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Co-operative Accounting #3, Marketing Co-operative Societies

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CO-OPERATIVE ACCOUNTING

III Marketing Co-operative Societies

OVERSEAS DEVELOPMENT ADMINISTRATION AND
INTERMEDIATE TECHNOLOGY DEVELOPMENT GROUP
LONDON

CO-OPERATIVE ACCOUNTING

III Marketing Co-operative Societies

Foreword

This is the third of three pamphlets on Accounting for Co-operatives, issued by the Overseas Development Administration in continuation of the series initiated by "Agricultural Credit through Co-operatives - the story of the Bambaki Co-operative Society". Each of the individual pamphlets on account is complete in itself, dealing with a particular type of co-operative business, but, together, they constitute a comprehensive manual on accounting for primary co-operatives. For the benefit of students, teachers and supervisors a number of copies will be issued with all three pamphlets bound together.

The reader will find in these pamphlets, something more than a setting out of conventional book-keeping principles. There is, instead, a strong advocacy of a particular system, which may well be novel to many readers. It is my belief that this system is an effective one and that its introduction in many countries would be of great benefit.

It is a common complaint that the standard of book-keeping among primary co-operatives is poor. Certainly, I have observed this to be the case in many of the countries I have visited. In some cases there is hardly any system at all, in other cases, the system is too complicated for secretaries to understand. There is, in my view, a real and widespread need for a system which is both effective and straight-forward enough to be taught to rural-based secretaries in a relatively short time. A system, similar to that set out in these pamphlets is taught in seven weeks to secretaries in the New Hebrides and has resulted in a remarkably high standard of book-keeping in all the primary co-operatives in the territory. In Botswana, from where this system is derived, the results have also been excellent. The system combines simplicity of operation and of checking with the advantages of double entry.

Of course, where other systems are already in operation and working satisfactorily, it would be foolish to change, and these pamphlets are not addressed to Co-operative Movements in such a fortunate position. However, in the many countries where book-keeping is still a major headache, I would most earnestly commend the systems set out here to the attention of those responsible for the guidance and supervision of co-operative societies.

In the preparation of these pamphlets, the Overseas Development Administration has joined forces with the Intermediate Technology Development Group (ITDG). The ITDG is interested in Co-operatives both because of these potential in the application of intermediate technology and as a kind of intermediate technique of business in themselves. This accounting system can also be regarded as something intermediate, between the simple recording of "ins" and "outs" and the highly and unnecessarily complicated keeping of sophisticated ledgers. The material for the pamphlets was prepared by Mr Bernard Le Bary, Personnel Officer, Kent Co-operative Society and formerly Manager of the Botswana Co-operative Development Trust and has been edited by Mr T N Bottomley of Hitchin College of Further Education and formerly Registrar of Co-operative Societies in Botswana.

B J Youngjohns
Adviser on Co-operatives
December 1972

THE MARKETING CO-OPERATIVE

The book-keeping system described in this book has been devised for use by Marketing Co-operative Societies or other primary societies doing similar business. It is a double entry book-keeping system based upon a single working Ledger, within which all the transactions of the Co-operative are recorded. This book has been written as a teaching handbook and reference book for officers of the co-operatives, so the points made in it are illustrated by practical examples of the various entries which have to be made in the books of a Marketing Co-operative Society.

There are many different kinds of Marketing Co-operatives, and they have many different objectives. A Marketing Co-operative is primarily concerned with marketing the goods that its members produce. Cattle, coffee, cotton, fish, handicrafts, rice and wheat are just a few examples of the kinds of goods that are marketed by Co-operative Societies throughout the world. These goods are sold in many different ways. They may be sold;

- a. to a marketing board,
- b. to exporters,
- c. to wholesalers,
- d. through Co-operative Unions,
- e. direct to individual retailers or consumers,
- f. by auction.

Because of this variety, it is not as easy to describe a typical Marketing Co-operative as it is to describe, say, a Thrift and Credit Co-operative, or a Consumer Co-operative, but what all Marketing Co-operatives have in common is that they provide a service to their members in helping them to market their produce and to obtain a fair price for it.

A Marketing Co-operative usually operates in one of two ways:

1. By buying produce from its members and then finding a market for the produce. The price paid to the member will be an estimate of what the Co-operative thinks the produce will fetch in the market, less an amount to cover the administrative costs of running the Co-operative and getting the goods to market. When the Co-operative works in this way it buys the produce from the members, and therefore if the goods are not sold at the estimated price, the Co-operative loses money. On the other hand, if the goods are sold for a price higher than the one estimated, the Co-operative makes a profit. Some of this profit is usually returned to the members in the form of a dividend. Because the Co-operative Society buys the members' produce outright, this type of Co-operative needs a considerable amount of cash. This cash may come from members' shares, from funds accumulated by the Co-operative or from a loan from a central Co-operative Union, a Co-operative Bank or a Government Development Agency.
2. The alternative method is for the Marketing Co-operative to act as an Agent for its members. When the Co-operative works in this way, the member hands his produce to the Co-operative which gives him a receipt. The Co-operative then sells the produce for the best price that can be obtained. An agreed percentage to cover the Co-operative's administrative expenses, is then deducted from the amount that has been obtained, and the balance is paid to the member.

Advantages of Marketing Co-operatives

The main advantages of marketing through a Co-operative are:

- a. A Co-operative can get a better price for the produce than the individual member could if he sold it on his own behalf;
- b. The Co-operative can often sell direct to consumers instead of having to use agents or other middle-men;
- c. Transport costs can be spread;
- d. The member who may live a long way from the market does not have to go there himself, so is saved time and money.

e. The Co-operative develops experience and skill in finding the best markets and so the best available prices.

f. The Co-operative establishes a reputation for grading and presentation of the produce and also as a regular and reliable supplier.

Many Marketing Co-operatives also offer their members the same kind of services as are given by the Thrift and Credit and Consumer Co-operatives described in earlier booklets in this series.

Credit

Some Marketing Co-operatives give loans to their members. This may be necessary where members rely on one crop harvested at one season of the year. Loans are given in the sowing season to help farmers buy seeds, fertilisers and equipment. When the crop is harvested, it is marketed through the Co-operative. The Co-operative deducts the amount of the loan from the money it receives for the produce and pays the balance to the member. Giving loans of this kind encourages farmers to grow better crops, which can be sold at a higher price. But such loans can only be given if there is a strong central organisation, such as a Co-operative or Development Bank, to provide sufficient loan capital at reasonable rates of interest. The members' loyalty to the society must be strong to ensure repayment.

Consumer

Many Marketing Co-operatives encourage the use of modern techniques by selling seeds, fertilisers and tools to their members. The value of this service is that the Co-operative can buy large amounts of, for example, fertilisers at cheap prices. The fertiliser can then be put into smaller packets and sold to the members at prices usually less than those charged by private traders. When this service is provided, the book-keeping is the same as for a Consumer Society. (See Manual on Co-operative Accounting - Consumer Societies).

For all these different kinds of Marketing Co-operatives the book-keeping system is basically the same. To explain the book-keeping system we shall use a typical small Marketing Co-operative. The Co-operative operates by marketing the main cash crop of its members through a Marketing Board. The Co-operative receives the members crops, arranges for transport to the Marketing Board and receives payment. The money is then paid to the members, less an agreed rate of commission, which is used to cover the expenses incurred in running the Co-operative. In Chapter 3 we will tell you more about our Co-operative Society, but remember this is just one example of a Marketing Co-operative. Your own Co-operative may be run very differently but, nevertheless, the book-keeping system we are going to describe can still be used.

BOOK-KEEPING

The Book-keeper's Job

This book is about the work of the book-keeper. He has the task of recording all the transactions of the Co-operative as they appear in the books and documents of original entry. These books and documents record all transactions as they occur and will be described in more detail later. In some Co-operatives the book-keeper is called the Secretary, Treasurer or Accountant, but whatever he is called his job in every Co-operative is:-

- a. To keep complete and accurate records of every transaction in which the Co-operative is involved.
- b. To check the accuracy of these records at regular intervals.
- c. At the end of each financial year to prepare a Balance Sheet and Final Statement of Accounts which can be audited by an independent person and verified as a true record of the state of the Co-operative.
- d. To prepare, at regular intervals during the financial year, statements for the Board of Management which show the current financial position of the Co-operative.

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

Importance of Book-keeping

Some people may wonder why a Co-operative needs a book-keeper and why books of account have to be kept. A man who is in business by himself wants to know how well he is doing. The more his business grows, and the more money is involved, the greater this need becomes. A Co-operative society has an even greater need to know how well it is doing, because it is not owned by a single businessman, but by all the members who have invested money in the Co-operative Society. Unlike the businessman, the members of the Co-operative do not run the day-to-day affairs of their business. They elect a Board and appoint officials to do this for them. But the members need to know at regular intervals how their business is being run, whether it is making a profit, and whether their money is safe. A Co-operative can only provide this information for its members if accurate records are kept. The Co-operative's books of account must therefore show to the members:-

- a. how much the Co-operative owns,
- b. how much the Co-operative owes,
- c. whether the members' investments are safe,
- d. whether their investments are being used to produce a profit.

All Co-operatives therefore need books of account, so that they can give their members the information they need. And in most countries there are laws which state that Co-operatives must keep these records.

A number of books and ledgers are used in the system described in this handbook.

Books of Original Entry

These record transactions of the Co-operative as they occur. For example when a member joins the Co-operative he buys shares for which he is given a receipt. Invoices for goods purchased are also documents of original entry, as is the record of sales made to the members. The receipt book in which this is entered is a book of original entry, as are all receipt books used by the Co-operative.

The Working Ledger

This is a summary ledger. All the transactions recorded in the Books of Original Entry are transferred to the Working Ledger. Each figure is recorded twice. This creates a "double entry" book-keeping system.

The Main Ledger

A summary of the ledger balances in the Working Ledger is entered at regular intervals in the Main Ledger.

Book-keeping Terms

Book-keeping is the science of recording business transactions. Like all sciences it has a language of its own. Some of the most common book-keeping terms that are used in this book are:-

Financial or Accounting Period

At the end of regular periods, usually six months or a year, the ledgers are closed and the balances are transferred to the Final Accounts. The Financial Period is the period of time covered by the Final Accounts.

Final Accounts and Balance Sheet

These are prepared at the end of a Financial Period. In the system described here for the small marketing Co-operative only two Final accounts are needed.

The Income and Expenditure Account

Is a summary of all the money that has been received and paid out by the Co-operative in a Financial Period. The balance of this account shows the profit or loss. If the income for the period is £600 and the expenditure £550 the profit is £50. If the income is £525 and the expenditure £520 there is a loss of £5.

The Balance Sheet

This is a summary of what the Co-operative owes to its members and others, and what it owns (its assets and liabilities) at a specified date.

Assets

Are anything of value owned by the Co-operative. They can include land, building, equipment, stocks of goods, money in the bank, cash and money owed to the Co-operative by outside people, who are known as the Co-operative's debtors.

Liabilities

Are the total amount of money owed by the Co-operative to its members or other people. They include the money invested by the members, reserves and profits which have not been distributed, and money owed to outside people for goods they have supplied or services they have performed. People to whom the Co-operative owes money are known as the creditors. A Co-operative is in a good financial position if the value of its assets (what it owns) is greater than the value of its liabilities (what it owes).

Debit and Credit

These terms are explained fully on page 7. Debit and Credit are usually abbreviated to Dr and Cr. In a Balance Sheet the assets are 'Dr' and the liabilities 'Cr'.

Auditor

The auditor is a skilled accountant whose job is to check and verify the accounts of a Co-operative Society at the end of a financial period and at any other time the Registrar of Co-operative Societies may think necessary. The auditor is always independent of the Co-operative. In many countries auditors are employed by the Registrar of Co-operative Societies. The auditor provides a check on the honesty of the book-keeper. Also, as he is a professional book-keeper himself, he can help the book-keeper with accounting problems.

The Double Entry System

In a double entry system of book-keeping the amount of every transaction is recorded twice in the books of account - once as a credit and once as a debit. It is essential to fully understand the reason we record each transaction twice so that the book-keeper not only knows what he is doing but also why he is doing it. Any system is only as good as the person operating it. A book-keeping system is no exception. It works only if the book-keeper understands what it is all about. A full explanation as to why we record each transaction is given under the heading of the Working Ledger (page 6).

Now we have completed our introductory survey of the main features of the double entry system and can turn to its practical application in a Marketing Co-operative. At this stage the reader is advised to read through the whole of the book first, then to return to this point and study each section carefully, making sure he thoroughly understands each point before proceeding to the next. Finally,

- a. Balance the books at regular intervals, preferably every week.
- b. Never do anything in a hurry. Try to understand why you are making each entry. Speed and accuracy will come with practice and study.

c. Make sure that you always give enough information when you make an entry.

d. Be neat. If you make a mistake do not try to rub it out. Put a line through it with your pen. If the auditor notices that something has been rubbed out he will suspect that something is wrong.

The Small Marketing Co-operative

In this book we are using as an example a small Marketing Co-operative with about 150 members. Each member has to pay a £1 share to belong to the Co-operative. (For a description of a similar Co-operative see "Agricultural Credit - Through Co-operatives" issued by the ODA). The Co-operative has grown steadily throughout its first three years. The main cash crop of the members is cotton. At harvest time the members bring their cotton to the Co-operative where it is weighed and they are given a receipt. The cotton is then sent to a ginnery owned by the State Marketing Board. When the Co-operative receives payment for the cotton a commission is kept to cover the Co-operative's expenses and the rest of the money distributed to the members.

In the third year the Co-operative purchased seed cotton according to the members requirements and this was then distributed to the members according to their orders.

In the fourth year the Co-operative has plans to expand its activities. First let us look at the Marketing Co-operative's Balance Sheet at the end of the third year.

ILLUSTRATION I

Balance Sheet at 31 December 1972

<u>Liabilities</u>	£	<u>Assets</u>	£
Share Capital	150	Property -	130
Reserve Fund	40	Buildings	
Creditors	2	Fixtures	10
		Stocks	12
		Cash in Bank	39
		Cash in Hand	1
	<u>£192</u>		<u>£192</u>

We have already given a definition of a Balance Sheet. It is a summary of what the business owes to its members and others (the liabilities) and what it owns (the assets) at a specified date.

From Illustration I we can see that the amounts the Co-operative owes are listed on the left hand side under liabilities.

Share capital is the total amount invested in the Co-operative by the members. Remember each member has to hold a £1 share. The Co-operative owes this money because if its members decide to wind-up the business they are entitled to receive back their share investment.

The Reserve Fund consists of the profits that have been made by the Co-operative but not distributed. When profits are made these may be shared amongst the members but in a new Co-operative it is usual to keep some of the profits as the property of the Co-operative. This money can then be used to help the Co-operative grow.

Creditors are people to whom the Co-operative owes money. Merchants may supply goods to the Co-operative but if they are not paid immediately in cash they become creditors until such time as the Co-operative pays the money owing to them.

On the right hand side of the Balance Sheet are listed all the things owned by the co-operative - the assets.

In our example, the Buildings refer to the small hut used as an office and the storage shed owned by the co-operative.

Fixtures refers to the value of the desk and chairs and safe owned by the co-operative.

Stocks are the value of other items such as the seed which has not yet been sold.

Cash in Bank is the money the co-operative has in its Bank Account.

Cash in Hand refers to the small amount of cash kept by the Secretary or Treasurer which has not been paid into the Bank Account.

The Balance Sheet therefore gives us a picture in words and figures of our Co-operative Society.

We will now describe the various books and ledgers which provide us with the information contained in the Balance Sheet.

THE BOOKS AND LEDGERS

The Books of Original Entry

Accurate accounts of all transactions can only be kept if a record is made when each transaction happens. This record is kept in the books of original entry. A Marketing Co-operative will use the following books and documents of original entry:-

- a. A record of crops marketed.
- b. Receipt books for members' share investments.
- c. Invoices and bills.
- d. Cheque book and bank paying-in book.
- e. Petty cash receipts.
- f. A record of loans made to members.
- g. A record of goods sold to the member.

Each of these is explained in more detail as they occur in the examples given below.

Remember that an accurate book-keeping system must be a complete record of all the money that comes into the co-operative and all the money that goes out of the co-operative.

The Working Ledger

At the end of each week all the transactions that have been recorded in the books of original entry during the week are transferred to the Working Ledger. This is a ledger containing several columns headed Date; Narration; Ref No; Names of Account. The main accounts needed are for Bank, Cash, Purchases, Sales, Creditors, Shares, Expenses and Loans. Additional accounts can be added when necessary. It is recommended that a 14 column cash book be used for this purpose.

The date entered is the date on which the transaction took place. A short description of the transaction is entered under 'Narration', so that anyone looking at the ledger will understand what the transaction was about. Where appropriate the reference number of the receipt, invoice or other document, involved in the transaction is entered under the heading "Ref No". In a double-entry book-keeping system each of the ledger accounts has two columns one headed Dr (debit) and the other Cr (credit). Each transaction is entered on a separate line in the ledger giving date, narration, Ref No. The amount of the transaction is then entered twice, once under a debit column and once under a credit column.

At first it might seem strange that we have to make two entries for one transaction. However, every transaction has two aspects a parting and a receiving. For example if you buy a sack of flour for £1, you give £1 to the miller or shop-keeper - you are parting with £1. In exchange you receive a sack of flour worth £1 - you are therefore receiving the equivalent of £1.

In business every transaction is dealt with in this way but, because we have to keep detailed accounts and have to be able to prepare a balance sheet the parting and receiving aspects have to be recorded in different accounts.

In double entry book-keeping we use a simple shorthand -

Parting is a credit entry (Cr): Receiving is a debit entry (Dr).

Therefore if our Marketing Co-operative had purchased a bag of flour the book-keeping entry would be

Cr. Cash Account - we are parting with money.

Dr. Purchases Account - we are receiving goods.

Now let us enter the transactions for week-ending 8 January in the Working Ledger.

January		£	
i.	7	Cheque paid to ABC Ltd for bags and wrapping materials	2
ii.	7	Applications for membership approved. Shares received in cash	3
iii.	7	Fertiliser and seeds delivered by Agriculture Supplies Ltd	
iv.	7	Secretary paid travelling expenses for attending book-keeping course at the Government Training Centre - by cheque	4
v.	8	Invoice received from Agriculture Supplies Ltd for fertiliser and seeds	420
vi.	8	Loan received from the Agricultural Credit agency - by cheque	400
vii.	8	Cheque paid into Society's Bank account	400
viii.	8	Loans approved by Committee made to members of the Co-operative in the forms of seeds and fertilisers	400
ix.	9	Remaining seeds sold to members for cash	20
x.	9	Agriculture Supplies Ltd paid for fertiliser and seeds - by cheque	
xi.	9	New ledgers bought. Invoice received not paid from 'A' Stationer.	1

Each of the above transactions has been recorded in the Working Ledger (Illustration 2). We will take each transaction in turn and see what entries have been made in the ledger - and why.

i. Cheque paid to ABC Ltd £2.

If you refer to the Balance Sheet (Illustration I) you will see an item - Creditors £2.

Creditors are people to whom the Co-operative owes money.

Therefore this transaction is the co-operative paying the creditor (ABC Ltd) for bags and wrapping materials they have supplied.

Using the rule - PARTING IS CREDIT: RECEIVING IS A DEBIT

Cr. Bank Account
Dr. Creditors Account

ii. Shares received in cash from new members. The two aspects of this transaction are simple. The member is parting with money and the co-operative is receiving the money in cash.

Therefore -

Cr. Members Share Account
Dr. Cash Account

iii. Fertilisers and seeds have been delivered to the Co-operative. However, unless the delivery is accompanied by an invoice no book-keeping entries are made. In practice the goods will be checked off against a delivery note and a note made of how much fertiliser and seed has been delivered. Later the invoice will arrive: this can be compared with the delivery note to ensure that the co-operative is being charged for the goods actually delivered.

iv. Secretary paid expenses - by cheque.

The co-operative is parting with money and the Secretary is receiving. It is not necessary to have a special account for all items of expenses because many of them only occur once or twice during the whole year.

Therefore all expenses are recorded in a single expenses account.

Cr. Bank Account
Dr. Expenses Account

v. Invoice received for fertilisers and seeds. This is compared with delivery note to ensure that the amount of goods on both delivery note and invoice are the same. The invoice differs from the delivery note because not only does it contain details of the goods delivered but also the price of the goods. The co-operative owes money to Agriculture Supplies Ltd, they are therefore the co-operatives creditors.

The book-keeping entries therefore are made so that we record the giving by the Agriculture Supplies Ltd to the co-operative, and the receiving of goods by the co-operative. The co-operative is buying or purchasing the fertiliser and seed.

Therefore -

Cr. Creditors
Dr. Goods

vi. Loan received from the Agricultural Credit Agency. Here the co-operative is borrowing money. The money has been received. Note that although the co-operative has received a cheque this is regarded as cash until the cheque has been paid into the co-operative's Bank Account.

Cr. Loans
Dr. Cash

vii. The cheque is paid into the co-operative's Bank Account as quickly as possible.

Cr. Cash Account
Dr. Bank Account

viii. Loans made to individual members. Members will have to apply to the Committee for a loan, these will have been vetted by the Committee. If the loan has been approved a bond will have been entered into between the co-operative and the member and the loan made in the form of fertiliser and seed [see page 27]. Because the loan has been made in goods rather than in cash the book-keeping entries will be -

Cr. Goods account
Dr. Members Loans account

ix. Seeds sold to members. The co-operative bought seeds and fertiliser costing £420. Loans have been made in the form of seed and fertiliser to the value of £400. This means that some seeds are left and the co-operative has decided to sell this seed to its members at cost price for cash.

Cr. Goods Account
Dr. Cash Account

x. Supplier paid for fertiliser and seed. In this transaction the co-operative is paying for the goods it received several days before.

Cr. Bank Account
Dr. Creditors Account

xi. New ledgers bought and invoiced - but not paid for. The co-operative owes money to a creditor. The ledgers are needed to run the business and are regarded as an expense.

Therefore the book-keeping entries are -

Cr. Creditors Account
Dr. Expenses Account

The Trial Balance

At the end of the week, when all the transactions have been recorded in the Working Ledger, the ledger must be balanced. A line is drawn underneath the last ledger entry and all the columns are added up. (See illustration 2). The book-keeper now prepares a Trial Balance, which is a summary of all the debit entries and all the credit entries. When all the debits are added up, they should equal all the credits. This is because, in the double entry system, every time we make a debit entry we make a credit entry for the same amount. If the Trial Balance totals are not equal, something is wrong, and the entries must be checked. The best way to do this is to:

- a. Check all additions.
- b. Check that there is a double entry for every transaction.
- c. Check that for every double entry one is in a Cr column, one is in a Dr column (not two in credit or two in debit columns!)

We refer to the Trial Balance again when discussing the preparation of final accounts.

		BANK ACCOUNT		CASH ACCOUNT		SHAREHOLDERS ACCOUNT	
		Dr	Cr	Dr	Cr	Dr	Cr
1973							
January 7	ABC Ltd		2				
"	7 New Members			3			3
"	7 Secretary's expenses		4				
"	8 Agriculture Supplies Ltd						
"	8 Agricultural Credit Agency			400			
"	8 Bank deposit	400			400		
"	8 Members Loans						
"	9 Sales			20			
"	9 Agriculture Supplies Ltd		420				
"	9 'A' Stationer						
		400	426	423	400		3

	Trial Balance	
	Dr	Cr
Bank	400	426
Cash	423	400
Shareholders Expenses	5	3
Goods	420	400
Sales		20
Creditors	422	421
Loan		400
Members Loans	400	
	2070	2070

EXPENSES ACCOUNT		GOODS ACCOUNT		SALES ACCOUNT		CREDITORS ACCOUNT		LOAN ACCOUNT		MEMBERS LOAN ACCOUNT	
Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr
						2					
4		420					420				
			400						400		
					20					400	
						420					
1											
							1				
5		420	400		20	422	421		400	400	

The Main Ledger

When the Trial Balance is completed the entries are transferred to another ledger called the main ledger. The Working Ledger is a record of every transaction which has been made. The Main Ledger is simply a summary of the balance in each account at the end of the week.

The Working Ledger for week-ending 8 January 1972 has been completed and balanced (see Illustration 2) and the balances for each account must now be transferred to the Main Ledger. Because of the large number of accounts involved it might be necessary to give one ledger page to each account like this:-

ILLUSTRATION 3 MAIN LEDGER

BANK ACCOUNT

Week Ending	Dr	Cr	Balance	Week Ending	Dr	Cr	Balance
1973							
1 January	Brought	Forward	Dr 39				
9 January	400	426	Dr 13				
15 January	etc						

However, in our examples we will use a columnar ledger (illustration 4). At this stage you need note only the entries for 1 and 9 January.

First note that a number of entries have been made for 1 January 1972. If you check back you will see that these figures correspond with the amounts in our Balance Sheet (illustration 1). Remember the Balance Sheet is a summary of ledger account balances on a particular date. We prepare the Balance Sheet in a way that enables us to see how our business is doing. The ledger balances in the Balance Sheet however go back into the ledgers on the first day of the next financial period. Hence the entries for 1 January.

At the end of the first week of the new year changes have taken place in the various accounts. The changes in each account are shown by the Working Ledger totals. Therefore we enter the totals from each account in the Working Ledger to the appropriate account in the Main Ledger. The Working Ledger shows only the figures for one week. The Main Ledger shows the balance in each account for the whole of the financial period - to date.

In the Bank Account the balance brought forward from the Balance Sheet at the beginning of the financial period is Dr. £39.

ILLUSTRATION 4 MAIN LEDGER

		BANK ACCOUNT			CASH ACCOUNT			SHAREHOLDERS			EXPENSES	
		Dr	Cr	Balance	Dr	Cr	Balance	Cr	Cr	Balance	Dr	Balance
		£	£	£	£	£	£	£	£	£	£	£
1973												
January 1	Brought forward from Balance Sheet			Dr 39			Dr 1			Cr 150		
January 9	from Working Ledger	400	426	Dr 13	423	400	Dr 24		3	Cr 153	5	Dr 5
August 18	from Working Ledger			Cr 270			Dr 5			Cr 195		Dr 405
August 25	from Working Ledger	20080	19104	Dr 706	28205	28205	Dr 5		5	Cr 200	25	Dr 430
December 31	from Working Ledger Adjustments - Depreciation			Dr 90			Dr 6			Cr 220	33	Dr 643 Dr 676
	To Income and Expenditure											Dr 676
	To Balance Sheet			Dr 90			Dr 6			Cr 220		

GOODS ACCOUNT			PROPERTY AND EQUIPMENT			CREDITORS ACCOUNT			SALES		MEMBERS LOAN ACCOUNT			LOAN ACCOUNT		
Dr	Cr	Balance	Dr	Cr	Balance	Dr	Cr	Balance	Cr	Balance	Dr	Cr	Balance	Dr	Cr	Balance
£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
					Dr 140			Cr 2								
420	400	Dr 20			Dr 140	422	421	Cr 1	20	Cr 20	400		Dr 400		400	Cr 400
		Dr 200			Dr 190			Cr 143		Cr 180			Dr 432			Cr 416
		Dr 200			Dr 190	20		Cr 123		Cr 180		432	-	416		-
		Dr 400			Dr 333			Cr 80		Cr 312			-			
				33	Dr 300											
		Dr 400								Cr 312						-
					Dr 300			Cr 80								

CROP ACCOUNT			COMMISSION		RESERVE FUND			STOCK		INVESTMENTS ACCOUNT			LOAN INTEREST ACCOUNT	
Dr	Cr	Balance	Cr	Balance	Dr	Cr	Balance	Dr	Balance	Dr	Cr	Balance	Cr	Balance
£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
							Cr 40		Dr 12					
							Cr 40		Dr 12					
							Cr 40		Dr 12					Cr 32
20000	20000	-	1000	Cr 1000			Cr 40		Dr 12					Cr 32
		-		Cr 1000			Cr 40		Dr 12			Dr 200		Cr 32
				Cr 1000					Dr 12					Cr 32
							Cr 40					Dr 200		

During week ending 9 January the Bank Account has received £400 - Dr £400 and paid out £426 - Cr £426. Therefore the balance in the Main Ledger on 9 January is Dr £39 + Dr £400 - Cr £426 = Dr £13. We repeat this operation for each account until we have a complete summary of ledger balances as at the 9 January.

We have now seen examples of the Working Ledger and Main Ledger which are the fundamentals of the book-keeping system described in this book. However, there will be other records and ledgers which will have to be kept in a Marketing Co-operative.

Members' Share Ledger (and Membership Records)

The capital of a Co-operative Society comes from the investments made by its members. The rules of each co-operative state the minimum investment that is required to become a share-holder member. The members may be encouraged to invest more than this minimum amount by the payment of a fixed rate of interest on their shareholding. In our example each member is required to invest a minimum of £1 which is non-withdrawable.

A person who wants to become a member of the Co-operative Society is asked to fill in an application form for membership. This form is submitted to the Co-operative Society's Committee of Management for approval. If the Committee of Management decides that the applicant is of good character, he is accepted as a member, and pays for the necessary minimum share. The new member then has full rights to take part in the affairs of the co-operative. The new member is allocated a share number, and is given a Membership Book.

Application forms for membership are designed so that they can be filled in alphabetical order, to provide a register of all the members in the co-operative. This record contains the name, address and share number of every member, and the date that he joined the co-operative.

Invoices

All invoices must be checked and recorded when they are received, and they must be paid at regular intervals. The best way to make sure this is done in a small Co-operative Society is to have a rubber stamp and three spike or box files.

The rubber stamp looks like this:

Small Marketing
Co-op Ltd
GRB WL PAID

- a. When the invoice is received, it is stamped and checked with the Goods Received Book or Delivery Note. The Goods Received Book is simply a note-book or ledger listing goods that have been received. The GRB column on the stamp is ticked.
- b. The invoice is placed on the first of the files. At the end of the week all the invoices on this file are recorded in the Working Ledger. The EL column on the stamp is ticked.
- c. The invoice is placed on the second file, with other invoices that are waiting to be paid.
- d. The cheque is prepared, signed and despatched. The paid column on the stamp is ticked.
- e. The invoice is placed on the third file, in which all paid invoices are kept.

ILLUSTRATION 5 A TYPICAL INVOICE

Co: Anytown, Marketing Co-operative		Invoice No 76122		
Bought of THE ANY COUNTRY CO-OPERATIVE WHOLESALE LTD The Street, Capitaltown, 4.				
Terms: 2½% - 7 days or Nett		1 February 1971		
No claims will be accepted unless made within 10 days of delivery	Order No 333	Date Ordered 3/1/71	Date Dispatched 27/1/71	Carriage Paid
Number	Description	Price	Cost	
333	2 Sacks of barley	.50 per sack	1.00	
197	1 doz cartons sugar	.90 each	10.80	
TOTAL -			11.80	

Produce Received

In a Marketing Co-operative a very important Book of Original Entry is the one which records details of the produce received from each member.

Because Marketing Co-operatives can vary so much in their method of operation and purpose we can only show an example suitable for the small Marketing Co-operative described in this book. The Books of Original Entry are simply used for recording transactions as they occur and therefore a Marketing Co-operative will have to use a method best suited to its particular needs.

When the cotton is picked each member will take their crop to the Co-operative to be weighed and they will be issued with a receipt. A simple duplicate receipt book can be used -

Small Marketing Co-operative Society		Receipt No 1
PRODUCE RECEIVED		
Received from _____	Membership No _____	
_____ Kgs of cotton		
Signed _____ on behalf of the Society		
Date _____		

The member will be given a copy of the receipt and the duplicate copy will be retained by the Co-operative. When all the cotton has been collected it will be transported and sold and some time later the Co-operative will receive a cheque from the Marketing Board. The money has to be distributed as quickly and as efficiently as possible to the members. The Co-operative will retain an agreed percentage of the money as commission and at the same time outstanding loans owing by the members to the Co-operative will be repaid.

A simple method of recording all of these transactions is by using a Summary Book (Illustration 6). This has the advantage that all the details can be prepared in advance from the ledgers and other books of original entry and on the appointed day the members can collect the money owing to them.

Members Number	Members Name	Receipt Number	Weight Kilos	Price Per Kilo	Total Owing to Member	Less Commission at 5%	Loans Owing	Balance paid Member	Received by (member's Sign.)	Date
1	A Masinge	1								
2	L Wong	10								
3	Z Sikorski	12								
4	C Smith	2								
5										
6										
7										
8										
9										
10										
11										
12										
13										
14										
15										
16										
17										
18										
19										
20										

TOTALS

The entries are made as follows -

- i. Each member's number and name is entered from the Membership Records.
- ii. The number of the receipt issued to each member is recorded from the Receipt Book for Produce Received.
- iii. The amount of produce received is recorded from the same receipt book.
- iv. The price per kilo will have been declared by the Marketing Board.
- v. The amount of money owing to each member can now be calculated.
- vi. From this amount commission is deducted at an agreed rate.
- vii. Any loans owing to the Co-operative are entered from the Loan Ledger.
- viii. The balance owing to the member is calculated. This is the value of the produce he has marketed through the Co-operative less commission and less loans owing.
- ix. On the appointed day the member will bring his receipt to the Co-operative. The details are checked in the summary book and the member is paid.
- x. The member signs the summary book acknowledging that he has received his money.

Banking

The Bank provides an important service for the marketing Co-operative because it is a place to keep money safe, and also provides the convenience of a cheque system, by which accounts we owe can be paid without actual cash being withdrawn from the bank. The cheque is an instruction to our Banker to transfer a specified amount of cash from our account and pay it to, or enter it into the account of a specified person or company. This is a valuable and convenient service for which the Bank makes a periodic charge. There is also a charge for every cheque used. A Bank account which uses a cheque book is called a 'current account'.

When a Co-operative is regularly receiving monies, it is important, for safety's sake, to make regular payments of cash into the Bank. This is done by completing a paying-in slip with details of the amount that is being paid into the Bank. The Bank keeps a record of all these amounts, and a copy of the paying-in slip is kept by the Co-operative for book-keeping purposes. A Bank deposit is recorded in the Working Ledger thus:

Cr Cash Account Dr Bank Account

The Cash Account is parting and the Bank Account is receiving.

When money is withdrawn from the Bank a cheque is used. Cheques are usually bound together in a book. It is important that the cheque book is kept in a safe place, because completed cheques are valuable and can be exchanged for money. In a Co-operative Society cheques are usually signed by at least two persons to reduce the risk of fraud. These two people are usually the Secretary or Treasurer, and at least one member of the Committee of Management. Cheques should never be signed until the details of the person they are payable to, and the amount to be paid, have been filled in. The safest procedure is for the Secretary to fill in the cheque for outstanding accounts immediately before Committee Meetings, so that they can be signed in the presence of the full Committee.

The "parties" to a cheque are:

- a. The Drawer: the person drawing an amount from his account (in our example the Drawer is the Co-operative Society.
- b. The Drawee: The Bank.
- c. The Payee: The person to whom the cheque is payable.

When the cheque is filled in it is torn from the cheque book and sent to the payee, the person to whom we owe money. A stub is left in the cheque book, on which we record the details of the cheque. The cheque book stubs form a Book of Original Entry for book-keeping.

When filling in a cheque, remember these points:

- a. The date must be correct.
- b. The name of the payee must be correct.
- c. The amount payable must be written in words and figures.
- d. Make sure the cheque is correctly signed.
- e. Record all the details of the cheque on the stub.

When the payee received the cheque, he takes it to the Bank and either exchanges it for cash or pays it into his own account. The Bank makes sure that the signatures on the cheque are correct, and transfers the amount from the account of the drawer (the person or society writing the cheque) to the account of the payee (the person to whom the amount is payable).

Bank Reconciliation Statement

There is always some delay between the time a cheque is recorded in the Society's books and the time the payee sends it to the Bank. Because of this the balance in the Bank Account recorded in the books of the Co-operative Society will not always be the same as the amount of money that is actually in the Bank. Periodically the Bank sends to its customers a Bank Statement, which lists all the amounts that have been paid into the Bank account, all the amounts that have been withdrawn, and the interest and charges that have been added or deducted by the Bank for its services during the month. When the Co-operative Society receives the Bank Statement, the balance in the Bank Statement will almost certainly differ from the balance in the Co-operative's books. It is therefore necessary to prepare a Bank Reconciliation Statement, which makes the necessary alterations so that the Bank Statement and the Co-operative's books balance. When the Bank Statement is received the following things should be done:

- a. Check the balance brought forward on the Bank Statement to make sure that it is the same as the final balance on the previous statement.
- b. Check each item on the Bank Statement with the Working Ledger. The number and amount of each cheque should be checked and ticked on the Bank Statement and in the Working Ledger. All deposits should be similarly checked and ticked.
- c. When this is done, the only amounts on the Bank Statement that are not recorded in the Working Ledger should be the Bank Interest and the Bank Charges. These amounts should now be entered in the Working Ledger. Bank Interest is paid by the Bank as a reward for investment. Bank Charges are deducted from the Society's Bank balance for the services that the Bank gives to the Society. Therefore Bank Interest is recorded in the Working Ledger as:

Dr Bank Account Cr Investments Interest account

Very few Banks will in fact pay interest on a Current Account. Bank charges are recorded:

Dr Expenses Cr Bank Account

- d. The Bank Reconciliation Statement is made like this: £

Balance at the Bank according to the Bank Statement	
Add - Deposits not yet recorded by the Bank	
TOTAL	
Deduct - Cheques that have been drawn but have not yet been recorded by the Bank	
Balance at the Bank according to the Main Ledger	£

Some Bank Deposits made by the Co-operative will not yet have been recorded by the Bank. These are the ones that we have not ticked in the Working Ledger. The cheques drawn that have not yet been recorded are, as explained earlier, those which the Co-operative have sent to people or companies in payment of invoices, but which the payees have not yet taken to the Bank for payment. These cheques are all those that have not yet been ticked in the Working Ledger.

Two Banking terms and their book-keeping implications may need to be explained,

Overdraft This means that the owner of a Bank account has taken out more money than he has in his account, so he owes the Bank money. Banks allow overdrafts up to a certain amount, particularly to businesses which they know will soon have money coming into the business from the sale of goods. See Illustration 4. For week-ending 18 August our Co-operative has an overdraft of £210. The Bank has allowed this because it knows that income will soon be received from the cotton crop. The Bank charges a high rate of interest on overdrafts, so they should only be used for short periods when the Co-operative is short of cash.

This usually happens when considerable amounts of money have been invested in stocks of goods for sale. In the books an overdraft means that the Bank account has a credit balance instead of the usual debit.

Returned cheques The Bank will sometimes return a cheque because it refuses to make payment. The reasons may be:

- a. because the account is overdrawn and the Bank is not prepared to allow an overdraft;
- b. the cheque has been filled in incorrectly;
- c. the cheque has a false or inadequate signature, or is out-of-date (cheques should usually be sent or taken to the Bank for payment within three months). If a cheque is returned, the payee is given a very bad impression of the business. It is very important to make sure that the Society has enough money in the Bank for cheques to be paid, and that its cheques are properly drawn up.

Loans to Members

When a Co-operative makes a loan to its members to buy seeds or fertilisers, pesticides or equipment the member enters into an agreement with the Co-operative promising to repay the loan plus interest. This agreement or bond has to be carefully prepared to ensure that it is a legal and binding document. For an example see "Agricultural Credit through Co-operatives Appendix F"- (available free from ODA). In Agricultural Co-operatives it is normal to grant loans in the planting season and to receive the repayment when the cash crop has been harvested. However, loans can be repaid at any time before the repayment date if the member wishes.

When a loan is made to a member the Working Ledger entries are -

Dr Members Loan Account

Cr Cash or Bank Account

When loan repayments are made the reverse entries are made -

Dr Cash

Cr Members Loan Account

Loan Ledger

When loans are being made and repayments received from many members it is necessary to keep a Members Loan Ledger in which every member's record is maintained showing -

the total loan they have received; interest charges to them; amounts repaid.

When a loan is made a charge is made by way of interest at a rate agreed in the loan agreement or bond. Interest is added to the amount owing at regular intervals. This will probably be monthly on the anniversary of the loan or on the first day of the month. For ease of calculation an interest rate of 6% or 12% per year is recommended. Again for simplicity interest can be based on the principal, that is the amount of the loan. Therefore in Illustration 7 an interest rate of 12% per year on the principal sum is used. That is 1% per month on £10. Therefore every month £0.10 is added to the amounting owing. After eight months, when the loan is repaid the member owes the co-operative £10.80 on a loan of £10.

ILLUSTRATION 7

Page from Members Loan Ledger

Members Name:		Share Number:		
Date £	Loan Advanced £	Repayments £	Interest £	Balance £
January	10.00			10.00
January 13			0.10	10.10
February 10			0.10	10.20
March 10			0.10	10.30
April 14			0.10	10.40
May 12			0.10	10.50
June 9			0.10	10.60
July 14			0.10	10.70
August 11			0.10	10.80
August		10.80		-

Whenever interest is added to the members Loan Account this amount has to be recorded in the Working Ledger. The entries are -

Dr Members Loan Account

Cr Loan Interest Account

In Illustration 2 the Co-operative Members have received loans totalling £400 at 12% per year or 1% per month. Therefore every month interest is added and the amount of the loan owing to the Co-operative increases. If all the members repaid their loans in January the £400 + 1% interest would have become £404. By August when payment for the cotton crop is received the loan plus interest is £432 (Illustration 4). When the loans are repaid the entry in the Working Ledger is -

Dr Cash

Cr Members Loan Account

When all the loans have been repaid there is no longer a balance in the Members Loan Account. The total interest which has been added during the year appears in the Loan Interest Account. At the end of the financial period this amount will be transferred to the Income and Expenditure Account.

If at the end of the financial period some loans have not been repaid then the balance in the Members Loan Account will appear in the Balance Sheet under the heading of Debtors (people who owe the Co-operative money).

Bad Debts

In the example we have used all of the Members have repaid their loans and interest. Unfortunately, when loans are made there are sometimes people who do not repay the money they owe. This might be because they have wasted the money, because their crop has failed, they might have died or they could be dishonest. Sometimes such people can be taken to Court and made to pay but this is not always possible or desirable. This means that the Co-operative can be owed money which it knows that it will never receive.

In the Balance Sheet money owed by debtors appears as an asset. This can be misleading if the Co-operative knows that the money will never be recovered. To overcome this problem a Bad Debts Account is created. When it is quite certain that a loan is not going to be repaid it is written out of the books. The Working Ledger entries are -

Dr Bad Debts Account

Cr Members Loan Account

At the end of the financial period the balance in the Bad Debts Account is transferred to the Income and Expenditure Account as an expense. The effect of this transaction is to remove from the books an asset which has ceased to be an asset. Because a bad debt is money which the Co-operative has lost it also reduces the amount of profit which the Co-operative will make.

Making Loans

- i. The member applies for a loan to the Co-operatives Committee of Management.
- ii. The Committee will consider the application.
- iii. A loan will be granted only if the Committee think that the member will be able to repay the amount within a stipulated period.
- iv. The member enters into a Bond (or written agreement) to repay the loan.
- v. The loan is made to the member, it might be in cash or in the form of seeds or fertiliser supplied by the Co-operative.
- vi. The amount of the loan is recorded in the Working Ledger and in the Members Loan Account.
- vii. Every month interest is added to the loan at an agreed rate. The interest is recorded in the Working Ledger and added to the Members Loan Account.
- viii. The member may repay part or all of the loan at any time.
- ix. In practice the loan will probably be repaid on an agreed date. This will usually be after the member's crop has been marketed and the money received. The loan will be repaid including all interest added.

WORKING LEDGER EXERCISE

We now take up the story of the Small Marketing Co-operative Society in the month of August. The cotton crop has been picked and the members of the Co-operative have taken the cotton to the Co-operative. Here it is weighed and each member issued with a receipt. The cotton is then transported to the ginnery and sold through the Marketing Board. Soon after the Co-operative receives payment for the cotton. This money is then distributed to the members.

Now see if you can correctly prepare the Working Ledger for week ending 26 August 1973, from the information given below. When you have finished check your answers with Illustration 8.

August 20	'A' Transport Company paid by cheque for transport of cotton to the ginnery	£ 20
August 21	Safe Locks Ltd paid by cheque for new safe	18
August 21	Workmen paid for installing the new safe in the Co-operative Society Office	2
August 22	New receipt book purchased. Paid in cash	1
August 22	Cheque received from the Cotton Marketing Board	20,000
August 22	Cheque paid into the Bank	20,000
August 23	Members paid for cotton by cheque	10,450
	Commission at 5%	555

August 24	Cash withdrawn from Bank	£ 8,200
August 24	Members paid for cotton - in cash	8,118
	Commission at 5%	450
	Loans owing (including interest) repaid	432
August 24	Bank deposit	80
August 25	New members approved. Shares received in cash	5
August 25	Loan repaid to Agricultural Credit Agency - by cheque	416
August 25	Secretary's wages paid - cash	4

When the Working Ledger has been entered and balance the Account totals are transferred to the Main Ledger. See Illustration 4.

FINAL ACCOUNTS

At the end of the financial period the books have to be balanced and the final accounts prepared.

a. Trial Balance

The first step at the end of the financial period is to prepare a trial balance of all of the Main Ledger balances.

We are already familiar with the idea of the Trial Balance. It is a method of checking that for every credit entry we have made an appropriate debit entry. In our example the Trial Balance is prepared on 31 December from the Main Ledger balances at that date.

b. Adjustments

When the Trial Balance is correct it might be necessary to make some adjustments so that the Final Accounts give an accurate picture of the financial position of our Co-operative Society. We will attempt to keep these adjustments as simple as possible.

Depreciation

During the year our Co-operative Society has spent money on the purchase of items such as a new safe, scales and a storage shed. These items are called capital expenditure and they are charged to the Property and Equipment Account. Another name for these goods is assets. That is what the Co-operative owns. When the Co-operative buys for example a new safe, it can be very expensive but it can last for many years.

In the Balance Sheet we show the value of all the Co-operative's liabilities (what it owes) and all of its assets (what it owns). Although the safe may last for many years as it becomes older its value will decline because it is becoming older, more worn out or out-of-date. Depreciation is a book-keeping device that takes account of the declining value of an asset over the years.

It is important to distinguish between capital expenditure and expenses. Capital expenditure is money spent on items, usually of considerable value, which will be used over a number of financial periods. Examples of capital expenditure (or assets) are land, buildings, vehicles, office equipment.

Expenses is expenditure on items which will be wholly used in the financial period in which they are bought. Expenses items are usually of comparatively small value and are the things necessary for the day-to-day running of the business such as stationery, postage, repairs and the wages of the employees.

DATE	NARRATION	BANK ACCOUNT		CASH ACCOUNT		SHAREHOLDERS ACCOUNT	
		REF	Dr	Cr	Dr	Cr	Dr
1973							
August 20	'A' Transport Co						
" 21	Safe Locks Ltd						
" 21	Labour						
" 22	Stationery						
" 22	Marketing Board						
" 22	Bank deposit		20000	20000			
" 23	Members Crops						
" 24	Cash withdrawal						
" 24	Members Crops/ Loans						
" 24	Bank deposit		80				
" 25	New members						
" 25	Agricultural Credit Agency						
" 25	Secretary's Wages						
			20080	19104	28205	28205	5

	Trial Balance	
	Dr	Cr
Bank	20080	19104
Cash	28205	28205
Shareholders		5
Expenses	25	
Creditors	20	
Loan	416	
Members Loans		432
Crops	20000	20000
Commission		1000
	68746	68746

EXPENSES ACCOUNT		CREDITORS ACCOUNT		LOAN ACCOUNT		MEMBERS LOAN ACCOUNT		CROP ACCOUNT		COMMISSION ACCOUNT	
Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr
	18 2 1		20								
									20000		
								11000			550
							432	9000			450
				416							
25		20		416			432	20000	20000		1000

ILLUSTRATION 9

Trial Balance at 31 December 1973

	Dr	Cr
Bank Account	90	
Cash Account	6	
Share Holders		220
Expenses	643	
Goods	400	
Property and Equipment	333	
Creditors		80
Sales		312
Commission		1,000
Reserve Fund		40
Stock b/f	12	
Investments	200	
Members Loan Interest		32
	1,684	1,684

Let us see how depreciation works in practice. Two factors have to be determined - how much did the asset cost and how long will it last?

The depreciation charge is found by applying the simple formula -

$$\frac{\text{Original Cost}}{\text{Estimated Life}} = \text{Annual depreciation charge}$$

Therefore if we refer to Illustration 11 a safe was purchased for £18. Applying the formula the annual depreciation charge will be

$$\frac{£18}{\text{say 5 years}} = £3.60$$

Therefore for the next five years the value of the safe in the books of the Co-operative will be reduced until at the end of five years it no longer has any value.

Year	Original Cost	Depreciation Charge	Value in the books
1	£18.00	£3.50	£14.40
2		£3.60	£10.80
3		£3.60	£7.20
4		£3.60	£3.60
5		£3.60	-

It must be understood that depreciation is merely a book-keeping device which attempts to spread the cost of an asset over the years in which the asset is being used.

The method shown above is called the equal instalment method. There are other methods but this is the simplest and is sufficient for our purposes.

The rate of depreciation determined can vary. We have charged all our assets to a Property Equipment Account. In a larger Co-operative it might be necessary to have several assets accounts such as Equipment Account; Motor Vehicles Account; Land and Buildings Account.

The rates of depreciation applied to each kind of asset will probably vary. For example a building is likely to last longer than a lorry.

The following gives a rough guide to depreciation rates for the various types of assets -

Equipment	5 years at 20% per year
Motor Vehicles	4 years at 25% per year
Buildings	20 years at 5% per year

The entry in the Main Ledger at the end of the year for depreciation will be -

Cr Property and Equipment
Dr Depreciation

Depreciation is an expense incurred in running the business and together with other expenses will be transferred to the Income and Expenditure Account.

Goods received, not invoiced

It is possible at the end of the financial period that some goods which have been received have not yet been recorded in the books because the invoice has not yet been received. If such goods have been mixed with the other goods or have even been sold then an adjustment must be made -

Cr Creditors
Dr Purchases

That means we record the appropriate book-keeping entry before we receive the actual invoice.

Stocks

At the end of the financial period it is necessary to calculate the value of all the goods which have been bought for sale to the members but have not yet been sold. These goods will be seeds, fertilisers etc and are called the 'stock'.

The method of calculating the value of all the stocks is called 'stocktaking'. All the goods are listed and their value is calculated. The value given to the goods is usually the cost price or the selling price, whichever is the lower.

The total value of the stocks at the end of the financial period appears on the income side of the Income and Expenditure Account and as an asset in the Balance Sheet.

We must also remember to insert the value of stocks brought forward at the beginning of the financial period on the expenditure side of the Income and Expenditure Account.

c. Income and Expenditure Account

When the adjustments have been made the Income and Expenditure Account can be completed, and the profit or loss for the financial period calculated.

As the name suggests this account merely lists all the items the Co-operative has spent during the financial period (expenditure) and all the monies that the Co-operative has received (income).

The account is separated for convenience into two parts. The first part shows the profit or loss on the trading activities of the Co-operative. The second part shows the overall profit or loss for the financial period.

ILLUSTRATION 10

INCOME AND EXPENDITURE ACCOUNT
for the period ending 31 December 1973

<u>Expenditure</u>	£	<u>Income</u>	£
Stock to begin	12	Goods Sold	312
Goods purchased	400	Stock to end	180
Profit on trade	80	Loss on trade	-
	492		492
Expenses -		Profit on trade b/f	80
Wages	260		
Labour	180	Commission received	1,000
Stationery	18	Interest received	32
Postage	5		
Committee fees	26		
Audit fees	5		
Taxes	20		
Training	20		
Insurance	12		
Licences	20		
Travelling	30		
Bank Charges	20		
Loan interest	16		
Bad debts	-		
Miscellaneous	11		
Depreciation	33		
	676		
Profit	436	Loss	
	£1,112		£1,112

d. Balance Sheet

When we know the profit or loss the final account or Balance Sheet can be prepared. This lists what the Co-operative owes (liabilities) and what the Co-operative owns (assets) on the last day of the financial period. It also shows how the profit is to be distributed. In our example it has been decided that all of the profit be transferred to the Rescue Fund. This is recommended practice particularly for young Co-operative Societies because the reserve funds can be used to buy new assets and help the business expand. It is also possible for some of the profits to be distributed in the form of dividend to the members. In our example where produce has been marketed on a commission basis of 5% it would have been possible to declare a dividend of say 1% or 2% thus returning to the members some of the commission they had been charged.

In a marketing Co-operative which buys the members produce outright before marketing any dividends would be paid according to the total value of goods sold by each member to the Co-operative.

ILLUSTRATION 11

BALANCE SHEET
as at 31 December 1973

<u>Liabilities</u>	£	<u>Assets</u>	£
Shareholders	222	Property and Equipment	£333
Reserve Fund	40	Less depreciation	<u>£33</u> 300
Creditors	80	Stocks	180
<u>Profit for disposal</u>		Debtors	-
Allocation to Reserve	436	Investments	200
Proposed dividend	-	Bank	90
		Cash	6
	<hr/> £776 <hr/>		<hr/> £776 <hr/>

A SUMMARY

Our book-keeping system is now complete. It can be summarised thus:

1. All transactions are recorded in books of original entry.
2. These records are transferred periodically into the Working Ledger.
3. Every transaction is recorded in the Working Ledger in double entry form. For each transaction one entry is a credit, one is a debit.
4. When the entries for the period (usually one week) have all been made in the Working Ledger it is ruled off and a trial balance is made.
5. The Working Ledger balances are transferred to the corresponding account in the Main Ledger.
6. The total debit balances in the Main Ledger should always equal the total credit balances.
7. All books of account, records and receipts must be kept for the purpose of audit, and for the preparation of the Final Accounts.
8. At the end of the financial period we prepare an Income and Expenditure Account to find our profit or loss.
9. The final account we prepare at the end of the financial period is the Balance Sheet. This is a summary of the total liabilities (what we owe) and the total assets (what we own) of the Co-operative.

CONCLUSION

In this book we have used as an example a small Marketing Co-operative operating on a commission basis. The basic book-keeping however can be applied to other Marketing Co-operatives that buy and sell produce on behalf of their members.

This book has been written to help the newly appointed secretary or treasurer in setting up his book-keeping system, and for use as a reference book in applying the system. As a Co-operative grows, and its business expands, so the book-keeping becomes more complicated. But the system we have explained here contains all the basic and essential requirements. If it is carefully followed the Co-operative's accounts will always be in good order and will show a true

and accurate record of the financial position. Finally, remember that good book-keeping - making all entries correctly - is essential to good business. The book-keeper's job is very important. To do his job well he must know what he is doing and why he is doing it. Careful study of this book will help him do his job well.