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Co-operative Accounting #2: Consumer Co-operative  
Societies

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CO-OPERATIVE ACCOUNTING

II Consumer Co-operative Societies

OVERSEAS DEVELOPMENT ADMINISTRATION AND  
INTERMEDIATE TECHNOLOGY DEVELOPMENT GROUP  
LONDON

The Intermediate Technology Development Group is a non-profit organisation, formed to promote the development and practical application of simple, self-help techniques suitable for the rural areas of developing countries.

The Group's work is organised through specialist panels of engineers, economists, doctors, architects, administrators and others with wide overseas experience. There are panels concerned with Building, Water, Agricultural Tools and Equipment, Co-operatives, Rural Health, Power, Training and Small Industry.

The task of each Panel is to mobilise practical information on low-cost, simple techniques appropriate for rural development; to disseminate such information to areas in developing countries and to assist in testing out simple techniques and equipment under field conditions.

The Group's headquarters are at 9 King Street, London WC2.

CO-OPERATIVE ACCOUNTING

II Consumer Co-operative Societies

## Foreword

This is the second 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 their 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.

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## INTRODUCTION

The book-keeping system described in this book has been devised for use by consumer 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 society 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 the society.

## THE CONSUMER CO-OPERATIVE

The main functions of a consumer co-operative is to buy goods and re-sell them to its members. To do this the Society must raise capital to buy or rent suitable premises and to buy stocks of goods. It raises capital from its members, by selling shares to them. In return for this investment, the members receive a fixed rate of interest. Consumer co-operatives usually trade at competitive prices and do not allow credit. Any profits which are made belong to the members. When the co-operative is in its early years, the profits are usually kept in the Society, to help it to grow stronger.

In later years the profits are distributed to the members in the form of a dividend. The usual form of co-operative dividend is a payment on the purchases a member makes. The more the member has spent at the co-operative the greater is his share of the profits. The Society we shall be using to explain the book-keeping system is a small Co-operative which operates a single shop. The Society has been in business for nearly a year.

The book-keeper in such a Co-operative has the task of recording all the transactions of the society 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.

## THE BOOK-KEEPER'S JOB

This book is about the work of the book-keeper. 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 Society is involved.
- b. To check the accuracy of these records at regular intervals.
- c. At the end of each financial year to prepare a Balance Sheet and 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.
- e. To prepare, at regular intervals during the financial year, statements for the Board of Management which show the current financial position of the Society.

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

## 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 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 Society's books of account must therefore show to the members:-

- a. How much the Society owns.
- b. How much the Society 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.

#### BOOKS AND LEDGERS

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 society 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 daily sales made in the store. The receipt book in which this is entered is a book of original entry, as are all receipt books used by the society.

##### 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.

##### The Members' Share Ledger

In this ledger investments made by each member of the society are recorded.

##### The Merchants' Ledger

This ledger records the purchases made by the Society from other businesses with whom it trades, and the payments which it makes to them.

#### 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 consumer 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 Society 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

In a summary of what the Society 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 Society. They can include land, building, equipment, stocks of goods, money in the bank, cash and money owed to the Society by outside people, who are known as the Society's debtors.

### Liabilities

Are the total amount of money owed by the Society 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 Society owes money are known as the Society's creditors. A Society 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 4. 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 Society. 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.

Finally, to complete this introductory section:-

- 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 DOUBLE ENTRY SYSTEM

In a double entry system of book-keeping the amount of every transaction is recorded twice in the Society's 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 twice is given under the heading of the Working Ledger (page 4).

Now we have completed our introductory survey of the main features of the double entry system and we can turn to its practical application in a consumer 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.

## 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 consumer Co-operative will use the following books and documents of original entry:-

- a. A record of daily sales to members.
- b. Receipt books for members' share investments and withdrawals.
- c. Invoices and bills.
- d. Cheque book and bank paying-in book.
- e. Petty cash receipts.

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 Society and all the money that goes out of the Society.

## 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; (see figure 1). The main accounts needed are for Bank, Cash, Purchases, Sales, Merchants Shares, Expenses, Fixtures and Fittings, Petty Cash, Overs and Shorts. 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, Making two entries for one transaction is not as strange as it may seem. Imagine the society paying for goods received from a merchant. The Society is parting with the money; the merchant is receiving the money. Double-entry book-keeping records both of these actions - the parting and the receiving. The examples that follow will show how the system works. A simple rule to remember is: PARTING IS A CREDIT ENTRY: RECEIVING IS A DEBIT ENTRY.

Let us assume that the Society's transactions for the week ending 26 December 1971, are as follows and see how these would be entered in the Working Ledger. (These details would of course be obtained from the books of original entry.)

1	December	22	Sales (to members)	20.50
2	"	22	Share Contributions	2.00
3	"	23	Purchases from 'A' Wholesaler paid by cheque	46.00
4	"	23	Cash Paid into Bank	22.50
5	"	23	Sales	40.00
6	"	23	Purchase of Scales, paid by cheque	12.00
7	"	24	Cash Paid into Bank	40.00
8	"	24	Sales (to members)	52.30
9	"	24	Shares withdrawal	3.00
10	"	24	Goods received from Co-operative Union	18.00
11	"	24	Invoices received from Co-operative Union	18.00
12	"	24	Cash Paid into Bank	45.00
13	"	24	Stationery purchased, paid by cheque	2.05
14	"	24	Purchase corn from 'A' Farmer, Invoice received	20.00
15	"	26	Sales (to members)	12.00
16	"	26	Manager's Wages paid by cheque	5.00

## SPECIMEN ENTRIES

Our consumer co-operative has four main kind of transaction;

- a. the purchasing of stocks of goods,
- b. sales of goods to members,
- c. members' shares,
- d. to deposit and withdraw money.

The Society is also involved with the Bank.

Every day when the shop is open, the Society receives cash in exchange for goods. This cash represents the sales of the Society. Every individual sale to a customer is recorded on a receipt. Sometimes one copy of the receipt is given to the customer and another copy is kept by the Society. Sometimes the receipt is recorded by an automatic till roll, which registers and adds all the amounts recorded on the till keyboard. Whatever the method used, the money in the till at the end of the day should equal the value of the total sales. Using the system of Dr and Cr entries, and remembering the rule; "parting is a credit entry; receiving is a debit entry". The Working Ledger entries for item 1 in the list above will be:

Cr Sales Account                      Lr Cash Account

The Sales Account is credited as this represents goods sold (ie with which the society is parting) and the Cash Account is debited to record the money received for these goods.

The goods that are sold in the shop are bought from a wholesaler or from the producer. If goods are purchased and paid for immediately by cheque, the ledger entries for item 3 above would be:

Cr Bank Account                      Dr Purchases Account

The society is parting with money through its Bank Account so that Bank Account is credited, and receiving goods so the Purchases Account is debited. But usually goods are ordered from a wholesaler, and are delivered by him to the Society at some later date. The wholesaler sends the Society an invoice, which is a detailed statement of goods supplied and money owed. The Society checks the goods received, makes sure that the invoice is accurate, and then pays the bill by cheque. When this happens the single transaction of purchasing and paying for goods has three aspects instead of only two:

a. Goods are delivered to the Society with a delivery note, which lists the details of the goods. The shop manager checks the goods against this list, and acknowledges that he has received them by signing the delivery note. He keeps a copy of this note and records the details of the goods in a Goods Received Book. This refers to item 10 in the list above - but is not recorded in the Working Ledger.

b. The Wholesaler then sends to the Society an invoice which gives the details of the goods he has delivered, and the price. The book-keeper checks the invoice details with the Goods Received Book. If it is correct he makes the following book-keeping entries - see item 11 in list above.

Cr Merchants' Account              Dr Purchases Account

This shows that the Merchant has parted with goods and that the society has received them.

c. At a later date, the Society pays the amount on the invoice. The book-keeping entry will be:-

Cr Bank Account                      Dr Merchants' Account

The Society has parted with money through its Bank Account and the Merchant concerned has received it.

If you look carefully at these book-keeping entries you will see that we have to record the situation that exists between the time the goods are delivered to the Society and the time when the goods are actually paid for. In the period between these two times the Society can sell the goods to its members, but the Society owes the Merchant for the goods. This is shown by a credit balance in the Merchant's account. When the goods are paid for a debit entry is made in the Merchant's account, and this cancels out the credit entry.

#### CASH DISCOUNT

It is important to the Merchant that the period between the delivery of goods and the payment for goods should not be too long, so Merchants sometimes offer incentives to businessmen to encourage quick payment. A percentage can be deducted from a bill if payment is made within a certain period of time. These incentives are called cash discounts.

#### INVOICE

A typical invoice looks like this:

To: Anytown, Consumer 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	

#### SHARE CAPITAL

We have already stressed the importance of members investing in their Co-operative Society. The book-keeping entries for this are very simple. Daily totals of share contributions and withdrawals can be obtained from the receipt books and entered in the Working Ledger. A share contribution (see item 2 in list) will be:

Cr Share Account                      Dr Cash Account

A withdrawal (see item 9) will be:

Cr Cash Account                      Dr Share Account

The Cash Account is parting with money and the Share Account (which represents the holdings of members) is receiving it - in the sense of it being paid to a member. The first part of Illustration 1 shows the entries in the Working Ledger for the week ending 26 December.

ILLUSTRATION 1 - THE WORKING LEDGER

ILLUSTRATION 1 - THE WORKING LEDGER

DATE 1971	NARRATION	Ref No	BANK ACCOUNT		CASH ACCOUNT		PURCHASES		SALES	
			Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr
Dec 22	Sales				20.50					20.50
" 22	Share Deposits				2.00					
" 23	'A' Wholesaler Ltd			46.00			46.00			
" 23	Bank Deposit		22.50			22.50				
" 23	Sales				40.00					40.00
" 23	Scales Co			12.00						
" 24	Bank Deposit		40.00			40.00				
" 24	Sales				52.30					52.30
" 24	Share Withdrawal					3.00				
" 24	Co-operative Union						18.00			
" 24	Bank Deposit		45.00			45.00				
" 24	ABC Stationer					2.05				
" 24	'A' Farmer						20.00			
" 26	Sales				12.00					12.00
" 26	Wages			5.00						
			107.50	63.00	126.80	112.55	84.00			124.80

- NOTES:
1. Observe how each item in the list on page 4 has been entered in the ledger.
  2. Items 13 and 16 from the list are "Expenses" - money spent in the day to day
  3. Notice how the totals in each column are transferred to the Trial Balance  
The use of this will be explained later.

MERCHANTS		SHARES		EXPENSES		FIXTURES/ FITTINGS		PETTY CASH		OVERS/SHORTS	
Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr
			2.00								
						12.00					
	18.00	3.00									
	20.00			2.05							
				5.00							
38.00		3.00	2.00	7.05		12.00					

  

TRIAL BALANCE		
Dr	Cr	
107.50	63.00	Bank
126.80	112.55	Cash
84.00		Purchases
	124.80	Sales
	38.00	Merchants
3.00	2.00	Shares
7.05		Expenses
12.00		F/F
<u>340.35</u>	<u>340.35</u>	

running of the business.

columns - all the debits in one column and all the credits in the other.

## 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 1). 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.

## 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 26 December 1971 has been completed and balanced (see illustration 1) 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 2 - MAIN LEDGER

Page 1 BANK ACCOUNT

Week ending 1971	Dr	Cr	Balance	Week ending 1972	Dr	Cr	Balance
January 10							
" 17							
" 24							
etc							
December 19			Dr 248.00				
" 26	107.50	63.00	Dr 292.50				
" 31							

But for our purpose here we will, for convenience of illustration, use a columnar ledger. At this stage you will only need to note the entries up to 26 December 1971.



ILLUSTRATION 3 - MAIN LEDGER (This page and the following 5 pages would in practice form one continuous sheet in the main ledger.)

DATE	1971	BANK ACCOUNT			CASH ACCOUNT		
		Dr	Cr	Balance	Dr	Cr	Balance
January 10 etc etc to December 19				Dr 848.00			Dr 5.00
December 26		107.50	63.00	Dr 892.50	126.80	112.55	Dr 19.25
December 31 Final adjustments		123.19	61.00	Dr 954.69	108.94	123.19	Dr 5.00
Balances to Income and Expenditure Account							
Balances b/f 1972 from Balance Sheet				Dr 954.69			Dr 5.00
Allocations & Adjustments							

- NOTES: 1 The balances entered for January 10 to December 19 1971 are the balances of all transactions which, for the purpose of our example, we assume have taken place during that period. To save space these have not been entered week by week. The entries represent the balance in each account as at December 19 1971.
- 2 The entries for week ending December 26 are, of course, the balances brought forward from the Working Ledger - see Illustration 1 and note how each item has been transferred.
- 3 The entries for week ending December 31 refer to the Working Ledger Illustration (1) and account columns have been added as required.

EXPENSES IN ADVANCE			EXPENSES OWING			DEPRECIATION		
Dr	Cr	Balance	Dr	Cr	Balance	Dr	Cr	Balance
4.00		Dr 4.00		6.00	Cr 6.00	29.50		Dr 29.50
								Dr 29.50
	4.00	Dr 4.00 -	6.00		Cr 6.00 -			

RESERVE FUND			PROVISION FOR MEMBERS INTEREST			MEMBERS SHARE INTEREST			MEMBERS DIVIDEND		
Dr	Cr	Balance	Dr	Cr	Balance	Dr	Cr	Balance	Dr	Cr	Balance
				15.00	Cr 15.00	15.00		Dr 15.00			
								Dr 15.00			
		Cr 200.00			Cr 15.00					392.00	Cr 392.00

SHARE ACCOUNT			EXPENSES ACCOUNT			FIXTURES & FITTINGS		
Dr	Cr	Balance	Dr	Cr	Balance	Dr	Cr	Balance
		Cr 600.00			Dr 490.00			Dr 100.00
3.00	2.00	Cr 599.00	7.05		Dr 497.05	12.00		Dr 112.00
	12.00	Cr 611.00	13.00		Dr 510.05	35.50		Dr 147.50
			6.00	4.00	Dr 512.05		29.50	Dr 118.00
					Dr 512.05			
		Cr 611.00						Dr 118.00
			4.00	6.00	Cr 2.00			





## MEMBERS' SHARE LEDGER (and Membership records)

The capital of a Co-operative Society comes from the investments made by its members and is owned by the members. The rules of each Society state the minimum investment that is required to become a share-holder member. The members are encouraged to invest more than this minimum amount by the payment of a fixed rate of interest on their shareholding. Members should also be encouraged to leave the dividends in their share accounts instead of withdrawing them. The members and their savings are a very important part of the Co-operative Society. Without them the Society would not exist.

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 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 Society. The new member is allocated a share number, and he is given a Membership Book which contains a record of all the contributions and withdrawals he makes. The Society keeps a duplicate record in the Share Ledger, and once a year the Society collects all Membership Books and checks that they are accurate.

Application forms for membership are designed so that they can be filed in alphabetical order, to provide a register of all the members in the Society. This record contains the name, address and share number of every member, and the date that he joined the Society. Every member is allocated a page in the Members' Share Ledger, headed with his membership number. All the share transactions that have taken place between the Society and the member are recorded on the member's page. At the end of every week, the Share Contributions Receipt Book and Share Withdrawal Receipt Book entries are taken by the book-keeper, and the information on each receipt is copied into the appropriate member's account. (See Illustration 4)

At the end of each year the amount of interest earned by each member is calculated and added to the balance, together with a dividend on purchases (see Appendix B).

ILLUSTRATION 4 - SHARE LEDGER PAGE

Name: H SINGH

Share Number: 517

Date	Contri- butions	With- drawals	Interest	Dividend	Balance	Date	Contri- butions	With- drawals	Interest	Dividend	Balance
1970											
June 1	2-00				2-00						
Aug 15		-50			1-50						
Dec 22	2-00				3-50						



## MERCHANT'S LEDGER

When a Society deals with only a Co-operative Union or Wholesale, or with a few suppliers, the Working Ledger gives enough information about Merchants, and a special ledger is not required. But when a Society deals with a large number of Merchants, a separate Merchants' Ledger will be needed. In this ledger, each merchant is allocated a page, headed with his name:

ILLUSTRATION 5 - MERCHANTS LEDGER PAGE

'A' Wholesale

Date	Invoice		Credits		Amount paid	Cheque No	Balance
	No	Amounts	No	Amount			
11/1/71	2313	20.15					Cr 20.15
18/1/71	2400	15.85					Cr 36.00
25/1/71					36.00	1131	-
10/2/71	2610	20.00					Cr 20.00
12/2/71			37	10.00			Cr 10.00

All invoices and credit notes (these are explained on pages 6/18) are recorded in the Merchants' Ledger, so are all the amounts of cheques used to pay the merchants' accounts. The total balances in the Merchants' Ledger should equal the Merchants' account balance in the Main Ledger.

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 Society is to have a rubber stamp and three spike or box files.

The rubber stamp looks like this:

ABC	CO-OP	LTD		
GRB	WL	ML	PAID	

- a. When the invoice is received, it is stamped and checked with the Goods Received Book. 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 and the Merchants' Ledger. The WL and ML columns on the stamp are 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.

## BANKING

The Bank provides an important service for the consumer 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'.

A consumer Co-operative receives cash every day from the sale of goods. 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 Society 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 receives 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 Society's books. It is therefore necessary to prepare a Bank Reconciliation Statement, which makes the necessary alterations so that the Bank Statement and the Society'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

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 Working Ledger

\_\_\_\_\_

Some Bank Deposits made by the Society 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 Society 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. The Bank charges a high rate of interest on overdrafts, so they should only be used for short periods when the Society 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.

When the Society sells goods to its members, they sometimes want to pay by cheque. Only members of good character, who are well known to the Society, should be allowed to do this. Cheques received in this way are regarded as cash, and are paid into the Bank with other money. It can be dangerous to accept cheques - they might have been stolen, or the drawer might not have enough money in his bank account to cover them. If this happens, the cheque will be returned by the Bank, which means that the member has received goods and the Society has not been paid.

SHOP PRACTICE

The Consumer Co-operative's shop is the place where goods are received and sold to the members, and it is also the place to which the members bring their money for investment in their Society.

Goods Received Book This records all the goods that are received by the Society and entries are made at the time goods are received. When an invoice for the goods is received, it is checked against the Goods Received Book, to make sure that the Society is being charged only for the goods that were actually received. It is very important to do this. A page in the Goods Received Book looks like this:

GOODS RECEIVED BOOK

Date Received	Bought from	Carriage	Quantity	Description	Consignment Checked by	Delivered by
1971 Dec 24	Co-op Wholesale Ltd	Paid	1 case	Tea 144x½lb	B T	Co-op Wholesale
			2 cases	Tinned Meat 100 x ½lb		
			1 box	Sugar 144 x 2lb		
" 24	A Farmer	Paid	144 bots	Milk	B T	Smith's Transport
			144 x 6	Eggs		

Share Contributions and Withdrawals When the shop is open, members can usually come in and invest or withdraw money from their share accounts. Receipt books are needed to record these transactions. A typical receipt book for recording share contributions might look like this:

SHARE CONTRIBUTION FORMS

---

ANYTOWN CONSUMER CO-OPERATIVE SOCIETY LTD

C.1 Share Contribution Date: 22.12.71

Received from H Singh

Membership No 517

The sum of Two 2-00

---

ANYTOWN CONSUMER CO-OPERATIVE SOCIETY LTD

C.2 Date:

Received from \_\_\_\_\_

Membership No \_\_\_\_\_

The sum of \_\_\_\_\_ =====

---

ANYTOWN CONSUMER CO-OPERATIVE SOCIETY LTD

C3 Date:

The receipt forms in the book are numbered consecutively. The member receives a copy of the receipt and a carbon copy is kept by the Society for book-keeping purposes. A similar form is used for Share Withdrawals.

Recording Sales The consumer society's main transactions are the sale of goods to members. The total amount purchased by each member must be recorded. The two most common methods of doing this, the Climax Check system and the more modern Dividend Stamp system are discussed in detail in Appendix A. The Society must have a record of the amount of goods that have been sold and the amount of cash that has been received. At the end of a day's business the total sales should equal the total cash in the till. Checking this cash is called 'cashing-up', and the totals are recorded daily in a Cashing-up Book:-

Sales	27.00	Bank notes	25.50
Share Contributions	5.00	Coins	4.50
	<hr/>	Cheques	2.00
	32.00	Postal Orders	<hr/>
Less Share Withdrawals	1.00		
	<hr/>		
Total receipts	31.00	Total cash	32.00
	<hr/>		<hr/>
Cash overs	1.00	Cash shorts	

At the end of the day the total receipts should equal the total cash. If they do not, all figures and all money should be re-checked. If the shop has been very busy, it is possible that a customer might have been given too much or too little change. Or a dishonest assistant may be taking money from the till. When this has happened the cashing-up book will not balance, and a book-keeping adjustment has to be made. This adjustment is recorded in the Overs and Shorts account in the Working Ledger. In the example above we have 1 too much at the end of the day, and the Working Ledger entries are:-

Cr Sales	27-00	Dr Cash account	32-00
Cr Overs/Shorts	1-00		
Cr Shares	5-00	Dr Shares	1-00

The Society should take care that Overs and Shorts do not occur regularly. When they do, only small amounts should be accepted without questioning. Some societies deduct shortages from the pay of the people who work in the shop, to make sure that they are careful when dealing with money.

Cash Floats At the beginning of the day a shop usually has a cash 'float' so that change can be given to the first customers. A 'float' is a small account of money which is not sent to the Bank at the end of the day before, but is kept at the shop. When the shop manager cashes up, the float is taken out of the till first, and put on one side. This is why there is usually a small cash balance in the Working Ledger at the end of the week.

Petty Cash The Shop Manager sometimes has to buy things or pay bills for the day to day running of his shop. He may have to pay a window cleaner, or buy the cleaning materials necessary to keep the shop clean and tidy. The manager must not take money out of the till to pay for these expenses, and the amounts needed are so small that it is not worth drawing a cheque. So the manager is given a special fund of money called a 'Petty Cash Imprest', with which he can pay small or 'petty' expenses. This Imprest is a fixed amount (5 for example), and every time money is paid out for petty expenses the manager must ask for a signed receipt. So at any time the petty cash that the manager has in hand, plus the total of all these receipts, must equal the imprest (5). When the manager has very little cash left, he gives the receipts to the Secretary, and the Secretary gives him a cheque for a sum of money equal to the total of the receipts. The manager then has an imprest of 5 cash again. The book-keeping entries involved when a shop manager exchanges his receipts for cash are:

Cr Bank account	Dr Petty Cash.
-----------------	----------------

Capital Expenditure and Expenses As we have seen the Merchants' Account in the Working Ledger is used to record amounts for goods that have been received, but have not yet been paid for. Not all these goods are classified as Purchases, because some goods are bought not for re-sale, but for use within the business. These goods are the assets of the Society, and instead of being debited to the Purchases Account they are debited to special assets accounts. For example, if the Society buys scales, a shop counter or shelves, the cost of these are debited to a Fixtures and Fittings Account. If the Society buys land or a building, they are debited to a Land and Buildings Account. A truck, van or cart is debited to a Vehicles Account. The value of these assets of the business appears in the Balance Sheet against the name of the Account. Expenditure on assets is called capital expenditure, and it is important to make a distinction between capital expenditure and ordinary purchases (goods for re-sale) and expenses. Expenses are distinct from capital expenditure because they are used in the period in which they are purchased. For example money spent on scales is capital expenditure because they will last for a number of years. Money spent on postage stamps - is expenses because they are completely used in the year in which they are purchased. Rent is expenses. Sacks of corn are purchases for re-sale. A new shop is capital expenditure. You will be able to think of other examples.

To summarise:

- a. Capital Expenditure is money spent on things which will be used for a number of years. The amounts of money involved are usually large.
- b. Expenses is money spent on things used up in the day to day running of the business. The amounts of money involved are comparatively small.
- c. Purchases is money spent on goods for re-sale to the members.

Credit Notes Goods that are bought for re-sale are debited at their cost price to the Purchases account. The total in the Purchases account therefore represents the total value of the goods that have been purchased by the Society during the year. Amounts that are owed to Merchants, but are not yet paid, are recorded in the Merchants' Account. Sometimes the goods that are supplied by a Merchant are unsatisfactory; they may be bad; they may not be what the Society has ordered; they may have been damaged in transit; or they may have been invoiced but not delivered. In any of these cases the Society may decide to return the goods and claim from the Merchant. Once an invoice has been issued a Merchant will not wish to change it. Instead, he will probably give the Society a credit note which is equal in value to the goods that have been returned or not received. A credit note is usually similar in form to an invoice. Often it is printed in red. The credit note is simply a book-keeping device which makes sure that the Merchant's Account in the Society's books and the Society's Account in the Merchant's books are in balance. Here is an example:-

The Merchant delivers goods worth 20.00 to the Society and sends the Society an invoice for this amount. This is recorded in the Society's Working Ledger:

Dr Purchases    20.00	Cr Merchants    20.00
-----------------------	-----------------------

Of these goods 5.00 worth are found to be damaged, and are returned by the Society to the Merchant. When the Merchant receives the goods he sends the Society a credit note for 5.00. This is recorded in the Society's Working Ledger:

Dr Merchants    5.00	Cr Purchases    5.00
----------------------	----------------------

The Purchases account now has a balance Dr 15.00, and the Merchant's Account has a balance Cr 15.00. This represents the true relationship between the Society and the Merchant - the Society has received 15.00 worth of goods, and the Merchant is owed 15.00.

Now let us take this example a stage further, and find out what happens if the Society has received and paid for 20.00 of goods before discovering that 5.00 worth were bad.

When the invoice is received, the entry in the Working Ledger is:

Dr Purchases 20.00                      Cr Merchants 20.00

When the invoice is paid, the entry is:

Dr Merchants 20.00                      Cr Bank 20.00

Some of the goods are then discovered to be bad, and they are returned to the Merchant. The Merchant issues a credit note. This is recorded in the Society's Working Ledger:

Dr Merchant 5.00                      Cr Purchases 5.00

There is a balance Dr 15.00 Purchases and a balance Dr 5.00 Merchants, which means that the Merchant owes the Society 5.00. When the next delivery of goods, worth 10.00, and the invoice for them, are received from the Merchant, the entries are:

Dr Purchases 10.00                      Cr Merchants 10.00

The Merchants's balance is now Cr 5.00. This is the amount which the Society owes to the Merchant. The accounts in the Working Ledger look like this:

Purchases Account			
	Dr	Cr	Balance
Goods bought	20.00		Dr 20.00
Goods returned		5.00	Dr 15.00
Goods bought	10.00		Dr 25.00
Merchant's Account			
	Dr	Cr	Balance
Goods delivered		20.00	Cr 20.00
Goods paid	20.00		
Goods returned	5.00		Dr 5.00
Goods delivered		10.00	Cr 5.00
Goods paid	5.00		-
Bank Account			
	Dr	Cr	Balance
Goods paid		20.00	Cr 20.00
Goods paid		5.00	Cr 25.00

#### WORKING LEDGER EXERCISE

See if you can make the following Working Ledger entries correctly by entering them in Illustration 6. When you have finished, look at Illustration 7 and check your work.

December 1971	Amount
28 Bank deposit	14.25
28 Sales	20.00
28 Postage stamps bought. Paid by cheque	2.00
29 Bank deposit	20.00
29 Sales	24.44
29 Merchant 'B' paid	25.00
29 Goods received from Co-operative Wholesale	12.00
29 Share contributions received	12.00
30 Fire insurance paid to International Insurance Ltd	4.00
30 Invoice received from Co-operative Wholesale	35.00
30 Sales	27.00
30 Bank deposit	36.44
30 Petty Cash	5.00
30 Goods purchases from 'A' Wholesaler	12.00
31 Sales	25.38
31 Cash over	0.12
31 Bank deposit	52.50

December 1971		Amount
31	Goods from 'A' Wholesaler, Sugar bag broken	
	Consignment returned and credit note received	6.00
31	Cooperative Wholesale paid	18.00
31	Bank charges	2.00
31	New shop counter fitted and invoiced from A Painter Ltd	35.50

**CLOSING THE WORKING LEDGER** When all the entries have been made the Working Ledger is closed. The columns are added, and a Trial Balance is prepared. When the Trial Balance is correct, the account balances are transferred to the Main Ledger (See Illustration 3 for entries made in respect of Working Ledger balances at week ending 31 December 1971.)

**FINAL ACCOUNTS** When the Society comes to the end of its accounting period, the books must be balanced, and an Income and Expenditure Account and a Balance Sheet must be prepared. But first we prepare a trial balance of the balances in the Main Ledger.

a. Trial Balance

Remember that for the Final Accounts the Trial Balance is a summary of all the Main Ledger balances. Every debit entry in the ledgers has a corresponding credit entry, so the total debit balances should equal the total credit balances. A Trial Balance from the final Main Ledger balances is prepared like this: (Note how they have been extracted from the balances appearing in Illustration 3 as at 31 December.)

TRIAL BALANCE AT 31 DECEMBER 1971

	Dr	Cr
Bank	954.69	
Cash	5.00	
Purchases	6875.00	
Sales		7821.62
Merchants		196.50
Shares		611.00
Expenses	510.05	
Fixtures and Fittings	147.50	
Shorts	1.88	
Petty Cash	35.00	
Investments	100.00	
	8629.12	8629.12

b. Adjustments

When the Trial Balance is correct a number of final adjustments have to be made, to make sure that the Final Accounts give an accurate picture of the Society's financial position. These adjustments are made in the Main Ledger accounts.

Expenses The full benefit of some of the expenses that have been paid may not be received until the next financial period. For example, in Illustration 7 we note that on the 30 December 1971 the Society paid a 4.00 premium for insurance against fire. This premium applies to the forthcoming year, not to the present one. The expenses appears in the accounts for 1971 but the benefit will not be received until 1972.

Some expenses may be owing although no invoice has yet been received. For example, the shop rent for December has not yet been paid. The invoice will probably arrive in January, and when it is paid it will be Dr to the Expenses account. The benefits have been received in 1971 but the expense will appear in the accounts for 1972.

We can make book-keeping adjustments to avoid this kind of difficulty at the end of the year and to make sure that the Final Accounts give a true picture of the position.




ILLUSTRATION 7 - WORKING LEDGER

DATE	NARRATION	REF NO	BANK ACCOUNT		CASH ACCOUNT		PURCHASES		SALES	
			Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr
Dec 28	Bank deposit		14.25			14.25				
" 28	Sales				20.00					20.00
" 28	Postage			2.00						
" 29	Bank deposit		20.00			20.00				
" 29	Sales				24.44					24.44
" 29	Merchant B			25.00						
" 29	Share Deposits				12.00					
" 30	International Insurance			4.00						
" 30	Co-operative Wholesale						35.00			
" 30	Sales				27.00					27.00
" 30	Bank deposit		36.44			36.44				
" 30	Petty Cash			5.00						
" 30	'A' Wholesaler						12.00			
" 31	Sales				25.38					25.38
" 31	Cash Over				0.12					
" 31	Bank deposit		52.50			52.50				
" 31	'A' Wholesaler							6.00		
" 31	Co-operative Union			18.00						
" 31	Bank charges			2.00						
" 31	Wages			5.00						
" 31	A Painter Ltd									
			123.19	61.00	108.94	123.19	47.00	6.00		96.82

MERCHANTS		SHARES		EXPENSES		FIXTURES & FITTINGS		PETTY CASH		OVERS/SHORTS	
Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr
				2.00							
25.00			12.00								
	35.00			4.00							
	12.00										
6.00											
18.00				2.00							
	35.50			5.00		35.50					
49.00	82.50		12.00	13.00		35.50		5.00			0.12

TRIAL BALANCE		
Dr	Cr	
123.19	61.00	Bank
108.94	123.19	Cash
47.00	6.00	Purchases
	96.82	Sales
49.00	82.50	Merchants
	12.00	Shares
13.00		Expenses
35.50		Fixtures
5.00		Petty Cash
	.12	Overs
<u>381.63</u>	<u>381.63</u>	

When expenses have been paid in advance for the forthcoming financial period the entry is:

Cr Expenses account                      Dr Expenses in Advance account

When expenses owing have not been paid the entry is:

Cr Expenses Owing account              Dr Expenses account

These advance payments, or amounts owing, will now appear in the Balance Sheet.

Goods Received, but not Invoiced Sometimes goods have been received but they are not recorded in the books of the Society because no invoice has yet been received. Because the goods are part of the Society's stocks but are not yet Dr to the Purchases account, an adjustment must be made. The entry is:

Cr Creditors (in this instance Merchants)      Dr Purchases.

Depreciation From the Main Ledger (Illustration 3) we can see that during the year the Society has spent money on the purchase of fixtures and fittings, such as shelves, display stands and a counter. These are examples of capital expenditure. If they were regarded as expenses, and their cost charged as such the Society's profit would be reduced by a very considerable amount during the period they were purchased. The benefits from the new counter and shelves will not only be gained during the year in which they were purchased, but will last for a number of years. Fixtures and fittings are therefore regarded as part of the assets of the Society. Expenditure on them is called, as we have learned, capital expenditure. Land, buildings and vehicles are also assets, and each is charged to an appropriate asset account.

It is important to remember this difference between expenses and capital expenditure. Expenses is expenditure on things which we expect to use during the period in which they were purchased. Capital expenditure is expenditure on things which will be used over a number of financial periods. These are treated as assets. But these assets gradually become less valuable because things like furniture, buildings and vehicles can wear out or become out-of-date. Because of this we use a book-keeping device called Depreciation, so that the value of the assets as they appear in the books of the Society is gradually reduced. Depreciation is an expense of running the business, so it appears as expenditure in the Income and Expenditure Account. Depreciation is therefore a way in which the cost of an asset can be spread over the whole period in which the cost of an asset can be spread over the whole period in which it is being used by the Society.

Let us take an example to illustrate how depreciation works. First we must find out how much the asset cost, and decide how long we expect it to last.

From the Main Ledger (Illustration 3) we can see that the fixture and fittings owned by the Society cost 147.50. We estimate that they will last for five years. The depreciation charge is the original cost of the fixture and fittings, divided by the number of years we expect them to last.

$$\frac{\text{original cost}}{\text{estimated life}} = \text{annual depreciation charge}$$

$$= \frac{147.50}{5} = 29.50$$

Year	Original cost	Depreciation Charge	Value in the Books
1	147.50	29.50	118.00
2		29.50	88.50
3		29.50	59.00
4		29.50	29.50
5		29.50	-

At the end of five years the fixtures and fittings are no longer of any value in the Society's books. The value of the asset has been spread over five years, and the original cost, although it was paid in the first year, has also been spread throughout the life of the asset.

This method of calculating depreciation 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 depends on circumstances. A new motor vehicle which might last five years in some parts of the world would last only two years where the roads are bad. How long an asset lasts, therefore, depends on local conditions, but the following rates are a useful guide:

Fixtures and fittings	5 years at 20% per annum
Motor vehicles	4 years at 25% per annum
Buildings	20 years at 5% per annum

The book-keeping entry for depreciation at the end of the year is: Cr The appropriate Asset Account (in this case Fixtures and Fittings) Dr Depreciation.

Share Interest The shares invested by the members of the Society receive interest at a pre-determined rate. The members are entitled to this interest whether the Society has made a profit or not, so the amount is an expense of running the business, and will be regarded as such in the Income and Expenditure Account. At the end of the year the amount of interest due to the members must be calculated and the following entry must be made:

Cr Provision for Members' Share Interest      Dr Members' Share Interest

The Dr balance will appear as an expense in the Income and Expenditure Account and the Cr will appear in the Balance Sheet as a liability - because it is money owed by the society to its members.

In Illustration 3 the following Final Adjustments have been made:

- a. Insurance paid in advance      4.00
 

Cr Expenses	Dr Expenses in Advance
-------------	------------------------
- b. Rent for December owing. No invoice received.      6.00
 

Cr Expenses Owing	Dr Expenses
-------------------	-------------
- c. Depreciation of 20% on Fixtures and Fittings.      29.50
 

Cr Fixtures and Fittings	Dr Depreciation
--------------------------	-----------------
- d. Members' share interest for the year calculated at      15.

Cr Provision for Members' Interest      Dr Members' Share Interest.

#### STOCKTAKING

At the end of the financial period it is necessary to calculate the value of all the goods which have been purchased for the shop but have not yet been sold. These goods are called the 'stock'. The method of calculating the value of the stock is called 'stock-taking'. All the goods in the shop 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 value of the stocks brought forward at the beginning of the financial period appears on the expenses side of the Income and Expenditure Account, and the value of the stocks at the end of the period appears on the income side and as an asset in the Balance Sheet.

#### INCOME AND EXPENDITURE

The Income and Expenditure Account can now be completed and the profit and loss for the financial period ending 31 December 1971 can be calculated. Note how the various items relate to the Main Ledger balances as at 31 December and the figures for final adjustments.

## ILLUSTRATION 8

INCOME AND EXPENDITURE ACCOUNTS  
for year ending 31 December 1971

<u>Expenditure</u>		Sales	Income
Stock to begin	-		7821.62
Purchases	6875.00	Stock to end	250.38
Gross Profit on Trading c/f	1197.00	Loss	-
	<u>8072.00</u>		<u>8072.00</u>
Expenses -		Profit on trading b/f	1197.00
Wages	260.00		
Other Labour	13.00		
Rent	72.00		
Telephone	40.00		
Stationery	31.05		
Lighting	26.00	Interest received from investments	-
Postage	14.50		
Committee fees	32.00	Overs	-
Insurance	4.00		
Audit Fee	5.00	Net loss	-
Miscellaneous	14.50		
Shorts	1.88		
Petty cash	35.00		
Depreciation	29.50		
Members Share Interest	15.00		
	593.43		
Net profit to Balance Sheet	<u>603.57</u>		
	<u>1197.00</u>		<u>1197.00</u>

The total figure for Expenses of 593.43 includes 510.05 for expenses as in the Main Ledger at 31 December plus the balance in the Petty Cash Account and the Adjustments for depreciation, members' share interest, expenses owing and expenses paid in advance.

## BALANCE SHEET

We can now see how much profit there is for the period. The Society must agree what to do with this profit before the Balance Sheet can be finished. Some of the profit is usually put into a Reserve Fund, and the rest is used to give members a dividend on their purchases. Let us suppose our Society decided to give a dividend on purchases of 5% (which means 5% of 7821.62) and to put 200.00 in the Reserve Fund. The finished balance sheet therefore looks like this:

## ILLUSTRATION 9

## BALANCE SHEET AT 31 DECEMBER 1971

Cr	Liabilities	Assets	Dr
	Shareholders	Property -	
	611.00	Fixtures and Fittings	118.00
	Reserve Fund	Investments -	
	-	Government Securities	100.00
	Creditors	Trading Stock in hand	250.38
	196.50	Expenses paid in Advance	4.00
	Expenses Owing	Cash at Bank	954.69
	6.00	Cash in Hand	5.00
	Balance for Disposal -		
	Provision for Members' Interest		
	15.00		
	Proposed Dividend		
	392.00		
	Proposed Allocation to Reserve		
	200.00		
	Balance carried forward		
	11.57		
	<u>1432.07</u>		<u>1432.07</u>

## NEW FINANCIAL PERIOD

The Balance Sheet is a summary of all the assets and liabilities of the Society, so all the amounts in the Balance Sheet must be brought forward in the following financial period. Therefore on 1 January 1971 the ledger balances will be as shown in Illustration 3 at the bottom. At the beginning of the new Financial Period some more adjustments have to be made. The adjustments that were made at the end of the last period, to show the true financial position now have to be reversed thus:

Cr Expenses in advance	Dr Expenses
Cr Expenses	Dr Expenses owing.

Where an invoice had not been received for goods delivered -

Cr Purchases	Dr Merchants.
--------------	---------------

When the invoice for this transaction is received it is treated in the normal way.

The surplus (or profit) that was distributed at the end of the last Financial Period can now be allocated to the appropriate accounts in the Main Ledger. Members' Share Interest and Dividends on Purchases can be credited to the Shareholders' Account. Members who wish to withdraw their dividends can do so in the form of share withdrawals. (A different method is discussed in Appendix B). The amount allocated to Reserve is credited to a Reserve Fund Account. Notice that the Balance which was carried forward on the Balance Sheet appears in the next Income and Expenditure Account as income.

## INFORMATION FOR THE BOOK-KEEPER

Some people think that accounts are merely an historical record of transactions that have occurred in the past and that they cannot help in deciding future policies. There is some truth in this idea, but even so, it is very important that the book-keeper should fully understand the accounts, and that he should be able to interpret them in a way which can help to influence future policies. In this chapter we assume that the book-keeper now knows how to make all the book-keeping entries, and we take him a step further in understanding his work by giving a simple introduction to accounting methods and terms.

Balance Sheet Interpretation The Balance Sheet is a summary of the main ledger balances at the end of a financial period. We can find out a great deal about a business by reading the Balance Sheet - how much profit it is making now and how well it is likely to do in the near future. Here are some things that can be found out from the Balance Sheet of a Co-operative Society:-

- a. Solvency Is the Society solvent - that is, has it enough money to pay all its debts? On the left-hand side of the Balance Sheet all the Society's liabilities, that is all the amounts that the Society owes, are listed. On the right-hand side are all the assets, the amounts owned by or owed to the Society. If the assets are equal to or greater than the liabilities, the Society is solvent, or in other words it owns at least as much, or more, than it owes.
- b. Shares Shares are owned by the members in their individual capacity and the total value of the shares represents the members' investment in their business.
- c. Creditors This item represents the total amount which the Society owes to merchants.
- d. Reserves The Reserve Fund is an amount jointly owned by all the members but it is not divisible. It is the property of the Society as a whole. The greater the amount of the Reserves, the stronger the Society is. It is very important for a Society to have a large Reserve Fund. If a Society winds up its affairs, the assets have to be realised or turned into cash to pay all the liabilities. Many assets are in the form of buildings and equipment. If those are sold they usually realise less than the Society

paid for them. Another problem is that debtors who owe money to the Society may not repay it. It is easier to realise assets when a high percentage of liabilities are Reserves which are jointly owned by the members.

e. Stability Many Societies could pay all their liabilities if their assets were sold, but, in spite of this, may not be stable. A stable Society is one that can meet its day to day financial requirements. This means that it can pay its creditors within a reasonable period of time; that it can meet the demands of members who wish to withdraw their shares, and that it can repay loans at the time agreed. If a Society cannot do these things people may not trust it; there will be a decline in trade, and members may want to withdraw their share capital. A Society will be unstable if it spends too much money on property, equipment and stocks, and if it invests too much in long-term securities. Signs of instability which may be seen on a Balance Sheet are a Bank Overdraft, and high figures for creditors and debtors.

f. Liquidity A Society can only be stable if a reasonable proportion of its assets are liquid - that is, they can easily be turned into cash when they are needed to pay shareholders and creditors. The most liquid assets of a Society are cash, money in the bank, and investments which can be sold quickly and without making a loss. It is generally agreed that as much as 50% of a Society's shares and loans should be kept in an easily realisable form.

g. Hidden Reserves Many Societies over-depreciate their property or under-value their stocks. When property has been over-depreciated, the value of the property that is shown on the balance sheet is less than the true values which could be obtained if the property were sold. When stocks have been under-valued in stock-taking the stock figure on the balance sheet is less than the true value. This difference between the balance sheet figures and the true value called 'hidden reserves'. These hidden reserves can make it difficult to interpret a balance sheet correctly.

#### ACCOUNTS FOR THE SHOP MANAGER

The Trading Account, because it shows whether or not he has been successful, is the one which is of most interest to the Shop Manager. Here we discuss some aspects of that Account, and the factors which influence it.

Pricing The prices charged in a Co-operative shop are decided by two major factors. (1) How much the Society paid for the goods. (2) What the mark-up policy of the Society is. The small Co-operative is unlikely to be able to determine in any way the price it will be charged for goods it buys from a producer or wholesaler. In business, someone who buys a large quantity of goods pays less for each single item than someone who buys a small quantity. For example, a small Co-operative buying 100 lbs of sugar from a wholesaler might be charged a total of 5.00 which means each pound has cost 0.05. A large Co-operative, buying 10,000 lbs of sugar might be charged 400.00, which works out to only 0.04 a pound. This is why it is useful to have a central Co-operative Union, which can buy goods for several Societies at one time.

Cost Price and Mark Up Goods cannot be sold at the same price at which they are bought because the expenses of running the business have to be covered and, in addition, a profit made. 'Mark-up' is the amount which is added to the cost price of goods to determine the selling price. 'Cost price' includes the cost of transport needed to deliver the goods. Mark-up is usually expressed as a percentage. The amount of mark-up is determined by the Society's pricing policy, by its estimate of expenses, and by the type of goods involved. The mark-up should be high enough to make sure that when all expenses have been paid, there is still a reasonable profit left. Low priced goods which sell quickly, such as basic foodstuffs, are usually given a low mark-up. High priced goods like hardware and blankets, which sell less quickly, are given a high mark-up.



Examples:

a. 112 lbs of sugar purchased for 5.04 and costing 0.80 transport.

Total cost: 5.84.

Mark-up of 15%: 15% of 5.84 is 0.88. Selling price 6.72.

The Selling-price per lb is  $\frac{6.72 \text{ (price)}}{112 \text{ (no. of lbs)}} = 0.06 \text{ per lb.}$

b. 12 blankets purchased at 3.00 each including transport costs.

Total cost: 36.00.

Mark-up: 33 $\frac{1}{3}$ %. 33 $\frac{1}{3}$ % of 36.00 is 12. Selling price 48.

The Selling price per blanket is  $\frac{48.00 \text{ (price)}}{12 \text{ (no. of blankets)}} = 4.00 \text{ each.}$

Gross Profit This is the difference between the price paid for goods and the price at which they are sold. In Co-operative trading it is sometimes called Gross Surplus. It is calculated as follows:-

Cost value of stock to begin plus cost value of purchases less cost value of stock to end which gives the cost value of goods sold during the period. This figure is then deducted from total sales to give gross profit.

Example: (See Illustration 11).

Stock to begin 0.00 + Purchases 6785.00 - Stock to end 250.38  
= 6624.62 Cost of goods sold.

Sales 7821.62 - Cost of goods sold 6624.62 = 1197.00 Gross profit.

This is usually expressed as a percentage of sales and would be calculated thus:

$$\frac{1197.00 \text{ (Gross profit)}}{7821.62 \text{ (Sales)}} \times \frac{100}{1} = 15.3\%$$

Net Profit This is the actual profit, or surplus, made on trading after allowance has been made for expenses incurred in trading. To find net profit we deduct total expenses from gross profit.

Example:

Gross Profit	1197.00
Expenses	593.43
Net Profit	603.57

This is also expressed as a percentage of Sales thus:

$$\frac{603.57 \text{ (Net Profit)}}{7821.62 \text{ (Sales)}} \times \frac{100}{1} = 7.7\%$$

Stock Turn Stocks in the shops are really capital which is lying unused. Not until goods are sold is any profit made. The shop manager must therefore try to sell his goods as quickly as possible; this creates capital, with which more goods can be bought and sold. This process is called stock turn. The rate of stock turn can be measured by dividing the stock carried forward figure into the total sales.

$$7821.62 \text{ (Sales)} \div 250.38 \text{ (Stock to end)} = 31.3 \text{ times} = \text{Rate of Stock turn.}$$

Stock turn is an important calculation. If the rate of stock turn is high, this should make you ask the question: has too little been spent on stocks? Are the stocks too small? Are you losing possible sales? However, if rate of stock turn is slow, this may indicate too much stock. If goods remain unsold for weeks and perhaps even months, this wastes capital. It can also lead to a fall in the quality of the goods. Prices will then have to be reduced, and profits are lost. As a general rule a consumer co-operative dealing mostly in basic

foodstuffs should have a stock turn figure of between 12 and 16 times a year. That is, stocks should be 'turned over' once every 3 to 4 weeks.

Stock-taking As noted previously stock-taking has to take place at the end of the Financial period, so that the Final Accounts can show the true figure of stock held and in order to calculate the Gross Profit made. However, it is useful to measure the amount of value of stock held more often than only once a year; if it is done every month it can help to answer questions such as: Are our prices right? Are we making enough surplus to keep up our rate of dividend? Stock will be recorded in an appropriately ruled book.

Description of goods	Quantity	Cost price per item	Selling price per item	Total at Cost Price

If possible, goods with different 'mark-ups' should be recorded on different pages. That is, all goods with a mark-up of 15% (15% above cost price) should go on one page, 25% on another and so on. At the end of the financial period, the cost price and selling price must be entered in the appropriate columns. The last column should be based on the lower of the two prices, cost or selling - this will, normally, of course, be the cost price.

Leakage Every shop has losses of goods: some goods will be damaged, some deteriorate through age, some may be stolen. Such losses reduce the Society's profit, and care should be taken to avoid them. When loss of this kind does take place, it is measured by the use of a Leakage Account, as follows.

ILLUSTRATION 10

LEAKAGE ACCOUNT

Dr		Cr	
Stock to begin (at selling prices)	1,000	Sales	5,600
Purchases	5,000	Goods returned	40
		Stock to end (at selling prices)	300
	_____		_____
	6,000		5,940

In this example, the loss (leakage) is 60 or 1%. This is about the most that should be expected to take place from natural deterioration of goods. A high leakage suggests the need for regular stock-taking in order to discover the source of leakage.

BUSINESS STATISTICS

Properly kept accounts can provide useful information about the progress of a Society. To do this, groups of figures from the accounts are compared either with previous figures from the same Society's accounts, or with those of other societies. Such groups or series of figures provide business statistics. There are three main types of comparison that can be made:

- a. With similar statistics produced by another Society over the same period of time.

b. With similar statistics compared with all similar co-operatives in a country.

c. Within the Society against figures for an earlier period of time.

In the first two cases comparison must be made with similar Societies over the same periods of time. In the third case, when comparing figures within a Society, it is especially important to compare like with like. For example, it is usually correct to compare the sales in one week against those of exactly a year before, because events such as sowing and harvesting come at the same time every year, as do public holidays. All of these events will have an effect on the sales and activities of a Society.

Statistics and their comparisons must therefore be carefully chosen. The most useful and readily available statistics have already been referred to, namely gross profit as a percentage of sales, net profit as a percentage of sales, total sales, and stock turn. Other figures that are easy to get are those about membership, dividends and shares.

Here is the kind of weekly financial report that can make it possible to keep an eye on the Society's progress by comparing its present and past performances:

ILLUSTRATION 11

DATE	SALES								EXPENSES		GROSS SURPLUS		MEMBERSHIP	
	This week	A year ago	Increase or decrease		Cumulative figure		Increase or decrease		% of sales		% of sales		This year	Last year
			Amount	%	This year	Last year	Amount	%	This year	Last year				
Jan 8	104	100	+ 4	+ 4	104	100	+ 4	+4.0	12.5	11.2	19.3	19.4	241	200
" 15	110	120	-10	- 8	214	220	- 6	-2.7	13.0	11.6	19.5	19.3	242	203
" 22	146	127	+19	+15	360	347	+13	+3.8	12.8	11.5	20.0	19.6	248	203
" 29	152	130	+22	+15	512	477	+35	+7.3	12.3	11.5	19.8	19.6	250	210
etc	etc													

Copies of a report of this nature could be made available to the Management Committee.

**EXERCISE - Interpretation of Accounts**

To complete this section let us look back at the earlier example and assess the position of the Society from its Final Accounts. Refer to the Final Accounts (Illustration 8 and 9).

Solvency This is a recently formed Society without Reserves. The proposed allocation of 200 from the first year's surplus is obviously necessary and wise.

Stability The Society has about 1,000 readily available in liquid form mainly cash at the Bank. Likely demands are from members withdrawing their dividend and from creditors, together with the weekly expenses. The Society is clearly stable and has a high liquidity.

Profitability The gross profit was 15.3% and the net profit 7.7%. In other words for every purchase of 1 made by a member the Society made a profit of almost 0.08. The net profit of 7.7% allowed the Society to pay a dividend of 5% to the members and still put 2.7% to Reserves.

Stock-Turn This was 31.3 times. This is a very high stock-turn figure and indicates insufficient stocks. With a gross surplus of only 15.3% it is an indication that the Society has concentrated during its first year on selling only basic foodstuffs. It might reasonably extend its range of goods in the coming year.

Comparisons Figures for each type of asset or liability can usefully be compared with a national Balance Sheet for Societies of a similar type, in this case Consumer Societies. Comparing figures with the previous year's Balance Sheet provides another useful comparison.

Some of the most common comparisons are:-

- a. Reserves as a percentage of Shares. The higher the better.
- b. Investments as a percentage of Shares. Indicates ability to meet sudden demands on share capital.
- c. Sales per member per year. Useful to compare with other Societies.

#### 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. A Member's Share Ledger is kept up to date by using information from the receipt books for Contributions and Withdrawals.
6. The Working Ledger balances are transferred to the corresponding account in the Main Ledger.
7. The total debit balances in the Main Ledger should always equal the total credit balances.
8. All books of account, records and receipts must be kept for the purpose of audit, and for the preparation of the Final Accounts.
9. At the end of the financial period we take stock (find the value of the goods left unsold) and prepare an Income and Expenditure Account to find our Gross Profit or Loss and the Net Profit after allowing for all Expenses.
10. The Balance Sheet is a summary of the total liabilities (what we owe) and the total assets (what we own) of the Society.

#### CONCLUSION

This small 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 Society grows in membership, 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 Society'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.

## APPENDIX A

### RECORDING MEMBERS' PURCHASES

Here we describe two of the most common ways of recording how much each member of a consumer Co-operative spends in its shop during the year. The need for such a record is because the Co-operative Society distributes its profits as a dividend to members based on how much they buy. The more they spend, the more of the total dividend they will get.

If we refer to Illustration 8 we see that our imaginary Society made a surplus or profit for the year of 603.57. This can be put to Reserve, or distributed to the members. It has been decided to allocate 200.00 to Reserves, leaving the rest for distribution to the members. 392 represents 5% of the total Sales made during the year, of 7,822. Therefore for every 1 a member has spent during the year he will get a bonus or dividend of 0.05. A loyal member who has spent 100 will get 5% of 100 = 5 dividend. The member who has been less loyal and has spent only 8 will get 5% of 8 = 0.40 dividend. The need to record purchases is therefore of some importance to both the Society and to the members.

#### Climax Check Method

In this system, every time the member makes a purchase he is given a receipt which shows his share number and the amount of the sale. A duplicate copy of the receipt is kept by the Society.

The receipts (or climax checks) are kept in pads with 10 or 20 checks on each page. At the end of each day the amount for checks issued during the day is totalled. This total should equal total sales, and this amount of cash should be in the shop till.

At the end of each week the Check Books are re-checked against the week's sales in the Working Ledger. The pages of checks are then removed from the pads, separated into individual checks, and sorted into share number order. This is done throughout the financial period. At the end of the year, all the checks for each share number are added. These totals will show the total purchases made by each member from the Society during the year.

Advantages of this system:-

- a. The Check Book provides an internal check on the sales made each day.
- b. Both the Society and the Member can keep a record of purchases.
- c. At the end of the year the Society tells the members their total purchases.

There is, however, the disadvantage that a lot of work is needed to sort checks and calculate purchases.

#### Dividend Stamps Method

This system uses stamps instead of receipts; the stamps are like postage stamps, gummed on the back to enable them to be stuck into dividend stamp books. The stamps have a value printed on them. Thus in a decimal currency they might be -

ACC Ltd
CO-OP
0.05

For every 0.05 of goods bought the member would receive one stamp, or, in other words, 20 for 1 spent. The only record of the purchases made by each member is the stamps kept by the member himself and stuck in his dividend stamp book. (The stamp books are supplied by the Society free of charge.) If 20 stamps filled one page in the stamp book and the book had 40 pages, then a full book of stamps would represent 40.00 of purchases.

At the end of the financial period the Final Accounts are completed and a dividend declared from the profit available. If, for example, a dividend of 4% were declared, each page of stamps in the stamp book would be worth 0.04, and each complete book of stamps worth 1.60.

Advantages of this system:-

- a. The Society does not have the expense and bother involved in the check system.
- b. The members can easily see how much they have spent.
- c. National schemes could be introduced by overprinting stamps with the Society's initials. Thus by mass production printing costs could be reduced.
- d. Hidden reserves are created, eg Society has sales of 4,000 and declares a dividend at 4%. Total allocation to dividend is 160. Because some members will lose stamps or not bother to stick them in stamp books not all the dividend will be claimed. Say, 90% claimed, then 144 paid in dividend, 16 left in the Society as an additional Reserve.

Disadvantages are:-

- a. Because the issue of stamps is not a record of purchase, the Society must keep another record for cashing-up and sales purposes. This must be done by recording each purchase as it occurs.
- b. Stamps cannot be issued for the exact amount of transactions. Therefore the Society has to decide its policy, eg a member buys goods for 0.62. Should he be given 12 stamps or 13 stamps?
- c. Because the stamps are valuable they must be kept in a safe. Periodic checks must be made to ensure that stamps are issued to every customer.
- d. The rules of many societies state that any member serving on the Committee of Management must spend a minimum amount with the Society each year. The dividend stamp system does not provide records of this kind.

#### Payment of Dividends

When a check system of recording purchase is used, a Dividend and Interest Book is prepared at the end of the year ruled as follows:-

1 Share Number	2 Share Capital	3 Purchases	4 Dividend	5 Interest	6 Cash Dividend	7 Cash Interest	8 Transfer Dividend	9 Transfer Interest
1								
2								
3								
4								
5								
etc								
etc								

Column

2 Share capital is entered from the Members' Share Ledger

3 The total purchases made are worked out by sorting and adding all purchases checks.

5 Interest is calculated quarterly in the Members' Share Ledger accounts and the final amount calculated and entered into the Dividend and Interest Book.

4 The rate of Dividend will not be known until the Balance Sheet has been completed, and approved by Members. When this has been done the Dividend can be calculated.

6/7 It is usual to allow the Members to withdraw their Interest and Dividend in cash during one week of the year. They will sign a receipt for their money, and the amount withdrawn will be entered in the appropriate columns in the Dividend and Interest Book.

8/9 At the end of the week all Undrawn Dividend and Interest will be transferred to the Members' Share Accounts in the Share Ledger.

In the above example columns 6 and 7 will be added and the Main Ledger adjustment made:-

Cr Cash	Dr Members' Dividend
Cr Cash	Dr Provision for Share Interest

Columns 8 and 9 are then added and the Main Ledger entered:-

Cr Shares	Dr Members' Dividend
Cr Shares	Dr Provision for Share Interest.

Once the Dividend and Interest amounts have been added to Members' Share Accounts they can only be drawn in the normal way as for share withdrawals. That means the Member's pass book must be entered and a form of withdrawal signed by the Member.

When a Dividend Stamp system is used, no Dividend and Interest Book is kept. At the end of the financial period, interest will be calculated and added to the balance of the Members' Share Account. When the rate of dividend has been determined the Members will be able to exchange their books of Dividend Stamps for cash or to invest them in their share accounts. Because stamps can be redeemed at any time the ledger adjustments will be made not in the Main Ledger but in the Working Ledger, although the entries will be the same:-

Cr Cash	Dr Members' Dividend
Cr Shares	Dr Members' Dividend

Because Dividend rates vary from year to year stamps can be distinguished by changing their colour each year.

APPENDIX B

CALCULATING INTEREST AND DIVIDEND

Interest

Appendix A describes how to calculate dividend rates. How much dividend is paid depends on how much profit is made. But interest does not depend upon how much profit is made. The rate of interest is a fixed figure: the total interest payable at the end of the financial period is not an allocation from the profits, but a business expense which appears in the Income and Expenditure Account.

The balance or total in each Member's Account varies during the year because of share contributions and share withdrawals. The amount of interest to be paid is therefore usually calculated at regular intervals during the year, say monthly or quarterly.

Share Interest Tables

These are based on quarterly balances for a decimal currency system. Calculations to the nearest half unit.

Balance in Share Account	2%	2½%	3%	4%	5%
1	0.00½	0.00½	0.00½	0.01	0.01
2	0.01	0.01	0.01½	0.02	0.02½
3	0.01½	0.02	0.02	0.03	0.03½
4	0.02	0.02½	0.03	0.04	0.05
5	0.02½	0.03	0.03½	0.05	0.06
6	0.03	0.03½	0.04½	0.06	0.07½
7	0.03½	0.04½	0.05	0.07	0.08½
8	0.04	0.05	0.06	0.08	0.10
9	0.04½	0.05½	0.06½	0.09	0.11
10	0.05	0.06	0.07½	0.10	0.12½
11	0.05½	0.07	0.08	0.11	0.13½
12	0.06	0.07½	0.09	0.12	0.15
13	0.06½	0.08	0.10	0.13	0.16
14	0.07	0.08½	0.10½	0.14	0.17½
15	0.07½	0.09½	0.11	0.15	0.18½
16	0.08	0.10	0.12	0.16	0.20
17	0.08½	0.10½	0.13	0.17	0.21
18	0.09	0.11	0.13½	0.18	0.22½
19	0.09½	0.12	0.14	0.19	0.23½
20	0.10	0.12½	0.15	0.20	0.25
30	0.15	0.18½	0.22½	0.30	0.37½
40	0.20	0.25	0.30	0.40	0.50
50	0.25	0.31½	0.37½	0.50	0.62½
60	0.30	0.37	0.45	0.60	0.75
70	0.35	0.43½	0.52½	0.70	0.87½
80	0.40	0.50	0.60	0.80	1.00
90	0.45	0.56	0.67½	0.90	1.12½
100	0.50	0.62	0.75	1.00	1.25

Using the above, or similar tables, at the end of each quarter the interest is calculated and pencilled into the interest column for each Member in the Members' Share Ledger. At the end of the financial year these amounts are totalled and entered on Summary Sheets (with which we will be dealing shortly). The following example shows why it is wrong to calculate interest on the ledger balance only at the end of the year.



Member A		Column 1				Column 2				
Date	Contributions	Withdrawals	Interest	Dividend	Balance	Contributions	Withdrawals	Interest	Dividend	Balance
Feb 3	2.00				2.00	2.00		$\frac{1}{2}$ *		2.00
Mar 28		1.00			1.00		1.00	$\frac{1}{2}$ *		1.00
Dec 30	79.00		2.40*		80.00	79.00		$\frac{1}{2}$ *	0.60*	80.00

Member B		Column 1				Column 2				
Date	Contributions	Withdrawals	Interest	Dividend	Balance	Contributions	Withdrawals	Interest	Dividend	Balance
Jan 1	10.00				10.00	10.00				10.00
Mar 3	10.00				20.00	10.00		0.15*		20.00
Apr 4	10.00				30.00	10.00				30.00
May 1	10.00				40.00	10.00		0.30*		40.00
July 5	10.00				50.00	10.00				50.00
Aug 2	10.00				60.00	10.00		0.45*		60.00
Oct 8	10.00				70.00	10.00				70.00
Nov 1	10.00		2.40*		80.00	10.00		0.60*		80.00

\* = Pencilled figures

Why it is wrong:

Assume the interest rate is 3%.

In column 1 the interest calculated on the final balance. Therefore both Members receive interest of 2.40, although Member A has invested most of his capital for only one day, whilst Member B has invested steadily throughout the year.

In column 2 the interest is calculated on the quarterly balance.

Member A receives  $0.00\frac{1}{2}$  at the end of March, at the end of June and the end of September plus 0.60 at the end of December - a total of  $0.61\frac{1}{2}$  interest.

Member B receives 0.15 in March, 0.30 in June, and 0.45 in September and 0.60 in December, a total of 1.50.

Thus Member B gets a fairer reward for his thrift throughout the year; the interest is allocated more equitably; and the Society is paying for the capital that has actually been available throughout the year.

## APPENDIX C

### DOUBLE-ENTRY BOOK-KEEPING

The book-keeping system used in this handbook is a double-entry system.

Every transaction has two aspects. One account records a giving: one account records a receiving.

Every transaction is recorded in the Working Ledger.

Remember the rule DEBIT RECEIVES: CREDIT GIVES and apply it to every transaction.

Therefore when we deposit money into our Bank the Bank Account is receiving - Dr. The other side of the transaction is that we have less cash. The Cash Account gives - Cr.

Similarly when we pay a Merchant by cheque for goods he has previously supplied our Bank Account is giving out money - Cr. The money is being received by the Merchant and we Dr the Merchants Account.

Apply this thought process by recording and balancing the Working Ledger for week ending 7 January 1972.

January 3	Withdraw Cash from Bank	50
January 3	Various members withdraw dividend	24
January 3	Various members withdraw Share interest	1
January 3	Sales to members	21
January 4	Bank deposit	21
January 4	Cheque drawn for Petty Cash	5
January 4	Sales to members	17
January 5	Bank deposit	17
January 5	Various members withdraw dividend	18
January 5	Various members withdraw Share interest	2
January 7	Co-operative Wholesale paid by cheque for goods	35
January 7	Cheque received from Development Bank for interest on investment	5
January 7	Sales to members	22
January 7	Bank deposit	32
January 7	Unclaimed dividend transferred to members Share Accounts	350
January 7	Unclaimed interest transferred to members Share Accounts	12

Answer: Trial Balance totals should be 632.

Now make the Main Ledger entries for week ending 7 January 1972 and balance the Main Ledger.

Use the adjusted balances brought forward from the previous year (see Illustration 3).

n.b. from the Balance Sheet (page 25) that Trading Stock must be brought forward as a Dr Balance c/f is a Cr.

Remember all the Dr balances and all the Cr balances on the Main Ledger must be equal.

Answer: Your Main Ledger balances should be:-

	Dr	Cr
Bank	934.69	
Cash	5.00	
Sales		60.00
Merchants		161.50
Shares		973.00
Expenses		7.00
Fixtures	118.00	
Investments	105.00	
Reserves		200.00
Stock b/f	250.38	
Balance b/f		11.57
	<hr/>	<hr/>
	1,413.07	1,413.07