large number of transactions each day.

Additional control is obtained where cash-registers are used. Only the Secretary/Manager should have access to the audit roll locked in the register, consequently the sales figure cannot be manipulated by the cashier. The audit rolls form part of the records of the co-operative and at the end of each day should be dated and filed away for audit. Occasionally the Secretary/Manager should examine the rolls in detail to spot-check any irregular-looking entries. However, if the audit rolls are to be useful the cashiers must inform the Secretary/Manager of any mistakes that they are aware of making when using the registers so that he can instruct them on how to correct the errors and can mark and sign the audit rolls where the corrections have been made.

The cash for sales of the day, once verified by the Secretary/Manager, should then be entered into the cash-records and placed with the other unused cash funds, the 'cash in hand' of the Co-operative.

- (b) Spot-checks should be made on the cash-in-hand at irregular, but frequent, intervals by independent persons so that differences are discovered as soon as possible.

Everyone responsible for cash funds should be subject to control by independent persons; thus in the same way that the Secretary/Manager should conduct spot-checks on the staff handling cash, so should the Secretary/Manager be subject to control by the Internal Auditor, the Duty Committee Member and the Auditor for the overall cash-in-hand of the Co-operative.

It must always be possible for the books to show quickly how much the Co-operative holds as cash-in-hand in the safe. Surprise cash counts verify that the funds are still in existence and prevent the practice of individuals using the Co-operative's cash funds for their own private use. Without sufficient warning they are unable to replace the money they have taken.

EXAMPLE 4: A CASHING UP SLIP

<u>MAENDELEO CO-OPERATIVE SOCIETY LTD.</u>		No: 47
<u>CASHING UP SLIP</u>		
Name of Cashier:	<u>M. Abel</u>	
Date:	<u>23-9-77</u>	
		LC's
<u>CASH</u>		20-00
LC 10		15-00
LC 5		60-00
LC 1		1-25
Silver		14
Other coins		
<u>TOTAL</u>		96-39
<u>Cheques drawn by:</u>	<u>COOP UNION LTD.</u>	4-65
		1-00
Postal and money orders		
<u>TOTAL CASH</u>		102-04
<u>TOTAL SALES (from receipts or audit roll)</u>		102-61
<u>Difference:</u>	CASH OVER / SHORT	-51
<u>Reason for difference</u>		
<u>Signed:</u>	<u>M. Abel</u>	Cashier
<u>Signed:</u>	<u>A. Nyema</u>	Secretary/ Manager

The following steps should be taken when carrying out a spot-check on cash:-

- (i) Note the latest balance in the cash account.
- (ii) Up-date the above balance for any cash payments, or receipts which have not yet been recorded in the cash account. The new balance is the amount of cash which should exist.
- (iii) Count all the cash and note the details.
- (iv) Compare the total of the cash counted with the up-dated cash account balance and note any difference.
- (v) Obtain an explanation for any difference.

An example of a reconciliation of cash counted with the balance of the cash account is given in Example 5.

- (c) Members should always bring their pass-books to the Co-operative when paying in contributions or receiving withdrawals and should check the entries in their pass-book against the entries and balance in the share ledger kept by the society or else defalcations may not be discovered.

Separate share contribution receipt-books should be kept if there are frequent enough transactions to justify this, otherwise the usual receipt-book can be used. The receipt issued by the Co-operative for a contribution should include the number of the account of the contributor and a note of the new balance in the pass-book. This is shown on Example 2.

Generally the cashier receiving the contribution should not be concerned with the posting of the ledger, but in a small society where these jobs can not always be separated, the cashier/book-keeper should try to post the ledger before the member leaves and show the member the ledger page. In this way the balance on the ledger should always be the same as the balance in the pass-book taken away by the member. No pass-books should be left for safe custody with the Co-operative. Members themselves should attend when share transactions occur, particularly when withdrawals are required. The members should be required or encouraged to produce their passbooks to attend meetings. The share-ledgers should be taken to these meetings under the supervision of the Internal Auditor. As members arrive the balances in their pass-books can be checked with the balances in the share-ledgers by the Internal Auditor and the Auditor when he is available. The Auditor will also check as many pass-books as he can during his audit by writing to or visiting a number of members, selected on a random basis.

Members should be encouraged to check their pass-books at least twice a year with the record of their account in the share-ledger kept in the Co-operative. In this way any cases of staff not recording contributions or forging withdrawals should be revealed. At the same time this check is made to prevent members altering their pass-books to show false contributions or to increase the balance shown. Such a procedure can of course be applied to all types of pass-books in use within the society.

EXAMPLE 5:      A CASH RECONCILIATION

<u>Cash Reconciliation of No. 2 Cash Account</u> <u>at 9.15 a.m. on 23rd January 1980</u>		<u>LC</u>
Balance of No. 2 Cash account 21st January 1980		32.61
ADD: Cash sales receipts on 22nd January 1980, not yet recorded (Cash Sale Receipts Nos. 123 - 132)		<u>128.20</u>
		160.81
LESS: Unrecorded Cash Payments 22nd January 1980. Share withdrawals (Payment Voucher 761)		<u>12.50</u>
		148.31
 Cash counted:	<u>LC</u>	
LC 10 Notes	110.00	
LC 5 "	10.00	
LC 1 "	10.00	
Coins	6.71	
Cheque	<u>8.50</u>	<u>145.21</u>
Shortage requiring explanation		<u>3.10</u>

### 3.5 Cash Payments

- (a) Care must be taken to ensure that cash payment vouchers cannot be made out for fictitious payments, or altered to cover up cash shortages by showing a greater sum of cash paid out than was the case.

The Committee should set a limit, say of LC5, to the amount which can be paid out in cash. Any payments over this limit should only be made by cheque. To aid control, only one person, if possible, should be responsible for making cash payments. A signed receipt must be obtained from the person to whom the payment is made as evidence that he has received the cash. Sometimes the person receiving the cash will issue his own receipt, in other cases a "Cash Payment Voucher", shown at Example 6, is made out by the Secretary/Manager, or cashier, and the person receiving the cash will acknowledge receipt by signing this voucher. All vouchers supporting the payment of cash should be kept filed in the Co-operative ready for audit.

- (b) Cash can be lost as a result of unauthorised payments being made to the Committee, Secretary/Manager of staff.

Only payments properly incurred and authorized by resolution at the Annual or other General Meetings of Members can be made to the members of the Committee. Often the Registrar of Co-operatives has first to give his approval as well to these payments. Authority for payments to the Secretary/Manager or staff should come from the Committee.

In all cases care should be taken to ensure that expenses are kept to a minimum and that the funds of the Co-operative are not used for the private purposes of members of the staff or Committee.

- (c) Unauthorized payments of wages may be made to staff if there are no wage records or controls.

Wages should be paid at the agreed rates on the agreed days. No overtime or other extra payments should be made unless they have been properly authorized. The Committee should give the Secretary/Manager authority to allow a limited amount of overtime to be worked and any extra must first be authorized in writing by the Committee. Where possible, one person should prepare the wages records and another should make the payments of cash. Where the Secretary/Manager has not been responsible for the preparation of the wages record sheets, he should check and sign them.

The Duty Committee Member or the Internal Auditor should occasionally attend to check the wages records and to watch the cash being paid. This attendance helps to prevent fraud which can be carried out by the wages clerk preparing wages records and drawing cash for fictitious employees. Wages records should also be checked against tax receipts and records to ensure that all tax deducted has been paid over to the authorities. Receipts should be obtained from the employees when they are paid, by having them sign their names next to the appropriate wages calculation on their wages record sheet. Examples 7 and 8 show a "Wages Record Sheet" for an employee.

EXAMPLE 6: A CASH PAYMENT VOUCHER

MAENDELEO CO-OPERATIVE SOCIETY LTD.	
CASH PAYMENT VOUCHER	
	Number : 246
PAID TO:	<u>L. KOBEDI</u>
	<u>Five</u> LC's and <u>twenty</u> Cents
	LC <u>5-20</u>
<u>REASON FOR PAYMENT:</u>	<u>Casual Labour - work done <sup>24</sup> 15 Sept '77</u>
<u>DATE:</u>	<u>15-9-1977</u>
	<u>SIGNATURE OF RECEIVER OF CASH:</u> <u>L. Kobedi</u>
<u>Payment authorised by:</u>	<u>A. Nyema (Committee minute dated <sup>24</sup> 15/9/77)</u>
Posted to working ledger page No: <u>21</u>	

EXAMPLE 7: AN INDIVIDUAL'S WAGES RECORD SHEET.

MAENDELEO CO-OPERATIVE SOCIETY LTD.								
NAME: <i>FELICITY MAGRAS</i>		JOB: <i>CASHIER</i>						
ADDRESS: <i>THE STREET, MAENDELEO</i>				DATE OF BIRTH: <i>6.6.53</i>				
				NEXT OF KIN: <i>SARAH MAGRAS (Mother)</i>				
DATE APPOINTED: <i>1.5.73</i>		MONTHLY SALARY: <i>FROM 15.73 LC 20</i> <i>2.10.73 LC 25</i> <i>1.1.75 LC 28</i>						
Month ending	Basic wage	Over time	Total gross wage	Deductions			Net Paid	Employee's signature
				Tax	Others	Total		
	LC	LC	LC	LC	LC	LC	LC	
<i>31.5.73</i>	<i>20.00</i>	<i>2.00</i>	<i>22.00</i>	<i>1.50</i>	<i>-</i>	<i>1.50</i>	<i>20.50</i>	<i>F. Magras</i>
<i>30.6.73</i>	<i>20.00</i>	<i>-</i>	<i>20.00</i>	<i>1.10</i>	<i>-</i>	<i>1.10</i>	<i>18.90</i>	<i>F. Magras</i>
<i>31.7.73</i>	<i>20.00</i>	<i>2.50</i>	<i>22.50</i>	<i>1.50</i>	<i>-</i>	<i>1.50</i>	<i>21.00</i>	<i>F. Magras</i>

On the back another record is kept of sickness and holiday entitlements (See Example: 8) which should only be paid when authorised.

EXAMPLE 8: AN INDIVIDUAL'S SICKNESS AND HOLIDAY RECORD SHEET  
(USUALLY PRINTED ON THE BACK OF THE WAGES RECORD SHEET)

SICKNESS				HOLIDAYS			
Date	Days Permitted*	Days Sick	Balance	Date	Days due	Days taken	Balance
1.5.74	6	1	5	1.5.74	18	-	18

(\* on full sick pay)



to the bank or elsewhere. It is often advisable to vary the route of the person carrying the money and take other such precautions if large sums of money are being transported. Alternatively, the use of a specialised security agency could be considered appropriate.

- (c) Cheques should only be signed by the authorised signatories when they are satisfied that all the control procedures to prevent irregular payments have been complied with.

Cheques should always be kept secure in the safe and the bank should be immediately informed if any cheque is lost or stolen so that payment can be stopped.

A cheque should always be presented for signature accompanied by the invoice or other relevant supporting document to which it relates. Not only should the cheque be completed correctly with the details corresponding to those of the invoice but the signatories should also be satisfied that the invoice is authentic, current, has not already been paid, and is for an expense which has been properly incurred in the normal course of the Co-operative's business. There should be an indication on the document that it has been properly checked and passed for payment by the Secretary/Manager. Where the supporting evidence for a payment is insufficient the signatories must insist that they receive full information before signing. Where certain forms of payment require the authorisation of the committee, the signatories must ensure that the proper authorisation has been obtained before agreeing to authorise the payment. All cheques to third parties should be crossed with two parallel lines which instructs the bank only to pay the stated sum into another bank account and not over the counter in cash. The only exception is where the Co-operative has to withdraw cash; in this case an uncrossed cheque should be made out to the Secretary/Manager who should personally collect the cash from the bank.

- (d) To prevent the possible loss and misuse of funds, the bank account in the books of the Co-operative should be regularly compared and agreed to the Bank Statement sent out by the Bank. These reconciliations should be independently checked.

Regular, normally monthly, comparison of the bank statements and the books of the Co-operative (see Example 9) will enable the Co-operative to check that there have been no errors made by the bank which could result in the Co-operative losing funds. It is also a means of detecting book-keeping errors in the Co-operative which could be time-consuming to identify at a later stage. If possible, these comparisons should be independently checked to deter the illegal use and misuse of funds by the person controlling the bank account and cheque-book within the Co-operative.

### 3.7 Surplus Funds.

The committee are not acting as prudent men of business if they allow surplus funds to remain idle; the Co-operative would be losing interest which could be earned from such funds.

Generally all the funds of the Co-operative will be used within the

### 3.6 Operating a Bank Account

- (a) In order to protect funds, all cash not required for immediate use should be put into a bank account.

A current account in the name of the Co-operative should be opened at the nearest bank. Unless otherwise stated in the by-laws, the Committee must first choose the people who will be required to sign the cheques drawn on this account. It is usually best to choose the Chairman, one other Committee member and the Secretary/Manager. All three must sign each cheque before the bank will make the payment ordered by the cheque. The Secretary/Manager will always be available to sign cheques and the other two persons required to sign with him should also be easy to find when payments by cheque are necessary. The bank will provide several copies of forms on which they will require specimen signatures from the three people concerned.

To open the account the Secretary/Manager is usually required to take the following papers to the Bank:

- (i) The forms containing the specimen signatures.
- (ii) The Minute of the General Meeting electing the Committee.
- (iii) The Minute of the Committee's decision to open the account.
- (iv) The Minute of the Committee naming the people to sign cheques.
- (v) The by-laws of the Co-operative.
- (vi) The certificate of registration of the Co-operative.

When the people authorised to sign cheques are changed, the bank must be informed immediately and will require evidence of official authorisation for the change together with specimen signatures. If this is not done people who are no longer authorised to sign cheques could make irregular payments.

The bank will issue a paying-in book and a cheque-book and from time to time will send the Co-operative statements which are copies of the Co-operative's account in the ledgers kept at the bank. New cheque-books will only be issued by the bank on receiving a request signed by the persons authorised to sign cheques.

- (b) Care must be taken when paying-in cash to the bank. Losses could occur through theft of cash in transit and through clerical errors.

One person only should be made specifically responsible for paying-in funds to the bank. Usually this is the duty of the person responsible for the cash-in-hand of the Co-operative. Before going to the bank, a paying-in slip should be made out in duplicate detailing the cash, cheques and money orders to be paid in. One copy should be kept by the bank and the other should be stamped and returned to the Society as proof of receipt by the bank.

Extra care should be taken when money is moved from the Society

business in providing the goods and services required by the members. However, sometimes there may be funds available which are not immediately required for the trading or development needs of the Co-operative. These funds should not be left idle in the bank current account, but should be put to work to earn interest by depositing them in other Co-operative organisations (e.g. the secondary society to which it belongs) banks or other bodies approved by the Registrar and authorised under the by-laws.

Wherever they are deposited, the Committee should ensure that the funds are secure, can be withdrawn within a reasonable period if needed, and earn an acceptable rate of interest.

The deposit and withdrawal of surplus funds should be subject to the same controls as that of an ordinary bank account. A statement of interest earned should be requested annually from the organisation in which the deposit has been made and occasional spot-checks should be carried out by the Duty Committee Member and Internal Auditor to compare the deposit balance as recorded by the society with the organisation which has received the deposit.

EXAMPLE 9: Shows a typical bank reconciliation statement. The preparations of such statements is covered in the book-keeping manuals mentioned in the introductory note.

MAENDELEO CO-OPERATIVE SOCIETY LTD.	
<u>Bank Reconciliation Statement</u>	
<u>as at 31.8.1977</u>	
Balance in Bank on Bank Statement: 29.8.77	LC 1,750.61
<u>Add</u> deposits in transit:	
deposit entries in bank account in the Co-operative not yet shown in the Bank Statement:	<u>320.15</u>
TOTAL:	2,070.76
<u>Deduct</u> cheques not presented	
cheque entries in bank account in the Co-operative not yet shown in the Bank Statement	
Cheque Nos: 141 10.00	
142 5.00	
143 4.60	19.60
<u>Balance in the bank account in the books of the Society</u>	LC <u><u>2,051.16</u></u>

#### 4. PROPERTY CONTROL

##### 4.0 Main Recommendations in this chapter:

1. All proposals of major capital expenditure should be examined and justified in a feasibility study.
2. A list of all property owned should be compiled and used to check the physical existence and condition of each item listed.
3. A log-book should be kept for each vehicle.

##### 4.1 Purchase of Property

No funds of the Co-operative should be tied up by the purchase of property, unless the expenditure is justified in terms of good business sense.

Any proposal for a major improvement or expansion of the activities of the Co-operative should first be subjected to a feasibility study. Such a study would involve the Secretary/Manager, the Committee and possibly technical support from a secondary co-operative society and the Government Co-operative Department. The Committee would base its decision on the study after consultation with the membership, if necessary.

The form and content of a Feasibility Study would depend upon the purchase proposed. The following basic questions, however, usually form part of such a study.

Is the proposed development:

- needed by the members?
- within the objects and policies of the society?
- able to be financed?
- able to pay for itself?
- within the administrative resources of the society?

##### 4.2 Fixed Asset Inventory

A list should be made for all 'property' owned by the Co-operative. This list should be kept up-to-date and used for periodical physical checks to verify the existence and condition of every item.

A regular comparison of such a list with the physical assets would ensure that any missing items would be noted and steps taken for their prompt recovery or replacement. The condition of the property could also be ascertained at the same time so that any necessary repairs could be carried out.

#### 4.3 Maintenance

Property should be regularly maintained and serviced to minimise the loss of funds through expensive repairs.

The Operating Manual (see Page 4) should provide for the regular servicing of all property as a matter of routine. Preventive maintenance can save a great deal of expense. Such actions as the inspection of all buildings before the rainy season begins and the treatment of floors and equipment to control pests can result in substantial cost savings if the Co-operative runs the risk of being badly damaged by a leaking roof, or needing major repairs to rotting timbers caused by termites. Particular care must be taken that the Co-operative is aware of and abides by government regulations concerning the maintenance of equipment under its control. This is often the case as far as fire-fighting equipment is concerned and weighing equipment subject to weights and measures legislation.

#### 4.4 Security

- (a) Property should be left securely at the end of each working day to safeguard the Co-operative's assets.

The Secretary/Manager should be responsible for the security of the property. In particular he should develop a regular routine of inspection at the close of business each working day. This will include making sure that cash and books are in the safe, water taps and lights are turned off, windows closed, and the safe and doors are locked.

- (b) No-one should borrow the property of the Co-operative for personal use without authorisation. Such action can easily lead to loss or damage.

Where the lending of property to staff and members is part of the services offered by the Co-operative it should be subject to the same clearly defined procedures, agreed by the membership, as any other service. Unauthorised personal use of assets should be strongly discouraged as this removes the property from the controls regulating its use, thereby risking loss or damage.

#### 4.5 Motor Vehicles

Motor vehicles of the Co-operative should be controlled so that they are used for authorised business purposes only. The misuse of vehicles can involve the Co-operative in considerable losses; they are valuable assets and running costs are high.

A log book must be kept for each vehicle of the Co-operative; in it the driver should note the journey, times and distance for each journey undertaken. It should also contain details of refuelling, (the date, amount of fuel and number of kilometers or miles on the tachometer at the time of refuelling) so that fuel consumption can be checked, as well as details of any servicing and repairs. The log-book should be the complete history of the vehicle and the Secretary/Manager must check regularly that it is properly filled in.

Preferably one person only should be responsible for each motor vehicle; he should be a properly trained and experienced driver who must be aware of the relevant regulations concerning the use of the vehicle entrusted to him. However, it is often not possible to have one driver responsible for each vehicle. In this case, the responsibility of the vehicles should be entrusted to the Secretary/Manager who should control their use by supervising the issue of ignition keys, ensuring at the same time that the log-books are properly used. Regulations should be clear concerning the security of vehicles at night and over the week-end and should prevent unauthorised access.

No unauthorised goods or passengers should be carried in the vehicles of the Co-operative. This practice often invalidates the motor insurance policy and an accident in these circumstances may involve the Co-operative in an expensive claim for damages.

## 5.2 Ordering

- (a) Losses can be incurred through the uncontrolled purchasing of stock. Orders should take account of current stock levels, customer requirements and the capacity of the Co-operative to finance and store unsold goods.

The controlled use of funds invested in stock held for resale is of vital importance to any co-operative which sells goods to members. It is necessary to have stocks so that customer requests can be met without undue delay, but this often means tying up a large proportion of funds. As funds are limited however it is an important part of management to arrange its stock levels in such a way that the co-operative does not run out of stocks which could mean lost sales; does not overstock, which could result in losses from stock deterioration, and at the same time takes advantage of bulk-buying quantity discounts and other payment terms from suppliers to reduce costs. This control of stock levels begins with a rational system for ordering and re-ordering.

The system of ordering should enable the Co-operative to order stock items in good time, that is, before existing stocks have run out. It should indicate at what moment an order must be made and at what moment it is best to restock as well as the quantity to be ordered.

To set re-order levels and quantities, the answers to the following questions need to be found in the stock and suppliers records of the Co-operative.

- How many of the items are sold, on average, each month? Can an increase or decrease be anticipated and if so, how much?
- What is the normal delivery time between giving the order and the actual receipt of the goods?
- What is the maximum amount that should be ordered, given the space available and the financial terms offered by the supplier?
- How long can an item be stocked before it deteriorates?
- Is the supplier limited to particular dates and quantities?

With the above information the re-order levels and quantities can be set in a logical manner and marked on the stock control cards (see Example 12) for each item so that when stock levels fall below a certain point, orders for the right quantities are automatically made to the supplier.

- (b) Losses can arise if ordering is not sufficiently organised to ensure the best terms and conditions from suppliers.

A "Purchase Order Form" (see Example 10) must be made out for every order made, even those by telephone, and this should be the responsibility of one person. It must be remembered that a

5. STOCK CONTROL5.0 Main Recommendations in this Chapter:

1. Re-order levels should be calculated for each item of stock to regulate orders and thereby control the amount of stocks held.
2. A purchase order form should be completed for every order made to a supplier.
3. All goods received from suppliers should be checked to the relevant purchase order form and suppliers delivery note.
4. The Co-operative must keep appropriate stock records which show how much stock should exist. There are two alternatives depending on the number of stock items:-
  - (i) Stock Control Cards - recording the quantity of stock which should exist for each item.
  - (ii) The Leakage Control Account - recording the total value of all stocks which should exist.
5. Periodically the stock should be physically counted and compared to the stock records. The reasons for significant differences should be determined.
6. Produce received from members should be checked, accurately weighed and graded before a "Produce Receipt" is issued as evidence of acceptance by the Co-operative.
7. A receipt should be issued to, and signed by, the members as evidence of correct payment to them of the sale proceeds of their crop.

5.1 Introduction:

It is very obvious that the flow of merchandise and/or agricultural produce through a co-operative society is exposed to risks of losses at various points along the chain of actions connected with it, and that proper control should be established at each point. 'Stock Control' is commonly used as a name for the group of control measures connected with merchandise and produce. It includes control in connection with ordering of goods, receiving them into the society - and at some stage paying for them - storing them, selling them or otherwise passing them on out of the custody of the society.

There is usually a difference in the technical control procedures related to merchandise bought from suppliers for resale to the members, and those related to the members' produce which they have delivered to the society to be passed on to a buyer, although the principles of the control are very much the same.

The following sub-sections 5.2 - 5.7 deal with control of merchandise for resale, whereas the procedures with regard to control of members' produce will be dealt with in section 5.8.



## EXAMPLE 10: A Purchase Order Form.

FROM: <u>Maendeleo</u> Co-operative Society Ltd.		TO: Supplier <u>Co-operative Union Ltd.</u>	
ADDRESS: <u>MARKET SQUARE</u>		ADDRESS: <u>THE DOCKS</u>	
<u>Maendeleo</u>		<u>Capital</u>	
<u>ORDER FOR GOODS</u> NO. <u>64</u>			
Please deliver the following as soon as possible to: <u>address (as above or a branch)</u>			
Number of Units	Description	<u>Your Catalogue Number</u>	<u>Catalogue Unit Cost Price</u>
500 PACKETS	TOMATO SEEDS	S/T 3	LC 1.00 per packet
100 BAGS	MAIZE SEEDS	S/M 2	LC 5.00 per bag
Signed: <u>Secretary/Manager. A. Nyeta</u> date: <u>21/9/77</u>			

written order commits the Co-operative to purchase and therefore it is only prudent that one person should supervise the collection of all purchase requests and make out the necessary orders having regard to the financial position of the Co-operative and the terms offered by the suppliers.

A request to purchase should become a Purchase Order only when the person responsible for ordering is satisfied that the following conditions have been fulfilled:-

- (i) That the items are really needed.
- (ii) That the Co-operative can afford to make the purchase.
- (iii) That the supplier who gives the best service in terms of reliability, delivery period, quality, cost and conditions of payment has been identified.

In order to identify the best supplier the person making the order has the responsibility of enquiring into the terms and conditions offered by all available suppliers; this would include, for example, making arrangements to receive up-dated price and service catalogues. Special financial terms can often be negotiated where the Co-operative can guarantee a certain amount of business to a supplier and enquiries should be made with major suppliers about the possibility of such supply contracts.

The purchase order should be clearly made out in duplicate, numbered, and duly signed by the person responsible for ordering. One copy is sent to the supplier and the other should be kept in the Co-operative to chase up orders and as a record to compare with the goods actually delivered and invoiced.

The suitability of suppliers should be occasionally checked by the Internal Auditor and Duty Committee Man. Independent checks should discourage dishonest arrangements with suppliers to defraud the Co-operative.

### 5.3 Receiving Goods

When receiving goods from suppliers, losses can occur if the Co-operative does not check that the goods have been ordered and that it has received all the goods for which it will be charged.

If possible, one person, supervised by the Secretary/Manager should be responsible for the receipt of goods. Deliveries should be arranged for quiet periods so that proper checking can take place without distractions. A place in the warehouse or stock-room should be cleared for the delivery to go unhindered by other items of stock.

Usually the goods ordered will be sent to the society accompanied by one or two copies of a "Delivery Note" showing the quantity and description of the goods despatched. This delivery note will be the basis upon which the supplier will charge the Co-operative. It is important, therefore, that the delivery note is accurate and corresponds to what was delivered and to what was ordered.

The following procedure is recommended for the receipt of goods:-

- (i) The supplier's delivery note should first be compared to the duplicates of the Purchase Orders to see whether the goods have been ordered. If they have not, they should be returned to the supplier.
- (ii) The number of the supplier's delivery note should be written on the duplicate purchase order to indicate that the order has been carried out. This helps to chase up outstanding orders.
- (iii) The goods should then be checked to the details on the delivery note and any shortages, breakages, errors or omissions should if possible be acknowledged in writing on the delivery note by the person making delivery to avoid any future dispute.
- (iv) The Secretary/Manager should supervise the receipt of goods and occasionally carry out spot checks on some items to discourage fraudulent arrangements between the delivery men and the staff.

Only when the delivery has been verified should the Secretary/Manager sign the delivery note, a copy of which should be kept to check the supplier's invoice.

When the supplier's invoice arrives, it should be part of the Secretary/Manager's routine checks before authorising payment that the details of the delivery note are compared to the invoice to ensure that the Co-operative only pays for goods that have been received. If the supplier has not given the Co-operative credit for shortages, damages or omissions which occurred on delivery an immediate claim should be made based on the original delivery note.

The Co-operative should ensure that evidence of receipt of the goods is obtained for every delivery. If there is no delivery note accompanying the goods, or if the only copy is signed and returned to the supplier, a "Goods Received Note" (see Example 11) should be made out at the time of delivery and signed by both the persons receiving and delivering the goods. The goods received note should then be used in place of the supplier's delivery note to verify the supplier's invoice.

#### 5.4 Storage of goods.

##### Losses can arise if stock is not properly stored.

Stock should be kept in a store-room which should have the following features:-

- (i) The store-room should be safe from the weather. Exposure to rain, wind and direct sunlight can lead to stock deterioration.
- (ii) It should be secure. Entry into the room should only be possible through one door which should be kept locked when not in use. Whilst it should have some natural light, all windows should be firmly secured to prevent unlawful entry.
- (iii) It should be clean. Freedom from dirt, 'insects' and vermin is essential if the stock is to remain saleable.
- (iv) It should be well situated. Carrying stock long distances always involves a risk of stock-loss through poor handling so the store-

EXAMPLE 11 : A completed Goods Received Note.

MAENDELEO CO-OPERATIVE SOCIETY LIMITED	
<p style="text-align: right;">No: <u>203</u></p> <p style="text-align: right;">Date: <u>23/9/44</u></p> <p>GOODS RECEIVED NOTE</p> <p style="text-align: center;">FROM : <u>PAPER CO. LTD.,</u> <u>MAENDELEO PLAZA</u></p>	
QUANTITY	DESCRIPTION OF GOODS
12 BOXES	PRODUCE LABELS (200 per box)
3 PACKETS	PRODUCE RECEIPTS (pre-printed per request) - 200 per packet
<div style="border: 1px solid black; border-radius: 50%; width: 200px; height: 60px; margin: 0 auto; display: flex; align-items: center; justify-content: center;">             ORDER N<sup>o</sup> 52           </div>	
<p>SIGNED: RECEIVER</p> <p style="text-align: center;"><i>A. Nyera (Secretary/Manager)</i></p>	
<p>SIGNED: SUPPLIER</p> <p style="text-align: center;"><i>N. Ginn (DRIVER)</i></p>	

room should be close to where the stock will be sold and be sufficiently accessible to suppliers.

- (v) It should be large enough. Stock which cannot be properly stacked or piled will be damaged.

Before placing the new stock in store, it is wise to mark on it the selling price and the date of receipt. Thought should be given to the placing of stock - heavy articles at a convenient level for lifting - bottles in a secure place where they are less likely to be damaged - frequently purchased items nearer the point of despatch.

Stock should be arranged in such a way that the oldest stock is sold first, (i.e. "first in, first out"). If sales are made only from the items most recently delivered the older stocks will deteriorate and will be difficult to sell at full value.

Perishable items should be frequently examined. Rotting items of stock should be thrown away before the other stock is affected. Where stock has been stored for longer than the recommended storage period, it should be destroyed or reduced in price to prevent poor quality stock being sold at full value which could seriously affect the Co-operative's reputation and lead to lost sales.

The personnel dealing with stock should be properly trained. Careless stacking and handling can cause stock losses. Where the external appearance of stock is damaged, it is very often difficult to sell at the full price. The cleaning of stock and shelves should be a regular routine.

Fire precautions should be taken. Suitable equipment to deal with a fire outbreak should be available in the store-room and care should be exercised when dealing with inflammable materials.

## 5.5 Selling Operations

- (a) Losses can arise through inefficient weighing and measuring:

If goods are not pre-packed by the factory, losses invariably occur through incorrect quantities being given to customers and through spillage during weighing and measuring. These losses can be kept to a minimum by ensuring that the store has an accurate weighing device and that personnel are trained in its use; and that as far as possible stock should be measured, weighed and packed by the Co-operative before selling takes place.

- (b) Losses can arise due to poor handling and display of goods for sale:

Stock should always be handled carefully. Whether the goods are in store or being sold to customers, care must be exercised to prevent damage to packaging and contents. Customers are rarely willing to pay full price for spoiled goods. Staff in the store should be supervised to see that care is exercised and goods that can easily be damaged should be displayed out of reach of the customers. Re-stocking of display shelves should be done in such a way that the first items displayed are sold first.

(c) Losses can arise through shop-lifting:

The Co-operative should not of course suspect that all customers or staff are stealing from the shop, but on the other hand, it is a fact that shop-lifting is a problem. It is very difficult to see who is honest and who is not, as shop-lifters are found among the rich as well as the poor, among women as well as among men, among people with education as well as those without, in all ages and in all different kinds of jobs.

It is therefore necessary for the shop personnel to be wide awake, and for caution to be applied not only to those they suspect, but to all customers. To cut down on shop-lifting there are a few important rules which should be followed when customers are in the shop:

- Never leave a customer alone in the shop. The right place for the sales personnel is in the shop - not outside or in the store-room.
- The shop personnel should not engage in private conversation when customers are in the shop. It gives a bad impression to the customers and it reduces alertness.
- When the salesman is filling up the shelves, etc., he should at the same time be aware of the movements of the customers.
- Never let a customer feel that he is being watched. If the customers suspect that they are not trusted, they will not feel happy coming to the shop.

(d) Losses can arise through the uncontrolled use of stock items for internal purposes in the Co-operative and through unrestricted staff sales.

Any stock used for internal purposes should be authorised by the Secretary/Manager and immediately recorded in the books of the Co-operative as an expense item. This procedure is necessary to control a common justification for stock leakages.

Sale to staff members should take place subject to rules laid down in the Operating Manual, both in order to minimise the risk of losses through internal theft and in order to protect staff members from undue suspicions. Staff members should not be allowed to handle sales to themselves, but should always request a colleague to serve them. One method of control is that each staff member is issued with a notebook, into which his purchases should be written and the payment of them should be verified, either by attaching the cash register receipt to the relevant page, initialled by the person receiving the payment, or by the signature of that person in the book. A staff member can in that way always prove that he/she has paid for goods taken away, or it could be proved that goods have not been paid for, thereby making it more difficult to remove goods dishonestly.

5.6 Stock Control Systems and Records.(a) Stock losses will be difficult to identify, quantify and prevent

unless stock control records are kept according to a consistent system.

Stock control records should be maintained at all times. They should be kept in such a way that they can indicate at any moment how much stock ought to be in the store. Proper stock control can only exist by keeping such records, for without them there would be nothing against which to compare what actually is kept in stock - as found through a physical counting of all the stock, the stock-taking procedure (see 5.7) - with what should be there according to the records. That is the way stock losses are accurately identified.

There are two forms of stock control systems, commonly used:

(i) The number or unit stock control system.

The principle of this system is a simple one. A record is being kept of the quantity or number of each individual commodity kept in stock, either on a separate stock card or on a page in a special book. Example 12 shows a "Stock Control Card". Whatever comes in should be recorded and added to the previous balance. The normal sources of that information would be the suppliers Delivery Notes or the Goods Received Notes (see 5.3). Whatever goes out should be recorded and deducted from the previous balance. Sales Receipts and other documents in respect of outgoing deliveries are the sources of information. It is not necessary to make entries on the Stock Control cards each time items are coming in or going out; a more convenient procedure is to summarise from the source documents, and make entries daily or weekly (as shown in Example 12). The Stock Control Cards or the Stock Control Book should preferably be kept by someone having no access to stocks and who is not responsible for the sales or purchases records.

Frequent spot checks should be carried out by the Secretary/Manager, the Internal Auditor or the Duty Committee Member to compare a number of stock balances as shown on the Stock Control Cards with the quantities actually in existence.

Occasional checks should also be carried out to verify that the entries on the Stock Control Cards have been correctly summarised from the source documents.

If differences are discovered through these checks, the cards should be adjusted accordingly and the person carrying out the check should initial and date the adjustment. The cause of the differences should be investigated, and appropriate actions should be taken.

This Stock Control System is suitable for Co-operatives carrying a fairly limited variety of commodities for resale; the keeping of such records would be cumbersome if there were a great number of articles and a great number of sales transactions. 100 - 150 different types of goods, meaning the same number of stock Control Cards, is not unreasonable, but beyond 150 the use of the Leakage Control System would be recommended.

EXAMPLE 12 : A Completed Stock Control Card.

STOCK CONTROL CARD							
DESCRIPTION OF STOCK ITEM: <i>Fertilizer No 6.</i>							
WEIGHT/QUANTITY OF EACH UNIT: <i>50 Kg. Bags</i>				RE-ORDER LEVEL: <i>90 Bags</i>			
				RE-ORDER QUANTITY: <i>60 Bags</i>			
DATE	OPENING BALANCE	STOCK RECEIVED		STOCK SOLD	CLOSING BALANCE	STOCK COUNTED	
	QUANTITY	AVERAGE UNIT COST PRICE	QUANTITY	QUANTITY	QUANTITY	DATE	INITIAL
<i>30.4.75</i>	<i>104</i>	<i>LC</i> <i>5.0/Bag</i>			<i>104</i>	<i>30.4.75</i>	<i>Auditor</i>
<i>15.5.75</i>	<i>104</i>		<i>-</i>	<i>20</i>	<i>84</i>		
<i>22.5.75</i>	<i>84</i>	<i>5.5/Bag</i>	<i>60</i>	<i>30</i>	<i>114</i>		
<i>29.5.75</i>	<i>114</i>		<i>-</i>	<i>20</i>	<i>94</i>	<i>31/5/75</i>	<i>A. Nyera</i>



EXAMPLE 13 : A completed Leakage Control Account

<u>Leakage Control Account</u> (Values at selling price throughout)		
For the 4-week period ended 24.9.77		
	<u>LC</u>	<u>LC</u>
Stock to begin - (from last stock sheets)		635.00
<u>Add</u> : Purchase (from control book)		1,216.12
Price increases (from price changes book)		4.00
TOTAL		
Price reductions (from price changes book)	-	1,855.12
Special Sales Discounts (from price changes book)	10.00	
Sales (from financial record)	1,362.12	
Stock to end (from stock sheets)	465.00	
Deliveries Not Yet Invoiced (from Delivery Note Book)	-	1,837.12
		<u>18.00</u>
<u>SURPLUS OR (LEAKAGE)</u>		LC

As a % rate on sales =  $\frac{18}{1362} \times \frac{100}{1} = 1.32\%$

EXAMPLE 14

PURCHASES CONTROL BOOK						
DATE	SUPPLIER	NUMBER OF RECEIPT, INVOICE or CREDIT NOTE	BUYING PRICE	SELLING PRICE	MARGIN	
			LC	LC	LC	%
10.9.77	Co-op. Union Ltd.	124	320.00	400.00	80.00	20%
15.9.77	XYZ & Co.	T553	235.14	270.40	35.26	15%
20.9.77	Teep & Co.	5172	190.00	222.30	32.30	17%
23.9.77	Co-op. Union Ltd.	127	252.74	323.42	70.68	45%
		TOTAL C'FUND	997.88	1216.12	218.24	18%

(ii) The Leakage Control System (Selling Price Stock Control System).

Co-operatives selling many small items of comparatively little value each, e.g. consumer co-operatives, would find it difficult to keep individual control of each different item in stock.

Generally they use the Leakage Control System, also known as the Selling Price Stock Control System. (The name 'Leakage Control' indicates that the system identifies the amount of leakage, or loss of stock, expressed in total value of the loss. 'Selling Price' indicates that the system is based on the selling price value of the stock, throughout).

However, if there is a special need to keep control of certain selected items in stock where the Leakage Control System is otherwise applied, the Unit System, as described above, may be operated in the case of these items. In the circumstances, it is recommended that the selected items should not be excluded from the total stock control system, but the cards should be kept in addition to serve the special needs for them.

A Leakage Control Account should be prepared every time the total stock has been listed and valued (at their selling price). A possible layout is shown in Example 13.

The elements of stock control system are:

- The 'Purchase Control Book' (Example 14).

This book records all invoices, cash purchase receipts, credit notes in respect of damaged or returned goods and such documents in respect of all goods actually delivered to the Co-operative's store, at both cost price and selling price. This should be done after the financial records (the books of accounts) of the Co-operative have been posted.

- The 'Price Change Book' (Example 15).

Circumstances may force alterations to the selling price at which an item of stock was valued when initially recorded in the 'Purchases Control Book'. Whether it is a price increase or price reduction the existing stock of the item concerned should be counted and recorded in the 'Price Change Book' together with the amount of the price changed involved. The price marked on the goods in stock should of course be changed at the same time.

Price changes may also effectively occur for particular types of sales transactions giving rise to quantity discounts. For example, an unusually large delivery or regular deliveries under contract to a large customer. These would also be recorded in the 'Price Change Book' but in this case the price marked on the stock would not be altered.

## Example 15. Price Change Book

Date	Commodity	Old Selling Price	New Selling Price	Change per unit (+ or -)	Quantity in stock	Stock Value Increase	Stock Value Reduction
3/8/79	Sugar	1.10	1.15	+ 0.05	120 Kg	6.00	10.20
8/8/79	Fertilizer, type B2	9.30	8.70	- 0.60	17 bags		12.60
"	" , type KR1	10.25	9.80	- 0.45	28 bags		
11/8/79	Kerosene	0.89	0.93	+ 0.04	112 lit	4.48	
					TOTAL	10.48	22.80

Note: There may be cases of price reductions, not affecting all the stock of a certain commodity, but only part of it or a single item. (E.g. quantity discount or reduction of the price of a shop-soiled item.) Such reductions may also be recorded in the "Price Change Book".

When the Leakage Control Account is prepared, the total of price increases and price reductions should be shown separately in the account.

Other records of movements of goods.

Goods taken from stock for internal use must also be recorded at selling price in the 'Leakage Control Account'. In 5.5 (d) above it was stated that the stock used for internal purposes should be recorded in the double-entry book-keeping system as an expense. The Journal vouchers used for such entries should serve as the basis for calculating the selling price of the articles used.

It should also be remembered that sales invoices might not have been made out for recent deliveries of stock to customers. Delivery Notes should therefore, be checked to ensure that recent deliveries have been invoiced so that the sales figure is correctly stated in the Leakage Control Account.

The Leakage Control Account is, as can be seen in Example 13, a matter of adding up the total selling price value of the stock held at the beginning of the period under review and all additions to it, in the form of deliveries (net of credit notes), price increases and any other possible additions; from that total should be deducted all sales, price reductions, discounts and any other recorded 'outgoings' from the stock value, as well as the actual selling price value of stock held at the end of the period, as determined by the stock-taking and shown in the stock-taking lists.

It is very likely that the total of the 'outgoings' is less than the total of the 'additions'. The difference is the 'leakage' or the unaccounted for loss of stock during the period, and some leakage is almost unavoidable. It is usual to calculate the leakage as a percentage of the total sales. If total sales in the period was LC 100,000 and the amount of leakage was LC 500, the leakage would be said to be 0.5%. By comparison with previous records and by comparison with information available from other similar co-operatives, it may be possible to judge what is an acceptable level of leakage, not requiring any further action to identify the causes. If the leakage is above an acceptable level, a re-check might be necessary, first by spot-checks on the sectors of the stock where an error is most likely to have occurred, and then by another complete stock-taking if no errors were detected. If the abnormally high level of leakage is confirmed, thorough investigation of possible causes must be made.

5.7 Stock-taking.

Unless the stocks in hand are accurately counted, valued and checked by independent people, losses caused by theft, neglect or error will not be revealed.

References were made to the stock-taking procedure in the previous section on stock control systems. It was seen that records should be kept of all movements of stock, whether coming in or going out or changing in value whilst kept in stock. From the records it should be possible to calculate at any one time what the stock ought to be, in

quantities in the Unit Control System or in total value in the Leakage Control System. A complete control is carried out only when the stock has been physically counted and what has been confirmed to be there has been compared with what has been calculated from the records. The physical counting and valuing of stock is known as stock-taking.

The stock-taking serves two purposes: - one is the actual stock control as stated above, the other is to arrive at an accurate valuation of the stock for the preparation of the Balance Sheet. Therefore, stock-taking must at least take place at the end of each financial period, but it is recommended that stock-taking is carried out at shorter intervals than one year, in order to improve the control.

#### I Stock-taking in co-operatives using the Leakage Control System.

##### (i) Preparations for stock-taking:

Stock-taking can be made easier by careful preparations in advance. This will ensure that the stock-taking will be done correctly. When the stock-taking day has been decided, the Secretary/Manager should make the following advance preparations:

##### The committee and staff

Both should be informed well in advance. The Committee should make clear decisions about the Duty Committee Members who will take part in the stock-taking. Where possible, written instructions to stock-takers should be distributed by the Secretary/Manager, explaining what has to be done and how it will be arranged. Each person involved should know what he has to do.

##### The Auditor

The Auditor should be informed well in advance so that he can attend if he wishes.

##### Stationery

Books of stock-taking lists should be obtained, or prepared with duplicate pages ruled in line with Example 16 (see also remark in Section II p.48).

##### Pricing

All the prices must be checked before stock-taking so that they are easily available and reliable.

##### Arrangement of goods

The goods in stock must be arranged in such a way that they can easily and accurately be counted. All articles of one kind must be in one place. Some items can be counted beforehand, but careful checking must be done in these cases to ensure no further goods have been received or sold.

The Duty Committee Member in particular should check all

## EXAMPLE : 16 A Stock-Taking List

<u>MAENDELEO</u> Co-operative Society Ltd.		Date : <u>24/9/44</u>	
		List No. <u>3 + Summary</u>	
<u>STOCKTAKING LIST</u>			
TYPE OF GOODS	No. of Units	SELLING PRICE	
		UNIT PRICE	Total
<u>HOES</u>	<u>10</u>	<u>LC. 3.00</u>	<u>30.00</u>
<u>Tomato Seeds Packets</u>	<u>50</u>	<u>LC. 1.10</u>	<u>55.00</u>
<u>SUB-TOTAL</u>			<u>85.00</u>
<u>LIST 1</u>			<u>130.12</u>
<u>LIST 2</u>			<u>249.88</u>
<u>TOTAL</u>	<u>LC</u>		<u>465.00</u>
<u>J. Mmudi (STOCKTAKER)</u>		<u>L. Koma (STOCKTAKER)</u>	
Signature	Signed: <u>A. Nyora Secretary/Manager</u>	Signature	
	Signed: <u>S. Wong</u>		Duty Committee Member

apparently full boxes to make sure that they are full. Only goods actually owned by the Co-operative should be included as stock.

#### Damaged, unsaleable or slow-moving stock

The stock-taking should also be used to review the condition and value of the items in stock.

Before stock-taking the Secretary/Manager should check all the stock and take note of items which have lost all or some of their value through damage or deterioration, or which would be difficult to sell without reduction of price or simply impossible to sell at all and therefore virtually valueless. At the stock-taking such items should be written off or repriced by the Secretary/Manager in agreement with the Duty Committee Member with the relevant records being adjusted.

### (ii) The Actual Stock-taking

#### The Stock-taking Group

In a store which is well arranged the stock-taking group usually consists of two people, one who writes and one who calls out the details, quantity and selling price of each item; they are watched by the Duty Committee Member. Sometimes a person can precede them, arranging the stock, counting and writing the number of items in stock on a small slip of paper placed on the goods concerned, which serves as an additional check on the number of items counted by the stock-taking group.

#### Writing

It is of utmost importance that the writing be clear and legible. A representation of a page from the stock-taking book, showing a stock-taking list, is shown as Example 16.

#### Dictating - Calling Out

The person calling out must use the order shown in the column in the stock-taking book, e.g.

Hoes - 10 - 1.85

The person dictating is responsible for seeing that all the items are counted and dictated correctly and in order. The Duty Committee Member will test-check some of these.

#### Concluding Stock-taking

The Secretary/Manager and Duty Committee Member must check that all the stock is included in the stock-taking lists and priced properly. After that all the relevant lists in the stock-taking book must be signed and dated by those taking stocks, the Secretary/Manager, the Duty Committee Member and the Auditor, if he is present. The original pages of the stock lists should be detached immediately and given to the Auditor or the Duty

Committee Member to prevent any dishonest alterations to the stock quantities. The bottom copy remains at the store.

(iii) Valuation of the Stock Count.

Once the stock has been counted, its value at selling price has to be computed. This should be done by:

- Multiplying the number of units counted by the selling price for each unit.
- Adding up each stock-taking page or list.
- Adding up the totals of all the lists or pages.

These computations should preferably be done by two people independently of each other so that the results can be cross-checked.

II Stock-taking in Co-operatives using the Unit Control System

Spot-checks of individual items can be made at any time, as mentioned in 5.6 (i) above, but a complete stock-taking should be made at intervals as deemed necessary, and always at the end of the financial period for Balance Sheet purposes. Valuation of the stock is necessary at the final stock-taking in addition to the item control.

The advice on preparations given above in section 5.7 I applies equally to co-operatives using the Unit Control System with one possible exception. Considering that there is a limited number of different types of items in stock, each having its own stock card, the stock-taking lists could be prepared in advance by writing in accurate descriptions of all goods to be counted, together with their correct unit price (which in this case would not be the selling price, but the cost price or the price otherwise used for valuation purposes). By doing so the actual stock-taking will be quicker and easier and confusions avoided, particularly as these co-operatives very often have bulky commodities which are not individually price-marked. (Bags of fertilizers or seeds, drums of insecticides, farming implements, and so forth). It can also serve as an additional control to ensure that all the goods have been counted, provided that all goods of the same kind are kept together in one place, so that odd lots are not overlooked.

A co-operative which otherwise uses the Leakage Control System, could use similarly prepared lists for the corresponding parts of its stock, (see also 'Stationery' in 5.7 I (i) above) provided that these commodities are kept separately from the other stock items. The price noted on the lists should of course be the selling price.

Immediately following the stock-taking, the actual stock control should be made by checking the balance on each Stock Card against the actual quantity or number counted and written in the lists. The cards should be adjusted, and any exceptional differences rechecked and investigated.



### 5.8 Produce in an Agricultural Marketing Co-operative (or Multipurpose Co-operative)

The marketing of agricultural produce must be carefully controlled to ensure that members receive full value for what they sell and the society does not lose funds in the process.

A common type of marketing cooperative is the one where the co-operative acts as an agent on behalf of the members. They deliver their produce to the society which usually pays them an advance based on the expected sale proceeds. The produce, when kept in storage at the society before being passed on to a buyer, is strictly speaking not the property of the society, but goods for which the society has taken over temporary responsibility, and the society would suffer economically if losses occurred.

In a marketing cooperative which actually buys the produce from its members, and sells it to buyers, the produce in stock is a part of what the cooperative owns.

Strict control of all produce is therefore essential.

#### (i) Receipt of produce and payment of advance:

The Duty Committee Member and the Internal Auditor should be in attendance when produce is being received or bought. The scales should be checked and serviced before the days on which the produce is to be taken in, otherwise if these are not accurate, the members may be cheated in the case of overweight, or the Co-operative may be losing in the case of underweight in the produce.

The staff, supervised by the Secretary/Manager, Duty Committee Member or Internal Auditors, must check the produce before it is weighed to make sure it is clean and of the proper grade. All the sacks, or bales, or whatever containers the produce is delivered in must be checked, for some members may sell their best produce elsewhere and try to sell their inferior produce through the Co-operative. Containers and bags must be of the required size and standard. After the produce has been checked and weighed it is accepted and stored by the Co-operative.

A "Produce Receipt" as shown as Example 17 is made out in duplicate, using carbon paper, and the member is issued with the top copy. If members are then paid a part of the expected proceeds of the produce, this is shown as an advance on the produce receipt. The member signs, or thumbprints, both copies of the receipt for this advance.

(In the case of a cooperative buying from the members, a special Cash Payment Receipt would be issued).

#### (ii) Storage of produce before sale:

When different crops or grades of produce are being accepted they should be marked for sorting and control purposes since money could be lost if different grades should be mixed together. When taken to the storage shed, each group of produce should be separately stacked in such a way that produce is not damaged and can be easily counted.

## EXAMPLE 17 : PRODUCE RECEIPT

MANDELEO CO-OPERATIVE SOCIETY LTD.				
PRODUCE RECEIPT				
DATE : <u>9/7/76</u>		RECEIPT No. <u>164</u>		
NAME OF MEMBER <u>S. JUMA</u>		MEMBERSHIP No. <u>81</u>		
NUMBER OF BAGS	DESCRIPTION	GRADE	ADVANCE PER BAG	TOTAL ADVANCED
<b>10</b>	<b>SORGHUM</b>	<b>A1</b>	LC	LC
			<b>1.00</b>	<b>10.00</b>
<b>10</b>	BAGS TOTAL	TOTAL LC		<b>10.00</b>
<u>RECEIVED : THE ABOVE PRODUCE</u>		<u>SIGNED: <i>A. Nyema</i></u> (Secretary/Manager)		
<u>RECEIVED : THE ABOVE ADVANCE</u>		<u>SIGNED: <i>X (with thumbprint)</i></u> (Member)		

In order to minimise the risk to produce before sale, the society must endeavour to arrange delivery of the produce to the buyer as soon as possible. The period during which the produce is stored at the Co-operative should be kept to a minimum.

It is in the society's interest to ensure that the produce is adequately protected during any period of storage on its premises. This will include fire precautions and insurance where possible. The society may also consider it prudent to keep control cards for produce on the lines of the stock control cards (see Example 12) if the period of storage is longer than a few days.

(iii) Sale of Produce:

If there is a period of time between delivery of produce to the buyer and final receipt of the full sale proceeds it is essential that a record is kept of the quantity and grade of produce delivered to the buyer, so that the sale proceeds can be cross-checked.

In those societies which do not purchase produce but accept produce from members for later resale on their behalf a "Produce Proceeds Form" (see Example 18) should be completed for each member once the sale proceeds have been received. This form shows the amount of money to be paid to each member taking into account any advance he may have received (see "Produce Receipts" Example 17) and any further deduction such as co-operative levy or commission and other loan recoveries. The form thus enables the member to check his sales proceeds in detail. The forms should be made out in duplicate and after acknowledging receipt of the cash for the net proceeds by signing or making a thumbprint on the form, the member is issued with the top copy.

Those societies which purchase produce from their members would have paid the full purchase price on initial delivery of the goods by the members.

(iv) Valuation of Produce:

Where the Co-operative holds produce on behalf on members at the year end, it would not be included in the financial accounts as stocks of the society. However, the accounts would show the amount of any advances paid to members for their produce less any provision for known losses which may result in the advances not being fully recovered.

Example : 18 Produce Proceeds Form.

MAENDELEO CO-OPERATIVE SOCIETY LTD.				
<u>PRODUCE PROCEEDS FORM</u>				
No: 62				
<u>NAME OF MEMBER :</u>		<u>S. JUMA</u>		<u>SHARE No. 81</u>
NUMBER OF BAGS	Weight Grade	DESCRIPTION	UNIT PRICE LC	TOTAL PRICE LC
10	A1	SORGHUM	7.00	70.00
<u>LESS DEDUCTIONS:</u>				GROSS TOTAL 70.00
LEVY OR COMMISSION (5%)			3.50	
LOAN REPAYMENTS			10.30	
ADVANCE REPAYMENTS			10.00	
_____				23.80
CASH PAID LC				46.20
<u>CASH RECEIVED BY:</u>				
X (with thumbprint) (Member)				
DATE: 12/8/76				

6. LOAN AND CREDIT CONTROL:Main Recommendations in this Chapter:

1. Credit policy and procedures should be set down in writing.
2. All credit applications should be examined and approved before credit is granted.
3. Monthly statements of account should be sent to each debtor and a monthly list of overdue accounts should be given to the committee to help them recover debts.

The limited funds of the Co-operative will be seriously endangered and losses severe if uncontrolled credit is allowed to members.

Allowing members to defer payment for goods and services, in other words to provide them on credit, is one of the most common reasons for the financial collapse of co-operative societies, and certainly the most prudent policy is not to give credit at all. If members do not pay for their goods as and when they buy them, there will be less money with which to buy further goods for resale. If members fail to pay their debts money will be lost altogether and the funds of the Co-operative, already limited, will be permanently reduced.

Very often a co-operative may itself have to borrow money to meet its commitments because members have failed to repay credit. Interest on borrowed money is a cost that the Co-operative would have to pass on to its members normally by increasing prices or reducing bonuses. So because of the failure of some members to repay their debts, all members suffer.

However, sometimes members cannot pay immediately for everything they need. In Agricultural Marketing Co-operatives members would have no crop to market if they were unable to obtain essential inputs on credit. In these circumstances credit is one of the most important services the Co-operative can provide, but it is still not worth doing unless it can be strictly controlled. If credit is granted the following control procedures are essential:

(i) Credit Policy:

Where the by-laws permit the granting of credit to members, the terms and conditions under which it is to be done should also be specified. If the by-laws are insufficiently detailed, a written credit policy should be set out by the committee and approved by the membership and Registrar of Co-operatives.

This would cover such aspects as:-

- Credit Objectives: Why is credit necessary? Why should the Co-operative provide it and to what ends? To improve production? To increase sales? To help members educate, feed and clothe their family? etc.

- Type of Credit: How will credit be given? In cash or kind? As a means of deferring payment for co-operative goods and services or as a loan for something that the Co-operative does not provide? etc.
- Who will get Credit: Both small and large farmers? New members as well as long-term members? Should credit only be given for certain products crops or activities? etc.
- Credit Finance: With its limited funds, how much credit can the society afford to grant overall? Should finance be obtained from outside the Co-operative, if so, how much? etc.
- Credit Terms: What will be the maximum and minimum amounts of credits to be granted to a member? Should security be required, if so, what sort of security? How long should credit be extended for and how much interest should be charged? etc.
- Credit Administration: Who will do what in the process, granting and supervision of credit? What measures can be taken to recover outstanding debts? etc.

(ii) Credit Authorisation:

An application form should be designed in accordance with the agreed credit policy. The Secretary/Manager should check all applications and if necessary help members to formulate their requests and complete the forms; they would then be submitted to the Committee, or to a specially elected credit committee responsible for authorising credit. When evaluating applications the Committee would consider the following kinds of questions:

- 1) Application  
Is the application properly completed and signed?
- 2) Purpose of Credit  
Is it for productive purposes? e.g. Agricultural implements, fertilized seeds, farm improvement, etc. Is this acceptable under the credit policy?
- 3) Need  
Is the amount applied for needed for the purpose? Can the applicant manage with less? Will he require more? Does he need it in cash or kind?
- 4) Credit Limit  
Is the amount needed within the limits set by the credit policy?

5) Security

What security is provided by the applicant and his guarantors?

6) Time Limit

Is it for a reasonable period?

7) Ability to Repay

Is the applicant in a position to repay the credit in the manner proposed by him? What is his income? What are his other commitments? What crops has he planted?

8) Previous Credit Record

What is the applicant's previous credit record? Has he neglected past repayments? Should the Committee grant him credit despite his past records?

Where an applicant being considered is a relative of the Secretary/Manager of the Co-operative or of a member of the Committee, this should be made known to the whole Committee. In the case of a relation of the Secretary/Manager, the Duty Committee Member should check all the details on the application form again. In the case of a relative of a Committee Member, that Committee Member should take no part in the discussion when the application is being considered, unless he knows of something material to the credit application in which case he has a duty to tell the rest of the Committee.

Only authorised credit should be granted, where unauthorised credit is given the person responsible should immediately be required to pay the whole sum outstanding. The Duty Committee Officer should check to make sure that no unauthorised credit is being extended to staff.

(iii) Credit Supervision:

Once the credit is authorised the Secretary/Manager should supervise the granting of the credit in accordance with the instructions from the committee, ensuring that credit limits are not exceeded. In addition it is vital that the book-keeping of the society is maintained up-to-date to enable him to produce a monthly statement of account to be sent to each debtor with reminders to defaulters and a monthly list of overdue accounts to be submitted to the committee.

The committee should ensure that the monthly information on overdue debts is produced by the Secretary/Manager so that they can decide what additional action is necessary to recover the debts. Members should be encouraged by the committee to request additional time to pay if they run into difficulties and the committee would be responsible for reviewing such requests. In the case of defaulters who have not responded to routine reminders, the committee may take the following action step by step:

- 1) authorise individual committee members to meet specified defaulters and/or guarantors in person and assist in recovery;

- 2) where relevant, authorise the Secretary/Manager to issue a written notice that unless the debts are repaid by a specified date, the security of the borrowers and the guarantors will be set off against the loans;
- 3) decide to set off share capital against the debts and inform the debtors and guarantors concerned;
- 4) take legal action in consultation with the Registrar of Co-operatives.

Only when debts are proved to be irrecoverable, should the Committee approve their elimination from the books of the society through a bad debt write-off. It would be wise if in the ordinary course of business, the debts of the Co-operative were regularly reviewed by the Secretary/Manager and Committee in order that a reasonable provision for bad debts could be made in the accounts so that profits are not overstated.

Finally, as a cross-check on the book-keeping of the society, the committee should regularly spot-check individual debt balances in the books with the members concerned.