

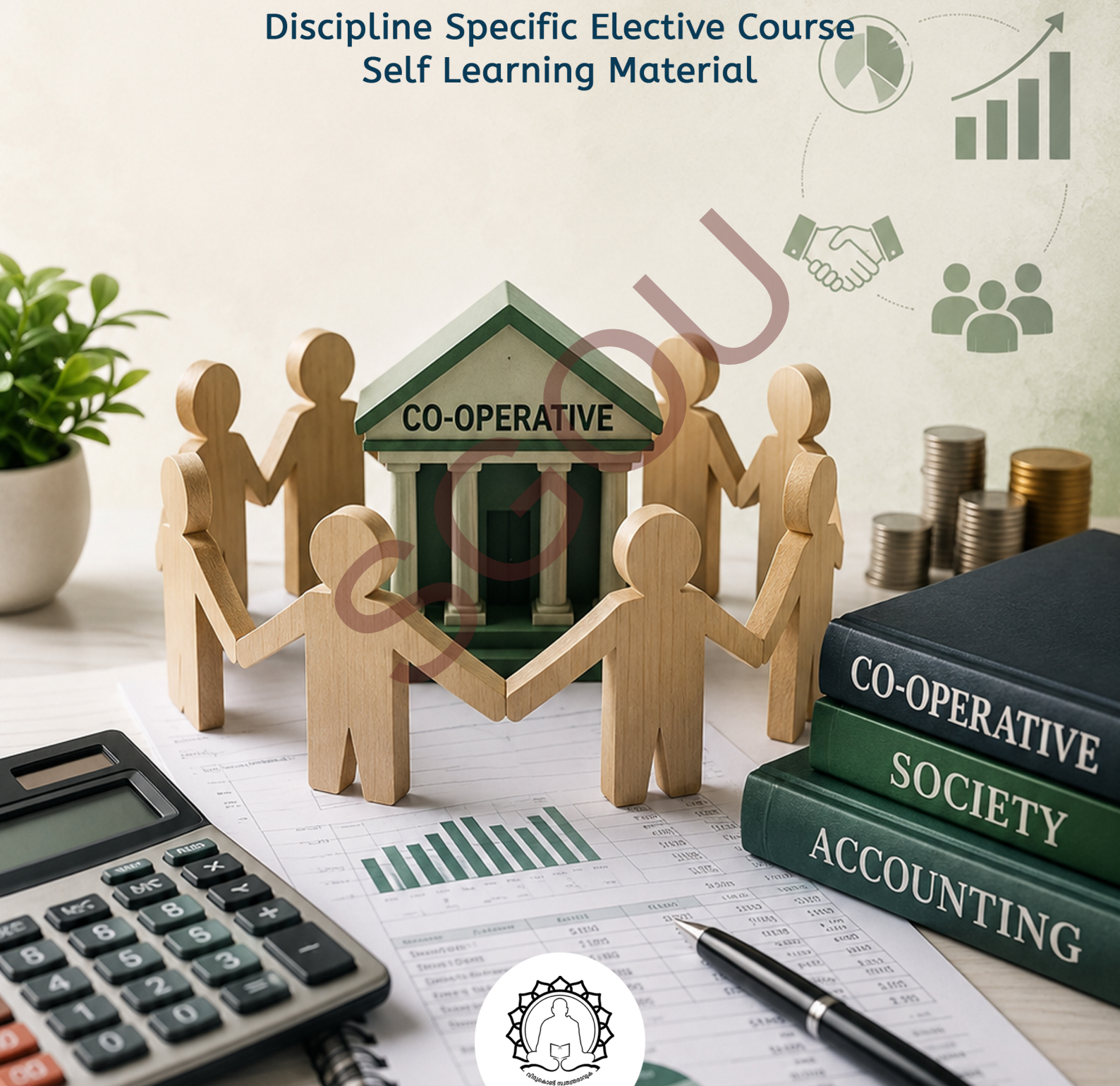
CO-OPERATIVE ACCOUNTING

COURSE CODE: B21CM14DE

Bachelor of Commerce

Discipline Specific Elective Course

Self Learning Material



SREENARAYANAGURU
OPEN UNIVERSITY

SREENARAYANAGURU OPEN UNIVERSITY

The State University for Education, Training and Research in Blended Format, Kerala

SREENARAYANAGURU OPEN UNIVERSITY

Vision

To increase access of potential learners of all categories to higher education, research and training, and ensure equity through delivery of high quality processes and outcomes fostering inclusive educational empowerment for social advancement.

Mission

To be benchmarked as a model for conservation and dissemination of knowledge and skill on blended and virtual mode in education, training and research for normal, continuing, and adult learners.

Pathway

Access and Quality define Equity.

Co-Operative Accounting
Course Code: B21CM14DE
Semester - VI

Discipline Specific Elective Course
Bachelor of Commerce
Self Learning Material
(With Model Question Paper Sets)



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The State University for Education, Training and Research in Blended Format, Kerala



CO-OPERATIVE ACCOUNTING

Course Code: B21CM14DE

Semester - VI

Discipline Specific Elective Course
Bachelor of Commerce

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Dear learner,

I extend my heartfelt greetings and profound enthusiasm as I warmly welcome you to Sreenarayanaguru Open University. Established in September 2020 as a state-led endeavour to promote higher education through open and distance learning modes, our institution was shaped by the guiding principle that access and quality are the cornerstones of equity. We have firmly resolved to uphold the highest standards of education, setting the benchmark and charting the course.

The courses offered by the Sreenarayanaguru Open University aim to strike a quality balance, ensuring students are equipped for both personal growth and professional excellence. The University embraces the widely acclaimed “blended format,” a practical framework that harmoniously integrates Self-Learning Materials, Classroom Counseling, and Virtual modes, fostering a dynamic and enriching experience for both learners and instructors.

The University aims to offer you an engaging and thought-provoking educational journey. The Bachelor of Commerce is one of the highly popular programmes due to the current need for skilled professionals in the field. This demand guided our approach as we developed the programme's curriculum. The programme offers a comprehensive grasp of theoretical concepts alongside clear explanations of practical applications. We are careful to maintain a balance in the management components to preserve the integrity of the discipline. The Self Learning Material has been thoughtfully crafted to include illustrative examples. The Self-Learning Material has been meticulously crafted, incorporating relevant examples to facilitate better comprehension.

Rest assured, the university's student support services will be at your disposal throughout your academic journey, readily available to address any concerns or grievances you may encounter. We encourage you to reach out to us freely regarding any matter about your academic programme. It is our sincere wish that you achieve the utmost success.



Warm regards.
Dr. Jagathy Raj V. P.

01-07-2026

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Introduction to Co-operative Accounting

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Unit

Introduction to Co-operative Accounting

Learning Outcomes

After completing this unit, the learner will be able to:

- ◇ understand the meaning, definition, and concept of co-operative accounting
- ◇ explain the scope, objectives, and limitations of co-operative accounting
- ◇ analyse the need and importance of accounting in co-operative societies
- ◇ identify the special features and characteristics of co-operative accounting
- ◇ understand the role of co-operative accounting in maintaining transparency, accountability, and financial discipline in co-operative societies

Prerequisites

Accounting is an essential part of every business and organisation because it helps in recording, classifying, summarising, and interpreting financial transactions. In co-operative societies, accounting plays a more significant role because these organisations are formed mainly for the welfare and service of members rather than for profit maximisation. Proper accounting helps co-operative societies maintain transparency, accountability, financial discipline, and efficient management of resources.

Co-operative accounting refers to the application of accounting principles and procedures in co-operative societ-

ies in accordance with co-operative laws, rules, and bye-laws. It helps in maintaining systematic records of receipts, payments, income, expenditure, assets, liabilities, loans, deposits, and member transactions. Since co-operative societies deal with members' funds and public trust, proper accounting becomes essential for protecting members' interests and ensuring responsible management.

This unit introduces the meaning, definition, scope, objectives, limitations, need, importance, and special features of co-operative accounting. The unit also explains how accounting supports the democratic functioning of co-operative societies by promoting transparency and accountability. Understanding these concepts will help learners gain basic knowledge about the accounting practices followed in co-operative institutions and their role in financial management and decision-making.

Keywords

Co-operative Accounting, Financial Transactions, Transparency, Accountability

Discussion

1.1.1 Cooperative Accounting: An Overview

Co-operative accounting is an important branch of accounting that deals with the recording, classification, summarisation, and interpretation of financial transactions of co-operative societies. Co-operative societies are organisations formed voluntarily by individuals to achieve common economic and social objectives through mutual help and democratic management. Since these societies handle funds collected from members and the public, proper accounting becomes essential for transparency, accountability, and efficient management.

Unlike ordinary business organisations, co-operative societies are service-oriented institutions. Their primary objective is not profit maximisation but the welfare of members. Therefore, co-operative accounting follows certain special principles and procedures suited to the nature and objectives of co-operative organisations.

1.1.2 Meaning and Definitions

Co-operative accounting refers to the application of financial accounting principles, concepts, and policies in co-operative societies to determine their financial position, ensure accountability, promote efficient management, and support the effective utilisation of co-operative funds.

In simple terms, it is the accounting system through which the bookkeeper records and reports the day-to-day business transactions of the co-operative society accurately



and systematically.

In addition, co-operative laws make it mandatory for every registered co-operative society to maintain proper accounting records and prepare final accounts. These laws also specify the information that should be disclosed in the final accounts.

Further, documents such as cash books and receipts serve as source documents, whereas accounts like the Income and Expenditure Account and Balance Sheet are considered final accounts.

1.1.3 Definitions of Cooperative Accounting

According to R N Sharma, “Co-operative accounting is the systematic recording and analysis of financial transactions of co-operative societies in accordance with co-operative principles and legal provisions.”

According to R.L. Gupta, “Co-operative accounting refers to the application of accounting principles and techniques to co-operative institutions for proper financial management and control.”

“Co-operative accounting is the process of maintaining accounts and preparing financial statements of co-operative societies for determining their financial position and operating results.”

1.1.4 Scope of Cooperative Accounting

The scope of co-operative accounting is extensive because co-operative societies undertake various financial and operational activities for the benefit of their members. Co-operative accounting is not limited to recording transactions alone; it also includes financial management, supervision, auditing, planning, and legal compliance.

The following points explain the major areas covered under the scope of co-operative accounting.

◇ Recording Financial Transactions

An important aspect of co-operative accounting is the proper recording of all financial transactions of the society. Every transaction involving receipts, payments, purchases, sales, loans, deposits, or expenses must be recorded systematically in the books of accounts.

Accurate recording helps maintain reliable financial information and reduces the chances of mistakes, confusion, and fraud. These records also serve as evidence for future reference and verification.

◇ Maintenance of Books of Accounts

Co-operative accounting includes maintaining different books and registers required for efficient financial administration. Important books include the Cash Book, Journal, Ledger, Purchase Book, Sales Book, Share Register, and Loan Register.

Each book is maintained for a specific purpose and helps in organising financial

data properly. Proper maintenance of books ensures accuracy, transparency, and easy checking of accounts.

◇ **Preparation of Financial Statements**

Another important function of co-operative accounting is the preparation of financial statements at the end of the accounting period. These statements show the financial performance and financial position of the society.

- The main financial statements prepared are:
- Trading Account
- Profit and Loss Account
- Income and Expenditure Account
- Receipts and Payments Account
- Balance Sheet

These statements help members, management, auditors, and government authorities understand the financial condition of the society.

◇ **Management of Member Accounts**

Since co-operative societies are member-based organisations, accounting gives special attention to member-related records. Separate accounts are maintained for each member regarding share capital, loans, deposits, interest, and dividends. Proper maintenance of member accounts ensures fairness, transparency, and protection of members' interests.

◇ **Calculation and Distribution of Surplus**

Co-operative accounting helps in calculating the surplus or deficit earned by the society during a particular period. After calculating the surplus, it is distributed according to co-operative laws and principles. The surplus may be transferred to reserve funds, distributed as dividends to members, or used for welfare and educational purposes. Accounting ensures proper and fair distribution of surplus.

◇ **Financial Control and Supervision**

Co-operative accounting serves as an important tool for controlling and supervising financial activities. It helps the management monitor income, expenditure, cash balances, loans, assets, and liabilities. Effective financial control prevents the misuse of funds, improves efficiency, and helps detect financial irregularities at an early stage.

◇ **Audit and Verification**

Co-operative accounting supports the auditing process by providing proper financial records and supporting documents. Auditing involves the accuracy of accounts, verifying transactions, and ensuring compliance with legal provisions. Regular audits improve financial discipline, enhance transparency, and protect the interests of members and creditors.



◇ **Budgeting and Financial Planning**

Accounting information is useful for preparing budgets and future financial plans. Budgeting helps the society estimate future income and expenditure and control unnecessary spending. Financial planning helps co-operative societies expand their activities, improve services, and maintain financial stability.

◇ **Compliance with Legal Requirements**

Co-operative societies are required to follow the rules and regulations prescribed under co-operative laws. Accounting helps societies maintain proper records, prepare annual accounts, submit reports, and fulfil statutory obligations. Proper accounting ensures compliance with legal requirements and avoids penalties or legal complications.

◇ **Decision-Making**

Accounting provides valuable financial information that assists management and members in making important decisions. Decisions regarding investments, loans, purchases, expansion, and resource allocation are based on accounting reports. Accurate accounting information improves the quality of managerial decisions.

◇ **Use of Technology in Co-operative Accounting**

Modern co-operative accounting makes use of computerised accounting systems and digital technologies. Accounting software helps in faster processing, accurate calculations, easy report preparation, and secure storage of data. Technology improves efficiency, accuracy, transparency, and reliability in accounting operations.

1.1.5 Objectives of cooperative accounting

Co-operative accounting is an essential part of the management of co-operative societies. Since co-operative societies handle members' money, deposits, loans, purchases, sales, and other financial transactions, proper accounting is necessary for maintaining financial discipline and transparency. The following are the important objectives of cooperative accounting.

The main objective of co-operative accounting is not merely to calculate profit or loss, but also to ensure accountability, proper utilisation of funds, protection of members' interests, and efficient management of the society. Through proper accounting, co-operative societies can maintain trust among members, creditors, and government authorities.

◇ **To Maintain Proper Records of Transactions**

One of the foremost objectives of co-operative accounting is to maintain complete, systematic, and accurate records of all financial transactions of the society.

Every transaction such as:

- Cash receipts and payments
- Purchase and sale of goods
- Loans granted and recovered

- Deposits collected
- Salaries and expenses paid
- Interest received and paid

must be properly recorded in the books of accounts.

Accurate recording helps the society:

- Avoid mistakes and confusion
- Maintain financial discipline
- Keep track of financial activities
- Provide evidence for future reference
- Detect irregularities easily

Without proper accounting records, the society cannot function efficiently or prepare reliable financial statements.

◇ **To Ascertain Financial Position**

Another important objective of co-operative accounting is to determine the financial position of the society at a particular date.

This is done through the preparation of the Balance Sheet, which shows:

- Assets of the society
- Liabilities payable
- Capital and reserve funds
- Cash and bank balances
- Investments and outstanding loans

Knowing the financial position helps management and members understand:

- Whether the society is financially strong or weak
- The amount of resources available
- The liabilities to be paid
- The solvency and stability of the society

This information is useful for future planning and decision-making.

◇ **To Determine Surplus or Deficit**

Co-operative accounting helps in calculating the surplus earned or deficit incurred during an accounting year.

For this purpose, accounts such as:

- Trading Account
- Profit and Loss Account
- Income and Expenditure Account are prepared.

The determination of surplus is important because:

- It shows operational efficiency
- It helps evaluate business performance
- It provides a basis for distribution of surplus
- It indicates whether corrective action is needed

If the society incurs losses continuously, management can take steps to improve efficiency and reduce unnecessary expenditure.

◇ **To Ensure Financial Control**

Financial control is one of the major objectives of co-operative accounting. Proper accounting helps management supervise and control all financial activities effectively.

Accounting enables control over:

- Income and expenditure
- Cash transactions
- Loans and advances
- Investments
- Assets and liabilities
- Recovery of dues

Effective financial control helps:

- Prevent misuse of funds
- Avoid unnecessary expenditure
- Ensure efficient utilisation of resources
- Improve operational efficiency
- Detect fraud and errors at an early stage

Without proper accounting, financial mismanagement may occur, leading to losses and inefficiency.

◇ **To Protect Members' Interests**

Co-operative societies are formed mainly for the welfare and mutual benefit of members. Therefore, protection of members' interests is an important objective of co-operative accounting.

Proper accounting helps:

- Maintain accurate member accounts
- Record share capital contributions correctly
- Calculate dividends properly
- Ensure fair treatment to all members
- Maintain transparency in dealings

Members can know:

- Their shareholdings
- Loans outstanding
- Deposits made
- Dividends receivable

This increases confidence and trust among members and encourages active participation in the society.

◇ **To Facilitate Audit**

Co-operative societies are legally required to conduct audits periodically. Proper accounting facilitates easy and effective auditing.

- Accounting records help auditors:
- Verify the correctness of transactions
- Check the accuracy of financial statements
- Detect fraud, manipulation, and errors
- Ensure compliance with laws and regulations

Audit improves:

- Financial discipline
- Transparency
- Accountability of management
- Public confidence in the society

Without proper accounting records, audit cannot be conducted effectively.

◇ **To Ensure Legal Compliance**

Co-operative accounting helps societies comply with the provisions of Co-operative Societies Acts, Rules, and Government Regulations.

The law requires societies to:

- Maintain proper books of accounts
- Prepare annual financial statements
- Submit reports to authorities
- Conduct regular audits
- Pay statutory dues and taxes

Accounting ensures that these legal obligations are fulfilled properly and on time.

Failure to comply with legal requirements may result in:

Penalties

Legal action



Cancellation of registration

Loss of credibility

Therefore, accounting helps protect society from legal complications.

◇ **To Assist Management in Decision-Making**

Accounting provides valuable financial information that assists management in taking important business decisions.

Management uses accounting data for:

- Budget preparation
- Financial planning
- Expansion of activities
- Loan policies
- Investment decisions
- Cost control measures

Accurate accounting information helps management:

- Evaluate financial performance
- Analyse strengths and weaknesses
- Make sound decisions
- Improve operational efficiency

Thus, accounting acts as an important tool for managerial decision-making.

◇ **To Prevent Fraud and Errors**

Another important objective of co-operative accounting is the prevention and detection of fraud and accounting errors.

Proper accounting systems include:

- Systematic recording of transactions
- Verification of entries
- Internal checking procedures
- Proper documentation

These measures help:

- Detect unauthorized transactions
- Prevent manipulation of accounts
- Reduce accounting mistakes
- Ensure honesty and accountability

This strengthens financial discipline and improves the reliability of financial information.

◇ **To Provide Information to Stakeholders**

Co-operative accounting supplies financial information to various interested parties connected with the society.

These stakeholders include:

- Members
- Creditors
- Banks and financial institutions
- Government authorities
- Auditors
- Employees

Accounting information helps stakeholders:

- Assess the financial performance of the society
- Evaluate financial stability
- Decide whether to provide loans or investments
- Verify compliance with laws

Thus, accounting improves communication between the society and stakeholders.

◇ **To Promote Transparency and Accountability**

Transparency and accountability are fundamental principles of co-operative societies. Accounting promotes openness in financial dealings and ensures responsible management of funds.

Proper accounting:

- Provides clear financial information
- Makes management accountable to members
- Prevents misuse of authority
- Builds public confidence

Members can verify:

- Income and expenditure
- Surplus distribution
- Use of funds
- Financial decisions taken by management

Transparency improves democratic functioning and strengthens the co-operative movement.

◇ **To Ensure Efficient Utilisation of Resources**

Co-operative accounting helps ensure that the financial and physical resources of the society are utilised efficiently and economically.



Accounting helps management:

- Monitor expenses
- Control wastage
- Improve productivity
- Use funds effectively

Efficient utilisation of resources increases the financial strength and sustainability of the society.

◇ **To Support Future Planning and Growth**

Accounting information is useful for long-term planning and development of co-operative societies.

Through analysis of accounting records, management can:

- Forecast future income and expenditure
- Identify growth opportunities
- Plan expansion projects
- Improve member services

This supports continuous growth and stability of the society.

1.1.6 Limitations of co-operative accounting

Co-operative accounting is important for maintaining proper financial records, transparency, accountability, and efficient management in co-operative societies. However, despite its advantages, co-operative accounting has several limitations that affect the smooth functioning of co-operative institutions. These limitations arise mainly due to a lack of skilled personnel, weak internal controls, financial constraints, and poor management practices. Such problems may reduce the efficiency, reliability, and accuracy of accounting systems in co-operative societies.

Lack of Skilled and Qualified Staff

One of the major limitations of co-operative accounting is the shortage of trained and qualified accounting personnel. Many co-operative societies, especially small and rural societies, cannot afford professionally qualified accountants due to financial limitations. As a result, accounting work is often handled by employees who do not possess sufficient accounting knowledge and technical expertise. This may lead to mistakes in recording transactions, improper maintenance of books of accounts, inaccurate preparation of financial statements, and difficulty in interpreting accounting information. Lack of skilled staff affects the quality and reliability of accounting records and may create financial confusion within the society.

Inadequate Internal Control System

Another major limitation of co-operative accounting is the absence of an effective internal control system. Internal control refers to the procedures and methods adopted to

safeguard assets, verify transactions, and prevent fraud and errors. In many co-operative societies, proper supervision and checking systems are weak or absent. Due to this, unauthorised transactions, misuse of funds, and financial irregularities may occur without timely detection. Weak internal control reduces accountability and increases the risk of financial mismanagement, thereby affecting the financial stability of the society.

Delay in Preparation of Accounts

Many co-operative societies fail to prepare their accounts and financial statements on time. This delay may occur because of shortage of staff, poor maintenance of records, dependence on manual accounting systems, or negligence on the part of management. Delayed preparation of accounts creates several difficulties such as delay in auditing, lack of updated financial information, and problems in decision-making. Without timely financial reports, management cannot properly evaluate the financial performance and position of the society. This may negatively affect planning, supervision, and financial control.

Possibility of Fraud and Manipulation

Although accounting systems are maintained in co-operative societies, there is always a possibility of fraud, manipulation, and misappropriation of funds. Fraud may occur through falsification of records, unauthorised payments, manipulation of accounts, or misuse of cash and assets. If proper supervision and regular auditing are absent, such fraudulent activities may continue for a long period without detection. Fraud not only causes financial loss to society but also reduces the confidence of members and damages the reputation of the organisation.

Lack of Proper Supervision

Proper supervision is essential for maintaining accurate and reliable accounting records. However, in many co-operative societies, accounting activities are not adequately supervised by management or higher authorities. Due to a lack of supervision, employees may become careless in recording transactions and maintaining records. Financial rules and procedures may not be followed properly, leading to errors and irregularities in accounts. Absence of effective supervision reduces efficiency and weakens the overall accounting system of the society.

Complexity of Accounting Procedures

Certain accounting procedures followed in co-operative societies are technical and complex in nature. Preparation of final accounts, audit reports, reserve fund calculations, and statutory reports often require specialised accounting knowledge and experience. Small co-operative societies may find it difficult to understand and implement these procedures properly. Complex accounting systems may create confusion among employees and increase dependence on external accountants and auditors. This may also increase the chances of accounting errors and delays in the preparation of reports.

High Cost of Maintaining Accounting System

Maintaining a proper accounting system involves considerable expenditure. Co-operative societies may have to spend money on salaries of accounting staff, accounting software, training programs, office equipment, and audit fees. Small societies with limited financial resources often find it difficult to bear these expenses. As a result, they may compromise on the quality of accounting practices and financial reporting. High operating costs can become a burden for financially weak co-operative societies.

Dependence on Manual Accounting System

Many co-operative societies still depend on traditional manual accounting methods instead of adopting computerised accounting systems. Manual accounting systems are time-consuming and increase the chances of errors and duplication of work. Preparation of financial reports may take more time, and records may be easily lost or damaged. Manual systems also make it difficult to maintain large volumes of data efficiently. Lack of technological adoption reduces the speed, accuracy, and reliability of accounting operations.

Delay in Audit

Audit is an important aspect of co-operative accounting because it helps verify the accuracy of accounts and detect fraud and errors. However, many co-operative societies experience delays in conducting audits due to shortage of auditors, improper maintenance of records, or delay in preparation of accounts. Delayed audits reduce financial transparency and prevent timely identification of financial problems. It may also affect the confidence of members, creditors, and government authorities in the functioning of the society.

Political Interference

Political interference is another limitation faced by many co-operative societies. Political influence may affect accounting and financial decisions such as loan distribution, appointment of employees, and utilisation of funds. This may result in favouritism, corruption, manipulation of financial records, and misuse of resources. Political interference weakens transparency and accountability and affects the independence of co-operative accounting systems.

Lack of Transparency

Some co-operative societies fail to maintain transparency in accounting and financial reporting. Financial information may not be properly disclosed to members, leading to misunderstanding and lack of trust. Members may not receive clear information regarding income, expenditure, surplus distribution, or utilisation of funds. Lack of transparency weakens democratic functioning and creates conflicts among members. Transparency is very important in co-operative societies because members are both owners and beneficiaries of the organisation.

Difficulty in Loan Recovery

Co-operative credit societies often face difficulties in recovering loans granted to

members. Poor loan recovery leads to an increase in overdue loans and bad debts. This affects the cash flow and financial stability of the society. Difficulty in loan recovery also creates accounting complications and reduces the profitability of the institution. If loan recovery remains weak for a long period, the society may face serious financial problems.

Limited Usefulness of Accounting Information

Sometimes accounting information may not provide complete support for effective decision-making. This may happen when accounting records are incomplete, outdated, or inaccurate. Financial reports may fail to reflect the actual financial condition of the society. Inaccurate accounting information may lead to poor planning, wrong decisions, and inefficient utilisation of resources. Therefore, the usefulness of accounting information depends on the accuracy, reliability, and timeliness of records maintained by the society.

Although co-operative accounting is essential for proper financial management and accountability, it has several limitations such as shortage of qualified staff, weak internal controls, delay in audit, fraud, manual accounting systems, and political interference. These problems may reduce the efficiency, transparency, and reliability of accounting practices. Therefore, co-operative societies should strengthen internal controls, adopt modern accounting technologies, provide proper training to employees, and ensure regular auditing and supervision to improve the effectiveness of co-operative accounting.

1.1.7 Need and importance of co-operative accounting

Co-operative accounting plays a vital role in the effective functioning and development of co-operative societies. Since co-operatives are formed to serve the economic and social interests of members, proper accounting helps in maintaining transparency, accountability, and financial discipline. It enables the society to record all financial transactions systematically and assess its financial performance and position accurately.

1. Ensures Proper Recording of Financial Transactions

Co-operative accounting helps in maintaining systematic records of all receipts, payments, assets, liabilities, income, and expenses of the society. Proper recording prevents errors, confusion, and misuse of funds and ensures that every transaction is documented accurately.

2. Promotes Financial Transparency

Transparency is very important in co-operative institutions because they function with members' funds and contributions. Accounting provides clear financial statements and reports which help members understand how the funds are utilised. This increases trust and confidence among members.

3. Helps in Determining Profit or Surplus

Through accounting, co-operative societies can calculate their annual profit or surplus after meeting all expenses. It helps management decide how much surplus should be



transferred to reserves, distributed as dividends, or used for welfare activities.

4. Facilitates Efficient Management

Accounting information assists the management committee in planning, controlling, and decision-making. Financial reports help managers evaluate operational efficiency, control unnecessary expenses, and improve the financial condition of the society.

5. Ensures Accountability

Officials and employees of co-operative societies are accountable to members. Proper accounting helps in fixing responsibility for the use of funds and resources. It also prevents fraud, corruption, and misappropriation of money.

6. Assists in Audit and Legal Compliance

Co-operative societies are legally required to maintain books of accounts and undergo regular audits. Proper accounting facilitates easy auditing and helps societies comply with the provisions of co-operative laws, taxation rules, and government regulations.

7. Helps in Financial Planning and Budgeting

Accounting provides financial data necessary for preparing budgets, future plans, and development programmes. It helps societies estimate future income and expenditure and manage resources efficiently.

8. Facilitates Credit and Loan Availability

Banks and financial institutions often examine accounting records before granting loans or financial assistance. Accurate accounting statements improve the creditworthiness of co-operative societies and help them obtain loans easily.

9. Protects Members' Interests

Since co-operatives are member-oriented organisations, accounting safeguards the financial interests of members by ensuring proper utilisation of funds and fair distribution of benefits. Members can verify whether the society is functioning efficiently and honestly.

10. Measures Financial Position and Performance

Accounting helps in assessing the financial strength and operational performance of the society through preparation of balance sheets, income statements, and other financial reports. It shows whether the society is progressing or facing financial difficulties.

11. Supports Democratic Functioning

Co-operatives are democratically managed organisations. Accounting provides members with necessary financial information during general body meetings, enabling them to participate effectively in decision-making and policy formulation.

12. Encourages Growth and Sustainability

Proper accounting practices contribute to the long-term stability and growth of co-operative societies. Financial discipline and proper management of resources help societies expand their activities and provide better services to members.

1.1.8 Special Features of Co-operative Accounting

Co-operative accounting differs from ordinary business accounting because co-operative societies are established mainly to provide service to members rather than to maximise profit. The accounting system followed by co-operatives reflects their unique objectives, democratic management, and legal requirements. The following are the important special features of co-operative accounting.

1. Service Motive Rather than Profit Motive

The primary objective of co-operative societies is to provide economic and social benefits to members and not merely to earn profit. Therefore, co-operative accounting emphasises proper utilisation of resources and member welfare instead of profit maximisation.

2. Democratic Control and Accountability

Co-operative societies are managed democratically on the principle of “one member, one vote.” Accounting records and financial statements must therefore be transparent and understandable to all members. The accounts help management remain accountable to the members of the society.

3. Maintenance of Statutory Books and Registers

Co-operative societies are required by co-operative laws to maintain specific books and registers such as:

- Cash Book
- General Ledger
- Members Register
- Share Register
- Minutes Book
- Loan Register
- Stock Register

These records are maintained systematically to ensure proper control and legal compliance.

4. Distribution of Surplus Instead of Profit

In co-operative accounting, the excess of income over expenditure is called “surplus” rather than profit. The surplus is distributed according to the provisions of the Co-operative Societies Act and bye-laws. A portion is transferred to reserve funds



and the remaining may be distributed among members as dividend or patronage bonus.

5. Creation of Reserve Funds

Co-operative societies are legally required to create various reserve funds such as:

- Statutory Reserve Fund
- Bad Debt Reserve
- Education Fund
- Building Fund

Accounting ensures proper allocation and maintenance of these reserves for the financial stability of the society.

6. Separate Treatment of Members' Transactions

Transactions with members receive special attention in co-operative accounting. Purchases, sales, loans, deposits, and other dealings with members are recorded separately because members are both owners and users of the society.

7. Compulsory Audit

Unlike many ordinary business organisations, co-operative societies are subject to compulsory audit by government-authorised auditors or the Registrar of Co-operative Societies. Accounting records must therefore be maintained accurately and systematically for audit purposes.

8. Importance of Share Capital Accounting

Share capital forms an important source of finance for co-operative societies. Accounting includes detailed recording of:

- Admission of members
- Share allotment
- Share transfer
- Share refund
- Dividend on shares

This helps maintain transparency regarding members' ownership interest.

9. Compliance with Co-operative Laws and Rules

Co-operative accounting must follow the provisions of:

- Co-operative Societies Act
- Rules and bye-laws of the society
- Government regulations
- Audit requirements

This legal framework makes co-operative accounting more regulated than ordinary business accounting.

10. Maintenance of Member-wise Accounts

Many co-operative societies maintain individual member accounts to record transactions such as loans, deposits, purchases, sales, and contributions. This helps in proper monitoring of member activities and balances.

11. Emphasis on Financial Discipline and Control

Co-operative accounting ensures effective internal control over cash, loans, stock, and other assets. Proper accounting procedures help prevent fraud, misappropriation, and financial irregularities.

12. Preparation of Special Financial Statements

In addition to common financial statements like Trading Account, Profit and Loss Account, and Balance Sheet, co-operative societies may prepare special statements required under co-operative laws and audit regulations

Recap

- ◇ Co-operative Accounting is the systematic process of recording, classifying, summarising, and reporting the financial transactions of co-operative societies in accordance with co-operative principles and legal provisions.
- ◇ Scope of Co-operative Accounting covers the maintenance of statutory books, preparation of financial statements, auditing, surplus appropriation, and compliance with co-operative laws.
- ◇ Objectives of Co-operative Accounting are to maintain accurate financial records, safeguard members' funds, ensure accountability, and support effective management.
- ◇ Limitations of Co-operative Accounting include dependence on accounting estimates, historical cost, statutory requirements, and the exclusion of non-monetary information.
- ◇ Need and Importance of Co-operative Accounting lie in ensuring financial discipline, protecting members' interests, maintaining legal compliance, and facilitating informed decision-making.
- ◇ Special Features of Co-operative Accounting include democratic control, service-oriented objectives, statutory reserves, member participation, equitable distribution of surplus, and compliance with co-operative legislation.

Objective Questions

1. What is the excess of income over expenditure called?
2. What statement shows the financial position of a co-operative society?
3. Which book records cash transactions?
4. What is the process of checking accounts called?
5. What is the money contributed by members called?
6. Which accounting system is incomplete in nature?
7. Which accounting system records both debit and credit aspects?
8. What is the main objective of co-operative societies?
9. Which register contains details of members?
10. What is the book of original entry called?

Answers

1. Surplus
2. Balance Sheet
3. Cash Book
4. Audit
5. Share Capital
6. Single-entry System
7. Double-entry System
8. Service
9. Members Register
10. Journal

Self-Assessment Questions

1. Explain the meaning, definition, and nature of co-operative accounting with suitable examples.
2. Discuss the scope and objectives of co-operative accounting in detail.
3. Write an essay on the need and importance of co-operative accounting in modern co-operative societies.
4. Explain the special features of co-operative accounting and how it differs from general accounting.
5. Critically examine the limitations of co-operative accounting and suggest suitable remedies.

Assignments

1. During an audit, several accounting records of a co-operative society are found to be incomplete. Explain how proper co-operative accounting practices can help prevent such issues and ensure statutory compliance.
2. A newly formed co-operative society is experiencing difficulties in maintaining accurate financial records. Explain how the principles and features of co-operative accounting can improve its financial management.
3. A co-operative society is planning to replace its manual accounting system with a computerised accounting system. Discuss the benefits and challenges of this transition for the society.
4. The management committee of a co-operative society wants to improve financial transparency and accountability. Explain how effective co-operative accounting practices can help achieve these objectives.

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Unit

Accounting Principles in Co-operatives Introduction

Learning Outcomes

After studying this unit, learners will be able to:

- ◇ understand the meaning, importance, and features of co-operative accounting
- ◇ explain the objectives, nature, and scope of accounting in co-operative societies
- ◇ identify the accounting principles, concepts, and conventions followed in co-operatives
- ◇ analyse the role of accounting in ensuring transparency, accountability, and efficient financial management
- ◇ differentiate between co-operative accounting, double-entry system, and single-entry system

Prerequisites

Accounting plays a vital role in the efficient functioning and management of co-operative societies. Co-operative accounting refers to the systematic process of recording, classifying, summarising, and interpreting the financial transactions of co-operative organisations. Since co-operatives are formed primarily to promote the economic and social welfare of their members, their accounting system is designed not only to measure financial performance but also to ensure transparency, accountability, and proper utilisation of members' funds. Proper accounting practices help co-operative societies maintain accurate records, prepare financial statements, comply with legal requirements, and facilitate effective decision-making.

This unit focuses on the accounting principles followed in co-operatives and explains their features, objectives, nature, and scope. It also discusses the important accounting principles, concepts, and conventions applicable to co-operative societies. Further, the unit examines the differences between co-operative accounting, double-entry system, and single-entry system, thereby providing learners with a comprehensive understanding of accounting practices in co-operative organisations.

Keywords

Co-operative Accounting, Accounting Principles, Double Entry System, Financial Statements, Accounting Conventions.

Discussion

Co-operative accounting has certain special characteristics that distinguish it from other forms of accounting. Since co-operative societies are established mainly to provide services and promote the welfare of their members, their accounting system is designed to ensure transparency, accountability, and the proper management of funds. These features of co-operative accounting help societies maintain accurate financial records and comply with legal requirements.

1.2.1 Features of Cooperative Accounting

1. Service Motive Rather than Profit Motive

The primary objective of co-operative societies is to provide services and economic benefits to members rather than earning maximum profit. Therefore, accounting focuses on member welfare, fair pricing, and efficient utilisation of resources instead of profit maximisation.

2. Principle of Mutual Help and Co-operation

Co-operative societies are based on mutual assistance among members. Accounting principles ensure fairness and equality in financial dealings and help maintain proper distribution of benefits and surplus among members according to their participation.

3. Democratic Control and Management

Co-operatives are democratically managed organisations where every member generally has equal voting rights. Accounting records and financial statements are maintained transparently so that members can participate effectively in decision-making and evaluate the performance of the management.

4. Transparency in Financial Transactions

All financial transactions must be recorded clearly, systematically, and honestly. Transparency in accounting helps build trust among members, reduces the chances of fraud and misuse of funds, and ensures accountability in financial management.

5. Accuracy and Reliability of Accounts

Accounting records should be accurate and reliable. Every transaction must be supported by proper documents and recorded carefully to determine the true financial position and operating results of the society.

6. Compliance with Co-operative Laws and Rules

Co-operative accounting follows the provisions of the Co-operative Societies Act, rules, bye-laws, and government regulations. Proper compliance ensures lawful functioning of the society and facilitates smooth audit and inspection.

7. Prudence or Conservatism in Accounting

Co-operative societies follow a cautious approach in accounting. Expected losses and possible risks are recognised in advance, while uncertain gains are not recorded until realised. This helps maintain financial stability and prevents overstatement of income.

8. Separate Legal Entity Concept

A co-operative society is treated as a separate legal entity distinct from its members. Therefore, the financial transactions of the society are maintained separately from the personal transactions of members and office bearers.

9. Consistency in Accounting Methods

The same accounting methods and procedures should be followed consistently every year. Consistency helps compare financial performance between different accounting periods and improves the reliability of financial statements.

10. Accountability to Members

Since co-operatives are owned and managed by members, the management committee is accountable to them. Accounting principles ensure proper maintenance of accounts and preparation of financial reports so that members can verify how funds and resources are utilised.

1.2.2 Objectives of Accounting Principles of Co-operatives

1. To Maintain Proper Financial Records

One of the main objectives of co-operative accounting principles is to ensure systematic and accurate recording of all financial transactions. Proper records help the society maintain clarity regarding income, expenditure, assets, liabilities, loans, and other financial activities.



2. To Ensure Transparency in Operations

Accounting principles aim to maintain transparency in the financial dealings of co-operative societies. Clear and honest accounting helps members understand how funds are utilised and promotes confidence and trust in the management.

3. To Protect Members' Interests

Co-operative societies are formed mainly for the welfare of members. Accounting principles help safeguard members' funds and ensure fair utilisation of resources, proper distribution of surplus, and prevention of financial misuse.

4. To Promote Accountability

The management committee of a co-operative society is accountable to its members. Accounting principles ensure that financial statements and reports are properly prepared so that members can evaluate the efficiency and honesty of management.

5. To Determine Financial Position

Accounting principles help ascertain the true financial position of the co-operative society through the preparation of financial statements such as the Balance Sheet and the Income and Expenditure Account. This helps management and members understand the financial strength of the society.

6. To Measure Operational Performance

Another objective is to determine whether the society is operating efficiently and achieving its service objectives. Accounting records help measure surplus, expenses, income, and overall performance during a particular accounting period.

7. To Ensure Legal Compliance

Co-operative societies are governed by co-operative laws, rules, and bye-laws. Accounting principles ensure that accounts are maintained according to legal requirements and government regulations, thereby avoiding legal issues and penalties.

8. To Facilitate Audit and Verification

Proper accounting principles help maintain systematic records required for audit and inspection. Audit verifies the correctness of accounts and ensures financial discipline and accountability in the society.

9. To Assist in Decision-Making

Accounting information provides valuable data for planning, budgeting, policy formulation, and managerial decision-making. Management can make effective financial decisions based on accurate accounting records and reports.

10. To Ensure Proper Distribution of Surplus

Accounting principles help determine the correct amount of surplus and ensure its proper allocation to reserve funds, dividends, and member welfare activities according to the provisions of co-operative laws and bye-laws.

1.2.3 Nature of Accounting Principles of Co-operatives

1. Service-Oriented Nature

The accounting principles of co-operatives are mainly service-oriented rather than profit-oriented. Co-operative societies are formed to provide economic and social benefits to members, and therefore accounting emphasises member welfare and efficient service rather than maximising profit.

2. Democratic Nature

Co-operative accounting reflects the democratic character of co-operative societies. Every member has equal rights in the management of the society, and accounting records are maintained transparently to ensure accountability to all members.

3. Legal and Statutory Nature

Co-operative accounting principles are governed by the Co-operative Societies Act, rules, bye-laws, and government regulations. Therefore, the accounting system has a strong legal and statutory character and must comply with prescribed procedures and standards.

4. Transparent Nature

Transparency is an important characteristic of co-operative accounting. Financial transactions, records, and reports are maintained openly so that members, auditors, and authorities can easily verify the financial activities of the society.

5. Member-Centered Nature

The accounting principles of co-operatives are member-oriented because members are both owners and users of the society. Accounting focuses on protecting members' interests and ensuring fair treatment in financial dealings and surplus distribution.

6. Social and Welfare Nature

Co-operative accounting has a social dimension because co-operatives work for the economic and social upliftment of members and society. The accounting system supports activities aimed at community development and member welfare.

7. Financial Control Nature

Co-operative accounting principles emphasise proper financial control over cash, stock, loans, deposits, and other assets. The system helps prevent fraud, misuse of funds, and financial irregularities through systematic recording and supervision.

8. Accountability-Oriented Nature

Accounting principles in co-operatives are designed to ensure accountability of the management committee to members. Proper financial statements and reports enable members to evaluate the performance and honesty of management.



9. Periodical Nature

Co-operative accounting is periodical in nature because accounts are prepared for a fixed accounting period, usually one financial year. This helps assess the financial performance and position of the society regularly.

10. Uniform and Consistent Nature

Co-operative accounting follows consistent accounting methods and procedures from year to year. Uniformity and consistency help compare financial results and improve the reliability and usefulness of accounting information.

1.2.4 Scope of Accounting Principles of Co-operatives

- **Recording of Financial Transactions**

The scope of co-operative accounting includes systematic and accurate recording of all financial transactions of the society. This includes receipts, payments, purchases, sales, income, expenses, loans, deposits, assets, and liabilities. Proper recording helps maintain complete financial information and avoids confusion and errors.

- **Preparation of Financial Statements**

Co-operative accounting covers the preparation of various financial statements such as Trading Account, Profit and Loss Account, Income and Expenditure Account, Receipts and Payments Account, and Balance Sheet. These statements help determine the financial performance and financial position of the society during a particular accounting period.

- **Maintenance of Statutory Books and Registers**

The accounting system includes maintenance of statutory books and registers required under co-operative laws. These include cash book, ledger, members register, share register, loan register, stock register, and minutes book. Proper maintenance of these records ensures legal compliance and smooth administration.

- **Member-wise Accounting**

Since co-operative societies are member-oriented organisations, accounting principles include separate recording of member transactions such as loans, deposits, purchases, sales, and share capital contributions. This helps maintain proper control over individual member accounts and balances.

- **Determination of Surplus or Deficit**

Another important scope is determining whether the society has earned a surplus or incurred a deficit during the accounting year. Accounting helps calculate the excess of income over expenditure and assess the operational efficiency of the society.

- **Distribution of Surplus**

Co-operative accounting also covers proper allocation and distribution of surplus according to co-operative laws and bye-laws. A portion of the surplus is transferred to reserve funds, while the remaining amount may be distributed as dividend, bonus, or

patronage refund among members.

- **Financial Control and Management**

Accounting principles provide effective financial control over cash, stock, loans, deposits, and other assets of the society. Proper accounting procedures help management monitor financial activities, control unnecessary expenditure, and prevent fraud and misappropriation.

- **Audit and Verification**

The scope of co-operative accounting includes preparation of records and statements required for compulsory audit and verification. Audit helps ensure correctness of accounts, identify irregularities, and improve financial discipline and accountability.

- **Compliance with Legal Requirements**

Co-operative accounting ensures compliance with the provisions of the Co-operative Societies Act, rules, bye-laws, taxation laws, and government regulations. Proper legal compliance helps avoid penalties, disputes, and administrative problems.

- **Budgeting and Financial Planning**

Accounting information is used for preparing budgets, estimating future income and expenditure, and planning development programmes. This helps management make effective financial and administrative decisions for the growth of the society.

- **Protection of Members' Interests**

Since co-operative societies function mainly for the benefit of members, accounting principles ensure proper utilisation of members' funds and fair distribution of benefits. Transparent accounting protects members from financial misuse and increases their confidence in the society.

- **Evaluation of Financial Performance**

Co-operative accounting helps evaluate the financial strength, operational efficiency, and overall performance of the society. Management and members can analyse financial reports to determine whether the society is progressing successfully or facing financial difficulties.

- **Facilitating Decision-Making**

Accounting provides reliable financial information to the management committee for policy formulation and decision-making. Management can use accounting data to decide about investments, loans, expansion programmes, and future business activities.

- **Maintenance of Reserve Funds**

The scope of co-operative accounting includes creation and maintenance of reserve funds such as statutory reserve, bad debt reserve, education fund, and building fund. These reserves improve the financial stability and long-term sustainability of the society.

- **Ensuring Transparency and Accountability**

Accounting principles promote transparency and accountability in the functioning of



co-operative societies. Proper financial reports and disclosures enable members to verify the activities of the management committee and ensure responsible administration.

- **Supporting Democratic Management**

Co-operative accounting supports democratic functioning by providing financial information to members during annual general meetings and other discussions. This enables members to participate effectively in the management and policy decisions of the society.

1.2.5 Accounting Principles in Co-operatives

Meaning of Accounting Principles

Accounting principles are the basic rules, guidelines, and procedures followed in recording, classifying, summarising, and presenting financial transactions of co-operative societies. These principles help maintain uniformity, transparency, accountability, and accuracy in accounting practices. In co-operative societies, accounting principles are designed according to the service-oriented and democratic nature of co-operatives.

1.2.6 Important Accounting Principles in Co-operatives

1. Service Motive Principle

The primary objective of co-operative societies is to provide service and economic assistance to members rather than maximising profit. Therefore, co-operative accounting gives importance to member welfare, fair pricing, and efficient utilisation of resources. Financial statements are prepared not only to measure surplus but also to evaluate whether the society is effectively serving its members. This principle promotes member welfare and strengthens the social objectives of co-operatives.

2. Transparency Principle

Transparency is an important accounting principle in co-operatives because these societies function with members' funds and public confidence. All financial transactions should be properly recorded and openly presented before members and authorities. Members should have access to accounting records and financial statements to understand the financial condition and performance of the society. This principle builds trust among members, prevents fraud and corruption, and improves the credibility of the society.

3. Accountability Principle

The management committee of a co-operative society is accountable to members for the proper utilisation of funds and resources. Accounting principles ensure that proper books of accounts are maintained and financial reports are prepared regularly. Financial statements help members evaluate the efficiency and honesty of management. This principle ensures responsible financial management and promotes democratic control in co-operative societies.

4. Legal Compliance Principle

Co-operative accounting must comply with the provisions of the Co-operative Societies Act, rules, bye-laws, taxation laws, and government regulations. Proper accounting records and reports help societies fulfill statutory obligations and avoid legal problems. Legal compliance is important because it ensures lawful functioning, facilitates audit and inspection, and prevents penalties and disputes.

5. Consistency Principle

Accounting methods and procedures should be followed consistently every year unless there is a valid reason for change. For example, if a society uses a particular method of depreciation or stock valuation, it should continue using the same method to ensure comparability of financial statements. Consistency helps compare financial results, improves the reliability of accounts, and maintains uniformity in accounting practices.

6. Prudence Principle

According to the prudence principle, possible losses and risks should be recognised in advance, whereas uncertain profits should not be recorded until they are realised. Provision may be made for bad debts, depreciation, and doubtful loans. The prudence principle prevents overstatement of income, protects financial stability, and encourages cautious financial management.

1.2.7 Accounting Concepts in Co-operatives

Meaning of Accounting Concepts

Accounting concepts are the basic assumptions and fundamental ideas on which accounting practices are based. These concepts provide the theoretical foundation for recording financial transactions and preparing financial statements in co-operative societies. Accounting concepts help maintain uniformity, reliability, and scientific accuracy in accounting practices.

1.2.8 Important Accounting Concepts in Co-operatives

1. Business Entity Concept

According to this concept, a co-operative society is treated as a separate legal entity distinct from its members. The financial transactions of the society are recorded separately from the personal transactions of members and office bearers. This concept helps identify the true financial position of the society and ensures proper accountability.

2. Going Concern Concept

This concept assumes that the co-operative society will continue its operations for a long period unless there is evidence to the contrary. Assets are therefore valued on the assumption that the society will continue functioning in the future. This concept supports continuity in accounting practices and long-term financial planning.



3. Money Measurement Concept

According to this concept, only those transactions that can be expressed in monetary terms are recorded in the books of accounts. Transactions such as purchase of goods, payment of wages, receipt of deposits, and issue of shares are recorded because they can be measured in money. This concept helps maintain systematic and uniform accounting records.

4. Accounting Period Concept

The life of a co-operative society is divided into fixed accounting periods, usually one financial year, for preparing financial statements. At the end of each accounting period, final accounts are prepared to determine surplus or deficit. This concept helps measure the periodic performance of the society.

5. Dual Aspect Concept

Every financial transaction has two aspects — debit and credit. This concept forms the basis of the double-entry system of accounting. For example, when cash is deposited in a bank, one account decreases while another account increases. This concept ensures accuracy and completeness of accounting records.

6. Cost Concept

According to the cost concept, assets are recorded at the actual cost at which they are acquired. Buildings, furniture, machinery, and other assets are therefore entered in the books at purchase cost and not at market value. This concept provides objective valuation and reliability in accounting.

7. Realisation Concept

According to the realisation concept, income is recognised only when it is earned or realised and not merely when cash is received. This concept prevents overstatement of income and ensures realistic financial reporting.

8. Matching Concept

The matching concept states that expenses incurred during a particular accounting period should be matched with the income earned during the same period. This helps determine the actual surplus or deficit of the co-operative society and improves the accuracy of financial statements.

1.2.9 Accounting Conventions in Co-operatives

Meaning of Accounting Conventions

Accounting conventions are the customary practices, traditions, and accepted methods followed in accounting over a long period of time. These conventions help maintain uniformity, clarity, and reliability in financial statements. In co-operative societies, accounting conventions guide accountants in preparing understandable and dependable financial reports.

1.2.10 Important Accounting Conventions in Co-operatives

1. Convention of Conservatism

According to this convention, anticipated losses should be recorded, but anticipated profits should not be considered until they are actually realised. Provision is therefore made for doubtful debts, depreciation, and other possible losses. This convention protects the financial interests of members and encourages cautious financial management.

2. Convention of Consistency

This convention states that accounting methods and procedures should be followed consistently from year to year. Any change in accounting policy should be properly disclosed. Consistency helps compare financial statements of different years and improves the reliability of accounting information.

3. Convention of Full Disclosure

According to this convention, all important financial information should be fully disclosed in the financial statements. Co-operative societies should not hide any material facts that may affect decisions of members, creditors, or authorities. This convention promotes transparency and informed decision-making.

4. Convention of Materiality

The convention of materiality states that only important and significant information affecting financial decisions should be separately disclosed. Minor details may be grouped together for simplicity. This convention makes financial statements clear and understandable.

5. Convention of Objectivity

According to this convention, accounting records should be based on objective evidence such as bills, vouchers, invoices, receipts, and agreements. This convention improves the reliability of records, facilitates audit and verification, and prevents manipulation of accounts.

1.2.11 Difference Between Co-operative Accounting and Double-Entry and Single-Entry System

Accounting systems are methods used for recording and maintaining financial transactions of business organisations and institutions. Co-operative societies generally follow systematic accounting procedures to ensure transparency, accountability, and proper financial management. Among the commonly used accounting systems are the Co-operative Accounting System, Double-Entry System, and Single-Entry System.

Meaning of Co-operative Accounting

Co-operative accounting refers to the accounting system followed by co-operative societies according to co-operative principles, laws, rules, and bye-laws. It focuses on maintaining transparency, accountability, member welfare, and proper utilisation of resources. Co-operative accounting is service-oriented and emphasises democratic control and legal compliance.



Meaning of Double-Entry System

The double-entry system is a scientific and systematic method of accounting in which every financial transaction has two aspects — debit and credit. Under this system, both aspects of a transaction are recorded in the books of accounts. This system helps maintain complete records and ensures accuracy in accounting.

Meaning of Single-Entry System

The single-entry system is an incomplete and unsystematic method of accounting in which only one aspect of certain transactions is recorded. Usually, only cash transactions and personal accounts are maintained. This system is simple and mainly suitable for small businesses with limited transactions.

Difference Between Co-operative Accounting, Double-Entry System and Single-Entry System

Table 1.2.1

Basis	Co-operative Accounting	Double-Entry System	Single-Entry System
Meaning	It is the accounting system followed by co-operative societies according to co-operative principles, laws, and bye-laws. It focuses on member welfare, transparency, and accountability.	It is a scientific system of accounting where every transaction has two aspects — debit and credit — and both aspects are recorded systematically.	It is an incomplete accounting system where only one aspect of some transactions is recorded, mainly cash and personal accounts.
Objective	The main objective is to provide service to members, maintain accountability, and ensure proper utilisation of funds and resources.	The objective is to maintain complete, accurate, and systematic accounting records for business organisations.	The objective is mainly to maintain simple and basic records for small businesses with limited transactions.
Nature	It is service-oriented, democratic, and member-centered in nature.	It is scientific, systematic, and accounting-oriented in nature.	It is simple, unsystematic, and incomplete in nature.

Recording of Transactions	Transactions are recorded according to co-operative laws, rules, and statutory requirements, including member-wise transactions.	Every transaction is recorded with equal debit and credit aspects in appropriate accounts.	Only selected transactions are recorded, and complete details are generally not maintained.
Legal Requirement	Co-operative societies must follow the Co-operative Societies Act, rules, bye-laws, and government regulations.	No special co-operative legal requirements are compulsory, though businesses may follow accounting standards.	There are no strict legal requirements or standardised procedures.
Accuracy	High accuracy is maintained because accounts are systematically prepared and regularly audited.	A high degree of accuracy is ensured through the double-entry method and trial balance.	Accuracy is low because records are incomplete and many transactions are omitted.
Preparation of Final Accounts	Final accounts are prepared according to co-operative laws and include statements required for audit and member reporting.	Trading Account, Profit and Loss Account, and Balance Sheet can be prepared accurately and easily.	Preparation of accurate final accounts are difficult because complete accounting records are not available.
Audit	Compulsory audit is conducted by authorised auditors or the Registrar of Co-operative Societies.	Audit can be conducted effectively because records are systematic and complete.	Auditing becomes difficult due to the lack of proper records and supporting information.
Suitability	Suitable for co-operative societies, credit societies, consumer societies, and large member-based organisations.	Suitable for all types of business organisations and institutions.	Suitable mainly for small businesses and small traders with few transactions.

Detection of Errors	Errors and irregularities can be easily detected through proper accounting procedures and audit systems.	Errors can be identified through trial balance and systematic checking of accounts.	Errors are difficult to identify because transactions are not completely recorded.
Financial Control	Ensures proper control over cash, stock, loans, deposits, and other resources of the society.	Provides effective financial control through complete accounting records.	Financial control is weak due to incomplete recording of transactions.
Reliability	Highly reliable because accounts are prepared according to legal provisions and accounting principles.	Reliable because all transactions are properly recorded and verified.	Less reliable because records are incomplete and lack systematic verification.
Complexity	More detailed and regulated because it includes statutory records, member accounts, and audit requirements.	Moderately complex because every transaction requires dual recording.	Very simple and easy to maintain due to limited recording procedures.
Maintenance of Records	Includes maintenance of statutory books such as cash book, ledger, share register, loan register, and members register.	Maintains complete accounting books such as journal, ledger, cash book, and trial balance.	Maintains only limited records, mainly cash book and personal accounts.
Focus	Focuses on member welfare, democratic management, transparency, and service motive.	Focuses on accurate and systematic recording of business transactions.	Focuses mainly on simple maintenance of basic financial records.
Transparency	Ensures high transparency because financial statements are presented before members and authorities.	Transparency is maintained through systematic accounting procedures.	Transparency is comparatively low due to incomplete accounting records.

Decision-Making	Provides detailed financial information useful for management decisions and policy formulation in co-operatives.	Helps the management make business decisions based on accurate financial data.	Provides limited information and is less useful for managerial decision-making.
Compliance with Accounting Principles	Strongly follows accounting principles, concepts, conventions, and statutory regulations.	Follows accepted accounting principles and standards systematically.	Does not strictly follow accounting principles and standards.

Recap

- ◇ Co-operative Accounting is a specialised accounting system designed to record and report the financial transactions of co-operative societies in accordance with co-operative principles and statutory requirements.
- ◇ Features of Co-operative Accounting include member-oriented objectives, democratic control, statutory reserves, equitable distribution of surplus, and compliance with co-operative laws.
- ◇ Objectives of Co-operative Accounting are to maintain accurate records, ensure accountability, safeguard members' funds, and support effective financial management.
- ◇ Nature of Co-operative Accounting is service-oriented, transparent, legally regulated, and focused on the welfare of members rather than profit maximisation.
- ◇ Scope of Co-operative Accounting includes maintaining books of accounts, preparing financial statements, auditing, surplus appropriation, and ensuring statutory compliance.
- ◇ Accounting Principles, Concepts, and Conventions in Co-operatives provide the foundation for preparing reliable and consistent financial records while complying with accounting standards and co-operative legislation.
- ◇ The Difference between Co-operative Accounting and Double-Entry and Single-Entry Systems highlights that co-operative accounting follows the double-entry system with additional statutory and member-oriented accounting requirements prescribed under co-operative laws.

Objective Questions

1. What is the primary objective of co-operative accounting?
2. Which accounting principle treats the co-operative society as a separate legal entity?
3. What is the main objective of the prudence principle?
4. Which accounting system records both debit and credit aspects of transactions?
5. What is the basis of the single-entry system?
6. Which principle ensures uniformity in accounting methods?
7. What is the accounting period usually followed by co-operative societies?
8. Which accounting convention requires disclosure of important financial information?
9. What is the main purpose of maintaining reserve funds in co-operatives?
10. Which accounting concept assumes that a co-operative society will continue for a long period?

Answers

1. Service to members and accountability.
2. Business Entity Concept.
3. To recognise anticipated losses and avoid overstatement of profits.
4. Double-Entry System.
5. Incomplete recording of transactions.
6. Consistency Principle.
7. One financial year.
8. Convention of Full Disclosure.
9. To improve financial stability.
10. Going Concern Concept.

Self-Assessment Questions

1. Explain the features of accounting principles in co-operatives.
2. Discuss the objectives of co-operative accounting principles.
3. Describe the nature of accounting principles in co-operatives.
4. Explain the scope of accounting principles in co-operative societies.
5. Discuss the important accounting principles followed in co-operatives.
6. Explain the accounting concepts applicable to co-operative societies.
7. Describe the important accounting conventions followed in co-operatives.
8. Differentiate between co-operative accounting, double-entry system, and single-entry system.

Assignments

1. Prepare a detailed note on the importance of transparency and accountability in co-operative accounting.
2. Compare the double-entry system and single-entry system with suitable examples.
3. Explain the role of accounting principles in protecting members' interests in co-operative societies.
4. Discuss the scope of co-operative accounting in modern co-operative organisations.
5. Analyse the importance of accounting concepts and conventions in preparing financial statements of co-operatives.

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2 BLOCK

Co-operative Accounting



Unit

Statutory Requirements and Registers

Learning Outcomes

After completing this unit, the learner will be able to:

- ◇ explain the statutory requirements for maintaining books of account and registers in co-operative societies.
- ◇ identify and describe the various statutory books and registers maintained by co-operative societies and their purposes.
- ◇ understand the procedures for maintaining accounting records in accordance with the provisions of the Co-operative Societies Act and Rules.
- ◇ explain the concept, features, and applications of computerised accounting in co-operative societies.
- ◇ evaluate the advantages and disadvantages of computerised accounting and its role in improving the efficiency, accuracy, and transparency of co-operative accounting.

Prerequisites

Proper accounting is essential for the successful functioning of a co-operative society. It helps in recording, classifying, and summarising financial transactions in a systematic manner. Since co-operative societies deal with members' funds, they are legally required to maintain proper books of account and registers to ensure transparency, accountability, and efficient financial management.

Every co-operative society must maintain various statutory books and registers as prescribed under the Co-operative

Societies Act and Rules. These records provide accurate information about the society's financial position, membership, loans, share capital, and other business activities. Proper maintenance of these records also facilitates auditing, statutory compliance, and effective decision-making.

In recent years, many co-operative societies have adopted computerised accounting systems to improve the speed, accuracy, and reliability of accounting work. Computerised accounting makes record-keeping easier, reduces errors, and provides quick access to financial information. However, it also has certain limitations, such as high installation costs, dependence on technology, and the need for trained personnel.

This unit discusses the statutory requirements for maintaining books and registers, the different types of books and registers maintained by co-operative societies, and the concept, advantages, and disadvantages of computerised accounting in co-operative societies. This knowledge will help learners understand the importance of proper record-keeping and modern accounting practices in the co-operative sector.

Keywords

Statutory Requirements, Books of Accounts, Registers, Computerised Accounting, Financial Records.

Discussion

2.1.1 Different Types of Books and Registers Maintained by Co-operatives

Co-operative societies maintain several books and registers to record financial transactions, member-related information, administrative activities, and statutory requirements. These records are essential for ensuring transparency, accountability, efficient management, and legal compliance. Proper maintenance of books and registers helps the society to prepare accurate financial statements, conduct audits smoothly, and safeguard the interests of members.

1. Cash Book

The cash book records all cash receipts and cash payments made by the society on a daily basis. Every amount received from members, customers, banks, or other sources is entered on the receipt side, while all disbursements are recorded on the payment side. The cash book helps in determining the daily cash balance available with the society. In many co-operatives, separate columns are maintained for cash and bank



transactions. Proper maintenance of the cash book helps prevent misappropriation of funds and ensures effective cash management.

2. Journal

The journal is known as the book of original entry because transactions that cannot be directly entered into the cash book are first recorded here. It includes adjustment entries, rectification entries, depreciation entries, transfer entries, and opening or closing entries. Each transaction recorded in the journal contains details such as date, accounts affected, amount, and narration. The journal helps maintain accuracy in accounting records and ensures proper classification of transactions before posting them into the ledger.

3. Ledger

The ledger is the principal book of account where all transactions are classified under different heads of accounts. Separate accounts are maintained for assets, liabilities, income, expenses, members, debtors, creditors, and capital. Entries from the cash book and journal are transferred to the ledger. The ledger determines the balance of each account and forms the basis for preparing the trial balance and final accounts. It provides a complete picture of the financial position of the co-operative society.

4. Day Book

The day book records daily business transactions in chronological order. It serves as a preliminary record before transactions are posted into the ledger. Different types of day books may be maintained for purchases, sales, returns, or general transactions. The day book helps in organising daily accounting activities systematically and reduces errors in posting.

5. Purchase Day Book

The purchase book records all credit purchases made by the co-operative society. It contains details such as date of purchase, name of supplier, invoice number, quantity of goods, and amount payable. Cash purchases are generally recorded in the cash book, while credit purchases are entered in the purchase book. This book helps the society monitor supplier accounts and manage outstanding liabilities efficiently.

6. Sales Day Book

The sales book records all credit sales made by the co-operative society. It includes information regarding the customer, invoice number, goods sold, quantity, rate, and amount. Cash sales are entered in the cash book, whereas credit sales are recorded in the sales book. Proper maintenance of the sales book helps the society track revenue generation and customer dues.

7. Stock Register

The stock register maintains details regarding the receipt, issue, sale, and balance of goods held by the co-operative society. It helps in controlling inventory and avoiding shortages, wastage, theft, or overstocking. The stock register is especially important in consumer co-operatives, marketing societies, and dairy co-operatives where goods

are handled regularly. Physical verification of stock is often compared with the stock register to ensure accuracy.

8. Member Register

The member register contains complete information about the members of the co-operative society. It includes details such as name, address, membership number, occupation, date of admission, number of shares held, and membership status. This register helps maintain proper communication with members and ensures that only eligible members enjoy the benefits and voting rights of the society.

9. Share Register

The share register records the share capital contributed by each member of the co-operative society. It contains details of shares allotted, transferred, surrendered, or refunded. The register helps determine the ownership interest of members and facilitates dividend distribution. Proper maintenance of the share register is important for legal and financial purposes.

10. Loan Register

The loan register is mainly maintained by credit co-operatives and co-operative banks. It records details of loans sanctioned to members, including loan amount, purpose of loan, rate of interest, repayment schedule, instalments paid, outstanding balance, and overdue amounts. This register helps the society monitor loan recovery and evaluate the creditworthiness of members.

11. Deposit Register

The deposit register records deposits received from members or customers. It includes savings deposits, fixed deposits, recurring deposits, and other types of deposits accepted by the society. Details such as depositor name, deposit amount, maturity date, interest rate, and withdrawals are recorded. This register helps in managing liabilities and maintaining trust among depositors.

12. Fixed Asset Register

The fixed asset register contains detailed information regarding fixed assets owned by the society, such as land, buildings, machinery, furniture, vehicles, computers, and equipment. It records the date of purchase, cost of asset, depreciation charged, repairs made, and present value of assets. The register helps in asset management and ensures proper control over the society's property.

13. Minutes Book

The minutes book records the proceedings and decisions taken during meetings of the general body, board of directors, and various committees of the co-operative society. It includes details regarding resolutions passed, discussions held, and actions approved. The minutes book acts as an official legal document and serves as evidence of decisions taken by the management.



14. Attendance Register

The attendance register records the attendance of employees, officers, directors, or members attending meetings and office duties. It helps monitor punctuality, discipline, and participation. In many societies, attendance records are also used for salary calculation and administrative control.

15. Salary Register

The salary register records details related to employee remuneration. It includes information such as basic salary, allowances, overtime wages, deductions, provident fund contributions, insurance deductions, and net salary paid. This register ensures transparency in salary administration and helps maintain employee records properly.

16. Audit Register

The audit register contains details regarding statutory audits and internal audits conducted in the co-operative society. It tracks audit objections, irregularities identified, corrective measures taken, and compliance reports submitted. This register helps the society maintain audit compliance and strengthen financial discipline.

17. Receipt Book

The receipt book is used to issue receipts for amounts received from members, customers, or other parties. Each receipt contains details such as receipt number, date, amount received, purpose of payment, and signature of the authorised person. Receipt books provide documentary evidence of money received and help prevent disputes or fraud.

18. Payment Voucher Register

The payment voucher register records all vouchers related to payments made by the co-operative society. Each voucher contains supporting documents such as bills, invoices, approvals, and signatures. This register ensures that all expenditures are properly authorised and documented before payment is made.

19. Cheque Issue Register

The cheque issue register records details of cheques issued by the co-operative society. Information such as cheque number, date, payee name, bank details, and amount paid is entered in this register. It helps in tracking bank payments and avoiding misuse of cheques.

20. Investment Register

The investment register records investments made by the co-operative society in banks, government securities, bonds, shares, or other approved institutions. It includes details regarding investment amount, interest earned, maturity date, and returns received. This register helps the management monitor investment performance and ensure safe utilisation of surplus funds.

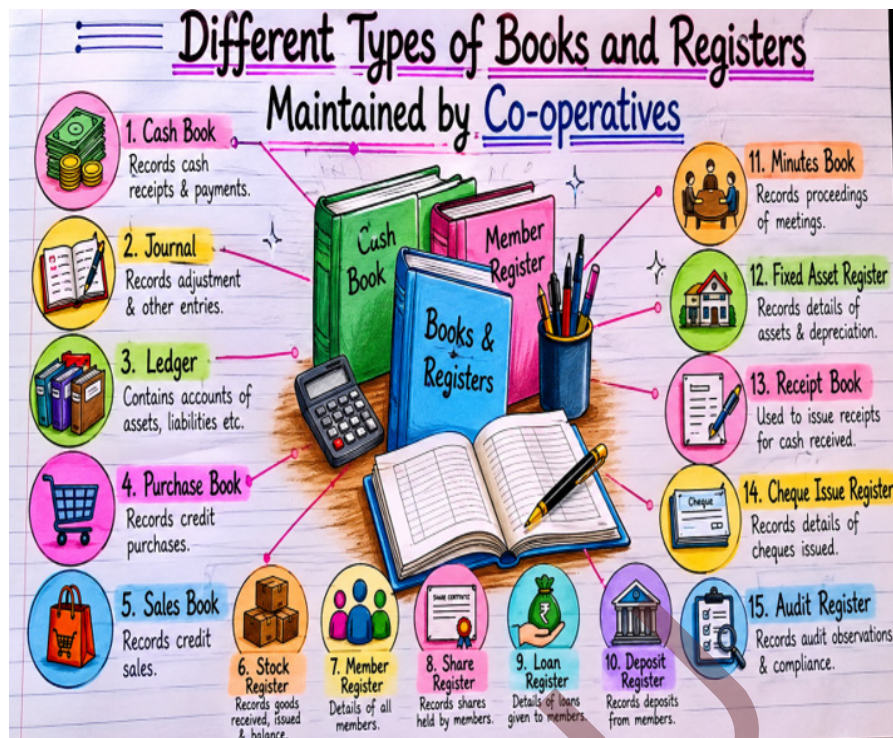


Fig:2.1.1.

2.1.2 Statutory compliances and Duties of Cooperative Societies

1. Registration of the Society

Every co-operative society must be registered under the relevant Co-operative Societies Act before commencing its operations. Registration gives the society legal recognition and a separate legal identity. The promoters must submit an application, proposed bye-laws, and required documents to the Registrar of Co-operative Societies. After verification, the Registrar grants registration. Registration enables the society to function legally, enter into contracts, own property, and protect the rights and interests of its members.

2. Maintenance of Proper Books of Accounts

A co-operative society is legally required to maintain proper books of account to record all financial transactions accurately. Books such as the cash book, journal, ledger, purchase book, sales book, and stock register must be maintained regularly. These records help the society monitor income, expenditure, assets, liabilities, and financial performance. Proper accounting ensures transparency, prevents fraud and mismanagement, and helps in preparing financial statements and conducting audits.

3. Maintenance of Statutory Registers

Co-operative societies must maintain statutory registers prescribed under the Co-operative Societies Act and Rules. These include the member register, share

register, loan register, deposit register, attendance register, and audit register. These registers contain official information related to members, shares, loans, deposits, and administrative matters. Proper maintenance of registers ensures transparency, accountability, and smooth functioning of the society while also facilitating audit and inspection by authorities.

4. Conduct of Annual General Meeting (AGM)

Every co-operative society must conduct an Annual General Meeting (AGM) within the prescribed time frame each year. In the AGM, members discuss and approve important matters such as the annual accounts, audit reports, budget, profit distribution, and election of committee members. The AGM provides a platform for members to participate in decision-making and evaluate the performance of the society. It ensures democratic functioning, accountability of management, and transparency in administration.

5. Election of Managing Committee

The managing committee or board of directors of the co-operative society must be elected according to the provisions of the Act and bye-laws. The committee is responsible for managing the daily affairs and administration of the society. Elections should be conducted fairly, democratically, and within the prescribed period. This requirement ensures democratic control, prevents concentration of power, and promotes responsible and efficient management.

6. Audit of Accounts

Audit is a compulsory statutory requirement for co-operative societies. The accounts of the society must be audited annually by an authorised auditor approved by the Registrar or government. The auditor examines the accuracy of financial records, verifies transactions, and checks compliance with legal provisions and bye-laws. Audit helps detect fraud, errors, and irregularities while improving financial discipline, transparency, and public confidence in the society.

7. Preparation of Financial Statements

Every co-operative society must prepare annual financial statements such as Trading Account, Profit and Loss Account, Balance Sheet, and Receipts and Payments Account. These statements present the financial performance and financial position of the society during a particular accounting period. Financial statements help management, members, auditors, and government authorities understand the operational efficiency and financial condition of the society. They also ensure transparency and proper financial reporting.

8. Submission of Returns and Reports

Co-operative societies are required to submit various returns and reports to the Registrar within the prescribed time. These may include annual reports, audit reports, financial statements, and annual returns. Submission of these reports enables the Registrar to supervise and monitor the functioning of the society. It also ensures legal compliance, accountability, and proper maintenance of official records.

9. Maintenance of Reserve Fund

Every co-operative society must transfer a prescribed percentage of its annual profit to the reserve fund as required by law. The reserve fund acts as a financial safeguard and strengthens the financial stability of the society. It can be used to meet future losses, emergencies, or expansion needs. Maintenance of the reserve fund ensures long-term sustainability and financial security of the co-operative society.

10. Safe Custody of Cash and Records

The society must ensure the safe custody of cash, cheque books, account books, share certificates, title deeds, and other important records. These documents and assets should be protected from theft, loss, damage, or misuse. Proper custody of records ensures efficient administration, continuity of operations, and easy availability of documents during audit, inspection, or legal proceedings.

11. Inspection and Inquiry

The Registrar of Co-operative Societies has the authority to inspect or inquire into the affairs of the society whenever necessary. During inspection, the society must produce all books, registers, and records required by the authorities. The purpose of inspection is to identify irregularities, corruption, fraud, or mismanagement in the functioning of the society. This requirement helps maintain accountability, transparency, and compliance with legal provisions.

12. Compliance with Bye-laws

Every co-operative society must function according to its registered bye-laws. Bye-laws contain rules regarding membership, share capital, meetings, elections, profit distribution, and management procedures. Compliance with bye-laws ensures discipline, uniformity, and smooth functioning of the society. It also helps prevent disputes among members and promotes efficient administration.

13. Maintenance of Member Rights

Co-operative societies must protect the rights and interests of their members. Members have rights such as voting rights, participation in meetings, access to information, and entitlement to services or dividends. The society should provide equal opportunities to all members without discrimination. Protecting member rights strengthens democratic participation, builds trust among members, and promotes the co-operative spirit.

14. Proper Maintenance of Minutes Book

The proceedings and decisions of meetings must be properly recorded in the minutes book. Minutes should contain details of discussions, resolutions passed, and decisions taken during General Body Meetings, Board Meetings, and Committee Meetings. The minutes book serves as legal evidence of decisions and helps maintain transparency and accountability in administration. Proper maintenance of minutes also helps in future reference and verification.



15. Compliance with Co-operative Principles

Every co-operative society must function according to co-operative principles such as voluntary membership, democratic control, mutual help, equality, and service motive. These principles form the foundation of the co-operative movement and guide the activities of the society. Compliance with co-operative principles promotes social welfare, collective development, member participation, and the overall growth of the co-operative sector.

2.1.3 Computerised Accounting in Co-operatives

Computerised accounting refers to the application of computers and accounting software for recording, storing, processing, and analysing the financial transactions of co-operative societies. Instead of maintaining accounts manually in books and registers, co-operatives use computerised systems to manage accounting activities in a faster, more accurate, and systematic manner. With the development of information technology, many co-operative societies have shifted from manual accounting to computerised accounting to improve efficiency, transparency, and financial control.

In computerised accounting, accounting software such as Tally, ERP systems, or specially designed co-operative accounting software is used to record transactions related to cash receipts, payments, loans, deposits, member accounts, stock, salaries, and financial statements. These systems help co-operatives maintain accurate records and generate reports instantly whenever required.

2.1.4 Advantages of computerised accounting in cooperatives

- **Accuracy in Accounting**

One of the major advantages of computerised accounting is the high level of accuracy in maintaining financial records. Since calculations are performed automatically by software, mathematical errors are greatly minimised. High accuracy improves the reliability of financial statements and accounting reports.

- **Speed and Efficiency**

Computerised accounting systems can process large amounts of accounting data within a short time. Recording transactions, posting entries, balancing accounts, and preparing reports become much faster compared to manual accounting. This improves the overall efficiency of the co-operative society.

- **Easy Preparation of Financial Statements**

Financial statements such as the Trading Account, Profit and Loss Account, Balance Sheet, Trial Balance, and Receipts and Payments Account can be generated automatically. The management can access financial information quickly for decision-making and reporting purposes.

- **Better Record Management**

Computerised accounting helps co-operatives maintain records in an organised and systematic manner. Information can be stored electronically and retrieved easily

whenever needed. This reduces confusion and improves administrative efficiency.

- **Time Saving**

Routine accounting activities such as posting, balancing, and preparing statements are automated in computerised systems. This saves considerable time and reduces workload for accounting staff. Automating routine bookkeeping activities such as ledger posting and balancing saves considerable time and reduces the routine workload for accounting staff.

- **Improved Transparency and Accountability**

Computerised systems maintain clear and accurate records of all financial transactions. This improves transparency in accounting and helps management, auditors, and members verify records easily. Proper documentation also increases accountability among employees and officers.

- **Easy Audit and Inspection**

Auditors can easily examine computerised records and generate required reports during audit and inspection. The availability of systematic data simplifies the auditing process and reduces the time required for verification.

- **Better Financial Control**

Computerised accounting helps management monitor income, expenditure, cash flow, loans, deposits, and stock effectively. The management can analyse financial performance and take corrective measures whenever necessary. Management can monitor cash flow, expenditures, deposits and stock movement in real time, enabling quick corrective actions when discrepancies arise.

- **Data Security and Backup Facilities**

Sensitive financial data can be secured through passwords, security controls, and backup systems. Backup facilities help recover data in case of accidental deletion, system failure, or other technical problems.

- **Reduction in Paperwork**

Since records are maintained electronically, the need for maintaining large volumes of paper registers and files is reduced. This saves storage space and reduces stationery expenses.

- **Easy Updating and Correction**

Errors and changes can be corrected easily in computerised systems without rewriting entire records. This improves flexibility and convenience in accounting work.

- **Better Decision-Making**

Computerised accounting provides timely and accurate financial information to management. This helps the co-operative society make effective decisions regarding finance, loans, investments, budgeting, and expansion activities.

2.1.5 Disadvantages of Computerised Accounting in Co-operatives

- **High Initial Cost Outlay**

The installation of computers, accounting software, networking systems, and other technological infrastructure requires heavy investment. Small co-operative societies may face financial difficulty in adopting computerised accounting systems.

- **Need for Technical Knowledge**

Employees handling computerised accounting must possess adequate computer knowledge and technical skills. Lack of training and technical expertise may create operational difficulties.

- **Risk of Data Loss**

Computerised data may be lost due to hardware failure, virus attacks, hacking, accidental deletion, or power interruptions. Without proper backup systems, important financial records may be permanently lost.

- **Dependence on Infrastructure**

Computerised accounting systems depend completely on electricity, computer hardware, and software. Technical failures or power outages may interrupt accounting operations and delay work.

- **Possibility of Cybersecurity Risks**

Unauthorised access, cyber-attacks, or hacking may result in manipulation or theft of financial information. If security measures are weak, confidential data may be misused.

- **Maintenance and Updating Cost**

Regular maintenance of computers, software updates, antivirus installation, and technical support services increase operational expenses of the society.

- **System Failures**

Breakdown of computer systems or software malfunction may affect the functioning of accounting activities and create delays in financial reporting.

- **Training Expenses**

Employees must be trained regularly to operate accounting software effectively. Training programs require additional time and financial expenditure.

- **Reduced Personal Verification**

Overdependence on computerised systems may reduce manual checking and personal supervision of records. Errors entered into the system may continue unnoticed if proper verification is not conducted.

- **Employee Resistance**

Introduction of computerised systems may create fear among employees regarding reduction of manual accounting jobs and changes in work responsibilities.

- **Requirement for Continuous Upgradation**

Technology changes rapidly, and co-operative societies may need to upgrade software and hardware regularly. Continuous upgradation increases financial burden and requires adaptation to new systems.

Recap

- ◇ Different Types of Books and Registers maintained by Co-operatives include statutory books, cash book, ledger, journals, member registers, share registers, and other records required for effective financial management.
- ◇ Statutory Requirements of Co-operative Accounting ensure that co-operative societies maintain proper books of accounts and prepare financial statements in accordance with the Co-operative Societies Act, Rules, and applicable accounting standards.
- ◇ Computerised Accounting in Co-operatives refers to the use of accounting software and digital systems to record, process, store, and report financial information efficiently and accurately.
- ◇ Advantages of Computerised Accounting in Co-operatives include improved accuracy, faster processing, better record management, enhanced transparency, timely financial reporting, and easier statutory compliance.
- ◇ Disadvantages of Computerised Accounting in Co-operatives include high initial installation costs, dependence on technology, the need for skilled personnel, cybersecurity risks, and system failures due to technical issues.

Objective Questions

1. Which Act governs co-operative societies in Kerala?
2. Which book records cash receipts and cash payments?
3. Which register contains the details of members?
4. Which book records the final balances of accounts?
5. Which accounting system uses computer software?



6. Which register records the details of shares held by members?
7. Which statutory process verifies the accuracy of accounts?
8. Which book contains the proceedings of meetings?
9. Which accounting system is faster than manual accounting?
10. Which type of accounting reduces manual errors?

Answers

1. Kerala Co-operative Societies Act 1969.
2. Cash Book.
3. Register Of Members.
4. Ledger.
5. Computerised Accounting.
6. Share Register.
7. Audit.
8. Minutes Book.
9. Computerised Accounting.
10. Computerised Accounting.

Self-Assessment Questions

1. Explain the statutory requirements for maintaining books and registers in co-operative societies.
2. Describe the different books of account maintained by a co-operative society.
3. What are the important statutory registers maintained by co-operative

societies?

4. Explain the concept of computerised accounting in co-operative societies.
5. Discuss the advantages and disadvantages of computerised accounting.

Assignments

1. Prepare a note on the statutory books and registers maintained by a co-operative society.
2. Compare manual accounting and computerised accounting in co-operative societies.
3. Explain the importance of maintaining proper accounting records in co-operative societies.
4. Discuss the legal requirements for maintaining books of accounts under the Co-operative Societies Act.
5. Examine the role of computerised accounting in improving the efficiency of co-operative societies.

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Unit

Sources of funds

Learning Outcomes

After completing this unit, the learner will be able to:

- ◇ explain the various sources of funds available to co-operative societies and their importance.
- ◇ describe the different forms of State aid to co-operative societies, including Share Capital Contribution, Principal State Partnership Fund (PSPF), Subsidiary State Partnership Fund (SSPF), Grants, and Subsidies.
- ◇ differentiate between owned funds and borrowed funds and evaluate their role in the financial management and capital structure of co-operative societies.

Prerequisites

Finance is the lifeblood of every co-operative society. The success and sustainability of a co-operative largely depend on the availability of adequate funds to carry out its day-to-day operations, expand its activities, and provide better services to its members. Unlike other business organisations, co-operative societies mobilise funds from both internal and external sources while also receiving financial assistance from the Government.

The funds of a co-operative society come from various sources, such as members' share capital, owned funds, borrowed funds, and State aid. The Government plays an important role in promoting the co-operative movement by providing financial assistance in the form of Share Capital Contribution, Principal State Partnership Fund (PSPF), Subsidiary State Partnership Fund (SSPF), Grants, and Subsidies. These forms of State aid strengthen the financial posi-

tion of co-operative societies and support their growth and development.

This unit explains the different sources of funds available to co-operative societies, the various forms of State aid, and the distinction between owned funds and borrowed funds. Understanding these sources of finance is essential for effective financial management and the long-term sustainability of co-operative societies.

Keywords

Sources of Funds, State Aid, Share Capital Contribution, Principal State Partnership Fund (PSPF), Subsidiary State Partnership Fund (SSPF), Grants, Subsidies, Owned Funds, Borrowed Funds.

Discussion

2.2.1 Sources of Finance in Co-operative Societies

Finance is the backbone of every co-operative society. To carry out business activities smoothly, a co-operative society requires adequate funds. These funds are used for purchasing assets, providing loans to members, paying salaries, meeting operational expenses, and expanding business activities.

The funds of a co-operative society are generally classified into two categories:

1. Owned Funds (Internal Sources)
2. Borrowed Funds (External Sources)

Apart from members' contributions, the government also provides financial assistance to strengthen the co-operative movement through different forms of State Aid.

2.2.1.1 Owned Funds (Internal Sources)

Owned funds are those funds that belong to the co-operative society and do not require repayment to outsiders. They constitute the permanent capital of the society.

Examples include:

- Share Capital
- Reserve Fund
- Statutory Reserve
- Building Fund
- Education Fund
- General Reserve

- Accumulated Surplus

Owned funds provide long-term financial stability and improve the creditworthiness of the society.

2.2.1.2 Borrowed Funds (External Sources)

Borrowed funds are funds obtained from external agencies that must be repaid after a specified period along with interest.

Examples include:

- Deposits from members
- Loans from District Central Co-operative Banks
- Borrowing from State Co-operative Banks
- Borrowings from Commercial Banks
- NABARD refinance
- Government loans

Loans and assistance from other financial institutions

Borrowed funds help the society meet additional financial requirements and expand its operations.

2.2.2 Major Sources of Funds of Co-operative Societies

The major sources of funds are explained below.

1. Share Capital

Share capital is the amount contributed by members by purchasing shares in the co-operative society. It represents the ownership interest of members and forms the foundation of the financial structure of the society.

In many co-operatives, particularly agricultural credit societies, the Government also contributes to share capital under State Aid programmes.

Share capital provides permanent finance and improves the borrowing capacity of the society.

2. State Aid

The Government provides financial assistance to strengthen co-operative societies through share capital contribution, grants, subsidies, partnership funds, loan guarantees, and technical assistance. State Aid is particularly important for societies serving economically weaker sections.

3. Principal State Partnership Fund

This fund is established by the State Government to provide share capital assistance to eligible co-operative societies, particularly agricultural credit institutions. It strengthens



their financial position and improves their lending capacity.

4. Subsidiary State Partnership Fund

This fund is created from the Principal State Partnership Fund and is utilised through apex or central co-operative institutions to provide financial assistance to primary co-operative societies.

5. Grants

Grants are non-repayable financial assistance provided by the Government or other agencies for infrastructure development, modernisation, education, research, training, and welfare programmes.

6. Subsidies

Subsidies reduce the cost of specific projects such as warehouse construction, dairy development, farm mechanisation, renewable energy, and digitalisation. Targeted financial aid aimed at reducing capital costs for specific projects, such as warehouse construction, dairy machinery, farm mechanisation, renewable energy, and digital technology.

7. Reserve Funds

Reserve funds are created by transferring a specified portion of annual profits. They strengthen the financial stability of the society and provide protection against future contingencies.

8. Deposits

Co-operative societies mobilise deposits from members and, where permitted, from the public. Deposits constitute an important source of working capital for credit societies and co-operative banks.

9. Borrowings

Loans obtained from co-operative banks, commercial banks, NABARD, and government agencies help societies finance their working capital and long-term investment needs.

10. Accumulated Surplus

The portion of profits retained after transferring amounts to reserves and paying dividends constitutes accumulated surplus. It is reinvested for expansion and development.

2.2.4 State Aid to Co-operatives

State aid refers to the financial assistance provided by the Government to co-operative societies for their establishment, expansion, modernisation, and efficient functioning. Since co-operatives primarily serve the economic and social interests of their members rather than maximising profits, they often require financial support from

the Government. State aid strengthens the capital base of co-operatives, improves their creditworthiness, and enables them to provide better services to members, particularly in rural and agricultural sectors.

1. Share Capital Contribution

Share capital contribution is one of the most important forms of State assistance to co-operative societies. The State Government purchases shares in eligible co-operative societies, thereby becoming a shareholder. This contribution increases the permanent capital of the society and strengthens its financial position. Government participation in share capital is particularly beneficial during the initial stages of a co-operative's formation when members alone cannot mobilise sufficient capital.

A larger share capital enables the society to expand its business activities, improve infrastructure, purchase assets, and provide better credit and marketing facilities to members. Government shareholding also enhances the credibility of the society, making it easier to obtain loans from financial institutions. However, the Government's investment is generally governed by the provisions of the respective State Co-operative Societies Act, and it may nominate representatives to the society's board to safeguard public investment.

Key Features

- Permanent source of capital.
- The government becomes a shareholder in the society.
- Improves financial stability and borrowing capacity.
- Encourages the growth of newly established co-operatives.
- Particularly useful for agricultural, dairy, and rural co-operatives.

2. Principal State Partnership Fund (PSPF)

The Principal State Partnership Fund is a special fund created and maintained by the State Government under the State Co-operative Societies Act. The Government transfers money to this fund for investing in the share capital of apex and central co-operative institutions. It acts as the primary mechanism through which the Government provides long-term financial support to the co-operative credit structure.

The main objective of the Principal State Partnership Fund is to strengthen higher-level co-operative institutions so that they can provide financial assistance and guidance to affiliated primary societies. By investing in apex and central co-operatives, the Government ensures that these institutions remain financially sound and capable of supporting rural credit, agricultural development, and other co-operative activities.

Objectives

- Strengthen apex and central co-operative institutions.
- Provide long-term financial assistance.
- Improve the financial health of the co-operative credit system.
- Promote agricultural and rural development.



- Facilitate government participation in co-operative financing.

3. Subsidiary State Partnership Fund (SSPF)

The Subsidiary State Partnership Fund is established by apex or central co-operative institutions using the money received from the Principal State Partnership Fund. The purpose of this fund is to extend Government financial assistance to primary co-operative societies by investing in their share capital.

This arrangement creates a channel through which Government funds reach the grassroots level. It ensures that primary agricultural credit societies, marketing societies, consumer co-operatives, and other local co-operative institutions receive adequate financial support for their development. The Subsidiary State Partnership Fund helps improve the capital structure of primary societies and enables them to expand their services to members.

Objectives

- Transfer State financial assistance to primary societies.
- Improve the capital base of grassroots co-operatives.
- Strengthen rural credit institutions.
- Ensure balanced development of the co-operative movement.
- Promote efficient functioning of primary societies.

4. Grants

Grants are financial assistance provided by the Government, public institutions, or development agencies without any obligation of repayment. Unlike loans, grants do not create a financial liability for the recipient society. They are usually sanctioned for specific developmental purposes and are subject to prescribed conditions.

Grants are commonly provided for constructing office buildings, warehouses, cold storage facilities, purchasing office equipment, conducting member education programmes, organising training sessions, implementing digital technologies, and carrying out welfare activities. Since grants need not be repaid, they reduce the financial burden on co-operative societies and encourage developmental activities that may not generate immediate profits.

Uses of Grants

- Construction of buildings and infrastructure.
- Member education and training programmes.
- Computerisation and modernisation.
- Research and development activities.
- Social welfare and community development projects.

5. Subsidies

Subsidies are financial incentives provided by the Government to reduce the cost of specific economic activities undertaken by co-operative societies. They are intended

to encourage investment, improve productivity, and promote sectors that contribute to economic development and public welfare.

Subsidies may be provided for purchasing agricultural machinery, establishing processing units, adopting renewable energy, implementing irrigation projects, procuring fertilisers and seeds, promoting exports, or introducing modern technology. By reducing production and operational costs, subsidies enable co-operative societies to offer better services to members at affordable prices and improve their competitiveness in the market.

Advantages of Subsidies

- Reduces operational and production costs.
- Encourages modernisation and technological development.
- Improves profitability of co-operatives.
- Supports rural and agricultural development.
- Benefits economically weaker sections through lower prices.

6. Owned Funds

Owned funds refer to the funds that belong permanently to the co-operative society and do not require repayment. These funds represent the society's own financial resources and constitute its permanent capital. Owned funds provide financial independence and improve the long-term stability of the organisation.

Owned funds include share capital contributed by members, reserve funds, statutory reserves, retained earnings, accumulated surplus, building funds, and other internally generated funds. A society with a strong owned fund position can meet its long-term financial needs, invest in new projects, absorb unexpected losses, and reduce dependence on borrowed funds. Financial institutions also consider the level of owned funds while evaluating the creditworthiness of a co-operative society.

Components of Owned Funds

- Members' share capital.
- Reserve Fund.
- Statutory reserves.
- Building Fund.
- Retained earnings.
- Accumulated surplus and other internal reserves.

Importance

- Provides permanent financial support.
- Improves financial stability.
- Enhances borrowing capacity.
- Reduces dependence on external finance.
- Helps meet long-term investment needs.



7. Borrowed Funds

Borrowed funds are funds obtained from external sources for a specified period and must be repaid with interest. Since owned funds alone are often insufficient to meet the growing financial needs of co-operative societies, borrowed funds play an important role in financing business operations, working capital requirements, and expansion projects.

Co-operative societies obtain borrowed funds from co-operative banks, commercial banks, NABARD, State and Central Governments, financial institutions, public deposits (where permitted), and by issuing debentures. Borrowed funds provide flexibility in financing large-scale projects and seasonal business activities. However, societies must manage these funds efficiently because failure to repay loans on time may affect their financial stability and reputation.

Sources of Borrowed Funds

- Co-operative Banks.
- Commercial Banks.
- NABARD.
- State Government loans.
- Central Government assistance.
- Financial institutions.
- Public deposits.
- Debentures and bonds (where applicable).

Importance

- Meets working capital requirements.
- Supports expansion and modernisation.
- Finances seasonal business operations.
- Helps undertake large development projects.
- Enables timely availability of finance.

State aid is an indispensable source of finance for co-operative societies. Government assistance through share capital contribution, Principal State Partnership Fund, Subsidiary State Partnership Fund, grants, and subsidies strengthens the financial foundation of co-operatives and promotes their sustainable growth. Along with owned funds and borrowed funds, these financial resources enable co-operative societies to expand their operations, improve member services, achieve financial stability, and contribute significantly to rural development, employment generation, and inclusive economic growth.

Recap

- ◇ State Aid to Co-operatives refers to financial assistance provided by the government to strengthen the financial position and development of co-operative societies.
- ◇ Share Capital Contribution is the capital invested by the State Government in a co-operative society to strengthen its owned funds.
- ◇ Principal State Partnership Fund represents the State Government's contribution to the share capital of co-operative institutions as part of its partnership with the co-operative sector.
- ◇ Subsidiary State Partnership Fund provides additional financial support to eligible co-operative societies, particularly for strengthening their capital base.
- ◇ Grants and Subsidies are financial assistance provided by the government for specific developmental purposes and generally do not create a repayment obligation.
- ◇ Owned Funds include members' share capital, reserves, statutory funds and other internal funds belonging to the co-operative society.
- ◇ Borrowed Funds are funds raised from external sources such as banks, financial institutions and other co-operative institutions and are repayable according to agreed terms.

Objective Questions

1. Which fund is maintained by the State Government to invest in the share capital of apex co-operative institutions?
2. Which fund is created by apex or central co-operative societies from the Principal State Partnership Fund?
3. What is the financial assistance provided by the Government without repayment called?
4. What is the financial incentive provided by the Government to reduce the cost of specific activities called?
5. Which type of fund includes share capital and reserves?
6. Which type of fund must be repaid with interest?
7. Which institution generally provides refinance to co-operative credit institutions in India?
8. Which source of finance belongs permanently to the co-operative society?
9. What is the collective term for financial assistance provided by the Government to co-operative societies?



Answers

1. Principal State Partnership Fund (PSPF).
2. Subsidiary State Partnership Fund (SSPF).
3. Grant.
4. Subsidy.
5. Owned Funds.
6. Borrowed Funds.
7. NABARD.
8. Owned Funds.
9. State Aid.

Self-Assessment Questions

1. What are the major sources of funds available to co-operative societies?
2. Explain the different forms of State aid provided to co-operative societies.
3. Distinguish between the Principal State Partnership Fund (PSPF) and the Subsidiary State Partnership Fund (SSPF).
4. Differentiate between owned funds and borrowed funds.
5. Discuss the importance of grants and subsidies in the development of co-operative societies.

Assignments

1. Explain the various sources of funds available to co-operative societies.
2. Discuss the different forms of State aid provided to co-operative societies and their importance.
3. Compare owned funds and borrowed funds with suitable examples.

4. Examine the role of the Principal State Partnership Fund (PSPF) and the Subsidiary State Partnership Fund (SSPF) in strengthening co-operative societies.
5. Analyze the significance of grants and subsidies in promoting the growth and development of co-operative societies.

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3 BLOCK

Co-operative Book Keeping

Unit

Books in co-operatives

Learning Outcomes

After studying this unit, the learner will be able to:

- ◇ explain the meaning and importance of Books of Original Entry in cooperative societies.
- ◇ know purpose and features of the Journal.
- ◇ identify and prepare different types of day books used in cooperatives.
- ◇ explain the meaning and importance of the Cash Book.
- ◇ distinguish between different types of cash books.
- ◇ prepare a Triple Column Cash Book by recording transactions accurately.

Prerequisites

Every cooperative society carries out several financial transactions every day, such as receiving cash, making payments, purchasing goods, and selling products. To maintain transparency and accountability, these transactions must be recorded systematically. The first record of every financial transaction is made in the Books of Original Entry.

This unit introduces the basic books used for recording transactions in cooperative societies. It explains the purpose and preparation of journals, different types of day books, and various types of cash books. Special attention is given to the Triple Column Cash Book, which records cash, bank, and discount transactions in a single book. A clear understanding of these books helps ensure accurate accounting and efficient financial management in cooperative societies.

Keywords

Books of Original Entry, Journal, Journal Entry, Day Book, Purchase Day Book, Sales Day Book, Purchase Returns Book, Sales Returns Book, Cash Book

Discussion

3.1.1 Daily journal

The Golden Rules of Accounting are the traditional rules used to identify whether an account should be debited or credited while recording business transactions. These rules classify accounts into Personal Accounts, Real Accounts, and Nominal Accounts.

Golden rules of accounting

Table. 3.1.1

Type of Account	Rule	Example	Journal Entry
Personal Account	Debit the Receiver, Credit the Giver	Paid salary to Mr. Arun	Mr. Arun A/c Dr. To Cash A/c
Real Account	Debit What Comes In, Credit What Goes Out	Purchased furniture for cash	Furniture A/c Dr. To Cash A/c
Nominal Account	Debit All Expenses and Losses, Credit All Incomes and Gains	Paid rent in cash	Rent A/c Dr. To Cash A/c

The table explains the three types of accounts and the rule applicable to each. A Personal Account follows the rule "Debit the Receiver and Credit the Giver." A Real Account follows the rule "Debit What Comes In and Credit What Goes Out." A Nominal Account follows the rule "Debit All Expenses and Losses and Credit All Incomes and Gains." These rules serve as the basis for recording transactions in the journal.

Modern Rules of debit and credit

The Modern Rules of Debit and Credit are based on the accounting equation. Under this approach, all accounts are classified into Assets, Liabilities, Capital (Equity), Revenue, and Expenses. These rules make it easier to understand the effect of each transaction on the financial position of an organization, including cooperative societies.

Table 3.1.2

Account Category	Increase	Decrease	Example
Assets	Debit	Credit	Cash in hand, Bank Balance, Office Equipment
Liabilities	Credit	Debit	Loan from District Cooperative Bank, Outstanding Expenses
Capital (Equity)	Credit	Debit	Members' Share Capital
Revenue (Income)	Credit	Debit	Interest on Loans, Commission Income, Service Charges
Expenses	Debit	Credit	Salary, Rent, Electricity Charges, Printing Expenses

The table shows how an increase or decrease in each type of account is recorded. An increase in assets and expenses is debited, while a decrease is credited. On the other hand, an increase in liabilities, capital, and revenue is credited, while a decrease is debited. These rules ensure that every transaction maintains the balance of the accounting equation and forms the basis of the double-entry system.

Illustration 1

Prepare journal for the following data:

01-04-20XX: The cooperative society commenced business with cash of ₹5,00,000 contributed by members as share capital.

03-04-20XX: Deposited ₹2,00,000 into the bank.

05-04-20XX: Purchased office furniture for ₹40,000 and paid by cheque.

08-04-20XX: Purchased office stationery for cash ₹5,000.

10-04-20XX: Granted a loan to member Mr. Arun by cheque for ₹1,00,000.

15-04-20XX: Received loan repayment from Mr. Arun in cash ₹20,000.

18-04-20XX: Received interest on loan from Mr. Arun in cash ₹2,000.

22-04-20XX: Paid office rent in cash ₹8,000.



25-04-20XX: Paid salary to office staff by cheque ₹15,000.

30-04-20XX: Received commission income in cash ₹3,000.

Journal

Table 3.1.3.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
01-04-20XX	Cash A/c Dr. To Members' Share Capital A/c (<i>Being share capital introduced by members</i>)		5,00,000	5,00,000
03-04-20XX	Bank A/c Dr. To Cash A/c (<i>Being cash deposited into bank</i>)		2,00,000	2,00,000
05-04-20XX	Furniture A/c Dr. To Bank A/c (<i>Being office furniture purchased by cheque</i>)		40,000	40,000
08-04-20XX	Stationery Expense A/c Dr. To Cash A/c (<i>Being stationery purchased for cash</i>)		5,000	5,000
10-04-20XX	Loan to Mr. Arun A/c Dr. To Bank A/c (<i>Being loan granted to Mr. Arun by cheque</i>)		1,00,000	1,00,000
15-04-20XX	Cash A/c Dr. To Loan to Mr. Arun A/c (<i>Being part repayment of loan received in cash</i>)		20,000	20,000
18-04-20XX	Cash A/c Dr. To Interest on Loan A/c (<i>Being interest on loan received in cash</i>)		2,000	2,000

22-04-20XX	Rent Expense A/c Dr. To Cash A/c (<i>Being office rent paid in cash</i>)	8,000	8,000
25-04-20XX	Salary Expense A/c Dr. To Bank A/c (<i>Being salary paid by cheque</i>)	15,000	15,000
30-04-20XX	Cash A/c Dr. To Commission Income A/c (<i>Being commission income received in cash</i>)	3,000	3,000

Illustration 2

Prepare journal for the following data

02-05-20XX: The cooperative society received ₹3,00,000 from members as share capital through the bank.

04-05-20XX: Purchased office computer for ₹50,000 by cheque.

08-05-20XX: Received interest on loans from members in cash ₹7,500.

12-05-20XX: Paid electricity charges by cheque ₹4,500.

18-05-20XX: Purchased office supplies for cash ₹3,200.

22-05-20XX: Received service charges from members in cash ₹6,000.

30-05-20XX: Paid audit fees by cheque ₹10,000.



Table 3.1.3

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
02-05-20XX	Bank A/c Dr.To Members' Share Capital A/c(<i>Being share capital received from members through bank</i>)		3,00,000	3,00,000
04-05-20XX	Computer A/c Dr.To Bank A/c(<i>Being office computer purchased by cheque</i>)		50,000	50,000
08-05-20XX	Cash A/c Dr.To Interest on Loans A/c(<i>Being interest on loans received in cash</i>)		7,500	7,500
12-05-20XX	Electricity Charges A/c Dr.To Bank A/c(<i>Being electricity charges paid by cheque</i>)		4,500	4,500
18-05-20XX	Office Supplies A/c Dr.To Cash A/c(<i>Being office supplies purchased for cash</i>)		3,200	3,200
22-05-20XX	Cash A/c Dr.To Service Charges Income A/c(<i>Being service charges received from members in cash</i>)		6,000	6,000
30-05-20XX	Audit Fees A/c Dr.To Bank A/c(<i>Being audit fees paid by cheque</i>)		10,000	10,000

3.1.2 Subdivision of Journal

As the number of business transactions increases, recording all transactions in a single journal becomes difficult and time-consuming. To make accounting more systematic, efficient, and accurate, the journal is divided into different books based on the nature of transactions. This process is known as the subdivision of the journal or subdivision of books of original entry.

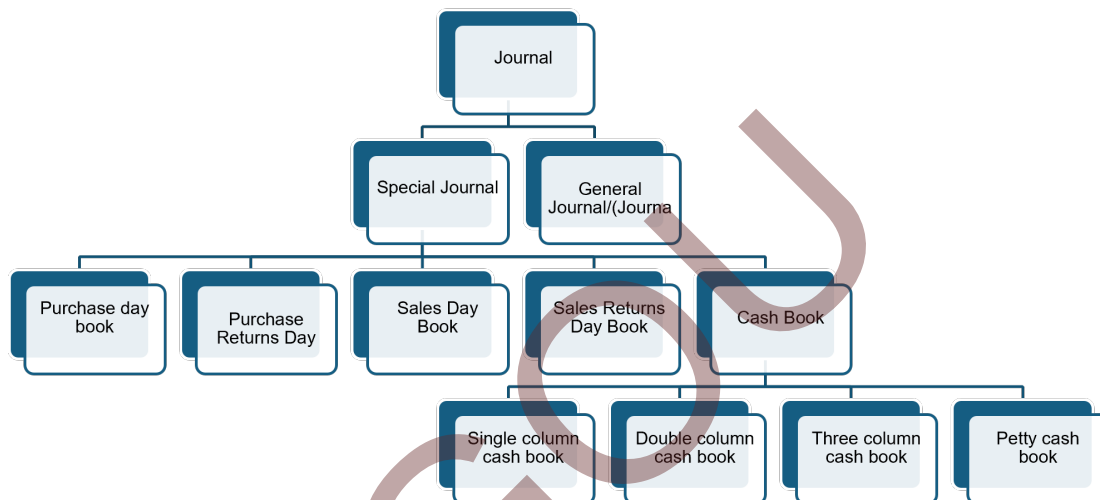
The subdivision of the journal helps in the quick recording of transactions, division of work among accounting staff, easy verification of entries, and speedy preparation

of financial statements. In cooperative societies, where transactions such as purchases, sales, receipts, and payments occur regularly, maintaining different journals improves the efficiency of accounting records.

The journal is broadly classified into two categories:

1. Special Journal
2. General Journal (Journal Proper)

The classification is shown below.



3.1.2.1 Special Journal

A Special Journal is a book of original entry used to record specific types of repetitive transactions. Instead of recording every transaction in one journal, transactions of a similar nature are entered into separate books. This reduces the workload and makes accounting more efficient.

For example, all credit purchases are recorded in the Purchase Day Book, while all credit sales are recorded in the Sales Day Book.

Features of Special Journal

- Records only a specific category of transactions.
- Suitable for organizations having a large number of transactions.
- Saves time and effort in recording entries.
- Facilitates division of accounting work.
- Reduces errors and duplication.
- Simplifies posting to ledger accounts.

Types of Special Journals

- The important special journals are:
- Purchase Day Book
- Purchase Returns Day Book
- Sales Day Book
- Sales Returns Day Book
- Cash Book

Each of these books records a specific type of transaction and serves as a book of original entry.

3.1.2.2 General Journal (Journal Proper)

The General Journal, also known as the Journal Proper, is used to record transactions that cannot be recorded in any of the special journals. These transactions are generally infrequent or unique in nature.

Examples include:

- Opening entries
- Closing entries
- Rectification entries
- Adjustment entries
- Transfer entries
- Depreciation entries
- Bad debts written off
- Purchase or sale of fixed assets on credit (where appropriate)

Features of General Journal

- Records miscellaneous transactions.
- Used when no special journal is applicable.
- Follows the standard journal format.
- Provides complete narration for every transaction.
- Acts as a supplementary book to the special journals.

Purchase Day Book

The Purchase Day Book is a special journal used to record credit purchases of goods meant for resale. Cash purchases and purchases of fixed assets are not recorded in this book.

- Transactions Recorded
- Credit purchase of goods

- Purchases from suppliers on credit

Transactions Not Recorded

- Cash purchases
- Purchase of furniture, machinery, computers, buildings, etc.
- Purchase returns

Advantages

- Saves time in recording credit purchases.
- Simplifies ledger posting.
- Helps monitor purchases from suppliers.

Purchase Returns Day Book

The Purchase Returns Day Book, also known as the Returns Outward Book, records goods returned to suppliers that were originally purchased on credit.

Transactions Recorded

- Return of defective goods
- Return of excess goods purchased on credit

Sales Day Book

The Sales Day Book records credit sales of goods. Cash sales are not entered in this book.

Transactions Recorded

- Credit sales to customers.

Transactions Not Recorded

- Cash sales.
- Sale of fixed assets.
- Sales returns.

Sales Returns Day Book

The Sales Returns Day Book, also known as the Returns Inward Book, records goods returned by customers that were originally sold on credit.

Transactions Recorded

- Goods returned by customers.
- Sales returns due to defects or wrong supply.

Cash Book

A Cash Book is a special journal used to record all cash and bank transactions of an organization. It serves both as a book of original entry and a ledger account because it records transactions directly affecting cash and bank balances.



The Cash Book is one of the most important accounting books maintained by cooperative societies, as it provides a complete record of all receipts and payments.

Features of Cash Book

- Records cash and bank transactions.
- Maintains daily cash balance.
- Acts as both a journal and a ledger.
- Helps control cash and bank balances.
- Facilitates preparation of financial statements.

Types of Cash Book

The Cash Book is classified into four types:

1. Single Column Cash Book
 - Contains only one amount column for cash.
 - Records only cash receipts and cash payments.
 - Suitable for small organizations with simple cash transactions.
2. Double Column Cash Book
 - Contains two amount columns, generally Cash and Bank (or Cash and Discount).
 - Records both cash and bank transactions in the same book.
 - Widely used by organizations maintaining bank accounts.
3. Triple Column Cash Book
 - Contains three amount columns: Cash, Bank, and Discount.
 - Records cash receipts, cash payments, bank transactions, and discounts allowed or received.
 - Includes contra entries when cash is deposited into or withdrawn from the bank.
4. Petty Cash Book
 - Used to record small and routine expenses.
 - Maintained by the petty cashier.
 - Usually operated under the Imprest System, where a fixed amount is periodically provided to meet minor expenses.

Examples of petty expenses include:

- Postage
- Courier charges
- Local conveyance
- Refreshments

- Stationery
- Photocopying expenses

Illustration 3

Prepare the Purchase Day Book of *ABC Cooperative Society* from the following transactions for the month of April 20XX.

Apr. 02: Purchased goods from M/s Bright Traders on credit worth ₹25,000.

Apr. 05: Purchased goods from M/s National Suppliers on credit worth ₹18,500.

Apr. 10: Purchased furniture for office use from Modern Furniture House for ₹12,000 on credit.

Apr. 15: Purchased goods from M/s Green Agencies on credit worth ₹32,000.

Apr. 22: Purchased goods from M/s Bright Traders on credit worth ₹15,000.

Apr. 28: Purchased goods for cash worth ₹8,000.

Solution

Purchase Day Book

Table 3.1.4

Date	Supplier's Name	Invoice No	L.F.	Amount (₹)
Apr. 02	Bright Traders			25,000
Apr. 05	National Suppliers			18,500
Apr. 15	Green Agencies			32,000
Apr. 22	Bright Traders			15,000
Total				90,500

Note: Only credit purchases of goods for resale are recorded in the Purchase Day Book. Therefore, the credit purchase of furniture and the cash purchase of goods are excluded.

Illustration 4

Prepare the Purchase Returns Day Book of ABC Cooperative Society from the following transactions.

May 04: Returned defective goods worth ₹3,000 to Bright Traders.

May 08: Returned goods worth ₹2,500 to National Suppliers due to poor quality.

May 12: Returned office chair worth ₹1,500 to Modern Furniture House.



May 18: Returned excess goods worth ₹4,000 to Green Agencies.

May 25: Returned goods purchased for cash worth ₹1,200.

Solution

Purchase Returns Day Book

Table 3.1.5

Date	Supplier's Name	Debit Note No.	L.F.	Amount (₹)
May 04	Bright Traders			3,000
May 08	National Suppliers			2,500
May 18	Green Agencies			4,000
Total				9,500

Note: The Purchase Returns Day Book records only goods returned to suppliers that were originally purchased on credit. Returns of fixed assets and goods purchased for cash are not recorded in this book.

Illustration 5

Prepare the Sales Day Book of Astra Cooperative Society from the following transactions for the month of June 20XX.

June 03: Sold goods on credit to M/s Sunrise Stores for ₹28,000.

June 06: Sold goods on credit to M/s Green Mart for ₹16,500.

June 10: Sold an old office computer to Mr. Rahul on credit for ₹12,000.

June 15: Sold goods on credit to M/s City Traders for ₹35,000.

June 20: Sold goods for cash worth ₹10,000.

June 25: Sold goods on credit to M/s Sunrise Stores for ₹14,500.

Solution

Sales Day Book

Table 3.1.6

Date	Customer's Name	Invoice No.	L.F.	Amount (₹)
June 03	Sunrise Stores	201		28,000
June 06	Green Mart	215		16,500
June 15	City Traders	228		35,000
June 25	Sunrise Stores	245		14,500
Total				94,000

Note: The Sales Day Book records only credit sales of goods. Cash sales and sales of fixed assets are not entered in this book.

Illustration 6

Prepare the Sales Returns Day Book of Astra Cooperative Society from the following transactions for the month of July 20XX.

July 04: M/s Sunrise Stores returned goods worth ₹2,500 due to defects.

July 09: M/s Green Mart returned goods worth ₹1,800 because of excess supply.

July 14: Mr. Rahul returned the office computer sold on credit.

July 18: M/s City Traders returned goods worth ₹3,200 due to damage.

July 24: Goods sold for cash worth ₹1,000 were returned.

Solution

Sales Returns Day Book

Table 3.1.7

Date	Customer's Name	Credit Note No.	L.F.	Amount (₹)
July 04	Sunrise Stores	CN-01		2,500
July 09	Green Mart	CN-02		1,800
July 18	City Traders	CN-03		3,200
Total				7,500



Note: The Sales Returns Day Book records only goods returned by customers that were originally sold on credit. Returns of fixed assets and goods sold for cash are not recorded in this book.

Illustration 7

Prepare a Three Column Cash Book of Bosh Co-operative Society from the following transactions for the month of August 20XX.

Aug. 01: Cash in hand ₹30,000; Bank balance ₹70,000.

Aug. 03: Received cash from Mr. Arun ₹9,800 and allowed him a discount of ₹200.

Aug. 06: Paid to M/s Bright Traders by cheque ₹14,700 and received a discount of ₹300.

Aug. 10: Deposited cash into bank ₹12,000.

Aug. 15: Withdrew cash from bank for office use ₹5,000.

Aug. 18: Received commission by cheque ₹4,000.

Aug. 25: Paid office rent in cash ₹3,500.

Solution

Three Column Cash Book of Bosh Cooperative Society for August 20XX

Table 3.1.7

Date	Particulars	L.F.	Dis count (₹)	Cash (₹)	Bank (₹)	Date	Particulars	L.F.	Dis count (₹)	Cash (₹)	Bank (₹)
Aug 1	To Balance b/d			30,000	70,000	Aug 6	By Bright Traders		300	14,700	
Aug 3	To Arun		200	9,800		Aug 10	By Bank A/c (C)			12,000	
Aug 10	To Cash A/c (C)			12,000		Aug 15	By Cash A/c (C)			5,000	
Aug 15	To Bank A/c (C)			5,000		Aug 25	By Rent A/c			3,500	
Aug 18	To Commission A/c				4,000	Aug 31	By Balance c/d			29,300	66,300
	Total		200	44,800	86,000		Total		300	44,800	86,000
	Balance b/d			29,300	66,300						

Illustration 8

Prepare a Three Column Cash Book of ABC Cooperative Society from the following transactions for September 20XX.

Transactions

Sept. 01: Cash in hand ₹25,000; Bank balance ₹90,000.

Sept. 04: Received cash from Mr. Ramesh ₹7,900 and allowed a discount of ₹100.

Sept. 08: Purchased office furniture by cheque ₹18,000.

Sept. 12: Cash deposited into bank ₹10,000.

Sept. 17: Paid electricity charges by cheque ₹2,500.

Sept. 22: Received interest on investment directly into the bank ₹3,500.

Sept. 27: Paid salary in cash ₹6,000.

Solution

Three Column Cash Book

Date	Particulars	L.F.	Discount Allowed	Cash (Dr)	Bank (Dr)	Date	Particulars	L.F.	Discount Received (Cr)	Cash (Cr)	Bank (Cr)
Sept. 01	To Balance b/d			25,000	90,000	Sept. 08	By Furniture (cheque)				18,000
Sept. 04	To Mr. Ramesh (cash)		100	7,900		Sept. 12	By Cash (deposited)			10,000	
Sept. 12	To Cash (deposited)	C		10,000		Sept. 17	By Electricity (cheque)				2,500
Sept. 22	To Interest (bank)				3,500	Sept. 27	By Salary (cash)			6,000	
	Total		100	42,900	1,03,500	Sept. 30	By Balance c/d			16,900	83,000
Oct. 01	To Balance b/d			16,900	83,000	Total			Nil	32,900	1,03,500

Note:

(C) denotes a Contra Entry, representing the transfer of funds between the cash account and the bank account.



Recap

- ◇ Books of Original Entry are the first books in which business transactions are recorded.
- ◇ A journal records transactions in chronological order using the double-entry system.
- ◇ The journal is broadly classified into Special Journal and General Journal (Journal Proper).
- ◇ Special journals help in recording repetitive transactions separately.
- ◇ The Purchase Day Book records only credit purchases of goods.
- ◇ The Purchase Returns Day Book records goods returned to suppliers that were originally purchased on credit.
- ◇ The Sales Day Book records only credit sales of goods.
- ◇ The Sales Returns Day Book records goods returned by customers that were originally sold on credit.
- ◇ A Cash Book serves as both a Book of Original Entry and a Ledger Account.
- ◇ A Three Column Cash Book contains Cash, Bank, and Discount columns and records contra entries.

Objective Questions

1. Which book is known as the Book of Original Entry?
2. Into how many broad categories is the journal subdivided?
3. Which book records only the credit purchases of goods?
4. Which subsidiary book is also known as the Returns Outward Book?
5. Which book records only the credit sales of goods?
6. Which subsidiary book is also known as the Returns Inward Book?
7. Which book serves as both a Book of Original Entry and a Ledger Account?
8. Which type of Cash Book contains Cash, Bank, and Discount columns?
9. What is the name of the journal used to record transactions that cannot be entered in any special journal?
10. What is the name of the entry made when cash is deposited into or withdrawn from the bank?

Answers

1. Journal
2. Two (Special Journal and General Journal)
3. Purchase Day Book
4. Purchase Returns Day Book
5. Sales Day Book
6. Sales Returns Day Book
7. Cash Book
8. Three Column Cash Book
9. General Journal (Journal Proper)
10. Contra Entry

Self- Assessment Questions

1. Explain the meaning and features of Books of Original Entry
2. Explain the Features and describe the different transaction recorded in the cash book

Assignments

1. Prepare the Journal from the following transactions:
 - Commenced business with cash ₹4,00,000.
 - Purchased furniture for cash ₹30,000.
 - Paid office rent ₹8,000.
 - Received commission ₹5,000.
 - Purchased goods on credit from Bright Traders ₹40,000.



2. Prepare the Purchase Day Book from the following transactions:
 - Purchased goods on credit from Alpha Traders ₹20,000.
 - Purchased office table on credit ₹8,000.
 - Purchased goods on credit from Beta Agencies ₹15,000.
 - Purchased goods for cash ₹5,000.
 - Purchased goods on credit from Gamma Suppliers ₹18,000.
3. Prepare the Purchase Returns Day Book from the following transactions:
 - Returned goods to Alpha Traders ₹2,000.
 - Returned goods to Beta Agencies ₹1,500.
 - Returned office table ₹1,000.
 - Returned goods to Gamma Suppliers ₹3,000.
4. Prepare the Sales Day Book from the following transactions:
 - Sold goods on credit to Arun Stores ₹18,000.
 - Sold goods on credit to Modern Traders ₹25,000.
 - Sold office computer ₹12,000 on credit.
 - Sold goods for cash ₹8,000.
 - Sold goods on credit to City Mart ₹15,000.
5. Prepare the Sales Returns Day Book from the following transactions:
 - Arun Stores returned goods ₹2,000.
 - Modern Traders returned goods ₹1,500.
 - City Mart returned goods ₹2,500.
6. Prepare a Three Column Cash Book from the following transactions:
 - Opening Cash ₹20,000; Bank ₹50,000.
 - Received cash from Raj ₹9,900 and allowed discount ₹100.
 - Paid Suresh by cheque ₹7,800 and received discount ₹200.
 - Deposited cash into bank ₹8,000.
 - Paid salary in cash ₹5,000.
 - Received interest by cheque ₹2,500.
7. Prepare a Three Column Cash Book from the following transactions:
 - Opening Cash ₹15,000; Bank ₹60,000.
 - Received cash from Thomas ₹5,900 and allowed discount ₹100.
 - Purchased office equipment by cheque ₹12,000.
 - Withdraw cash from bank for office use ₹4,000.

- Paid electricity charges by cheque ₹3,000.
- Deposited cash into bank ₹6,000.
- Paid carriage charges in cash ₹1,500.

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Unit

Ledgers in Co-Operatives

Learning Outcomes

After studying this unit, learners will be able to:

- ◇ explain the meaning and importance of a ledger in the accounting system of co-operative societies.
- ◇ get an awareness on the concept and purpose of the General Ledger.
- ◇ record and post journal entries into the General Ledger accurately.
- ◇ identify the different types of ledgers maintained in cooperative societies.
- ◇ explain the meaning, purpose, and maintenance of Subsidiary Ledgers.
- ◇ distinguish between the General Ledger and Subsidiary Ledgers.

Prerequisites

In the previous unit, learners studied the Books of Original Entry, including the Journal, Special Journals, and the Cash Book, and learned how business transactions are recorded for the first time using the rules of debit and credit. Although transactions are initially recorded in these books, the accounting process does not end there. To classify, summarize, and ascertain the balances of individual accounts, these transactions must be transferred to the appropriate ledger accounts through the process of posting. This unit builds on the knowledge acquired in the previous unit by introducing the concept of ledgers, the different types of ledgers maintained in cooperative societies, the procedure for posting journal entries to the General Ledger, the role of Subsidiary Ledgers, and the reconciliation of subsidiary ledger balances with the General Ledger. A clear understanding of this unit is essential for preparing the Trial Balance and the financial statements in the subsequent units.

Keywords

Ledger, General Ledger, Posting, Ledger Account, Subsidiary Ledger, Special Ledger, Debtors Ledger

Discussion

3.2.1 General Ledger

In the previous unit, learners studied how business transactions are first recorded in the Books of Original Entry, such as the Journal, Purchase Day Book, Sales Day Book, Purchase Returns Day Book, Sales Returns Day Book, and Cash Book. While these books record transactions in chronological order, they do not show the complete history or balance of an individual account. To classify and summarize transactions relating to each account, they are transferred to another book known as the Ledger. This process is called posting.

The General Ledger is the principal accounting book of a cooperative society. It contains all the accounts required for preparing the Trial Balance and the financial statements. Every transaction recorded in the books of original entry is eventually posted to the appropriate ledger accounts.

Features of General Ledger

The important features of a General Ledger are:

- It is the principal book of accounts.
- It contains all personal, real, and nominal accounts.
- Transactions are transferred from the Books of Original Entry through posting.
- Each account is maintained separately.
- It helps ascertain the balance of each account.
- It forms the basis for preparing the Trial Balance.
- It facilitates the preparation of financial statements.
- It provides a permanent record of all accounting transactions.

Objectives of Maintaining a General Ledger

- The General Ledger is maintained to:
- Classify transactions under appropriate accounts.
- Determine the balance of each account.



- Provide information for preparing the Trial Balance.
- Facilitate the preparation of financial statements.
- Detecting errors in accounting records.
- Maintain systematic and complete accounting records.

Advantages of General Ledger

- The General Ledger offers several advantages:
- Provides complete information about each account.
- Helps determine balances at any time.
- Facilitates the preparation of Trial Balance.
- Assists in preparing financial statements.
- Simplifies auditing and verification.
- Supports effective financial decision-making.
- Ensures systematic maintenance of accounting records.

Format of a General Ledger Account

A ledger account is generally maintained in the 'T' format.

Date	Particulars	JF	Amount	Date	Particulars	J.F	Amount
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3.1.2.1 Posting Entries into the General Ledger

Posting is the process of transferring entries from the Books of Original Entry to their respective ledger accounts. Every debit entry recorded in the journal is posted to the debit side of the concerned ledger account, and every credit entry is posted to the credit side of the corresponding ledger account.

Posting groups similar transactions under one account, making it easier to determine the balance of each account.

Rules for Posting

The following rules should be followed while posting entries into the General Ledger:

1. Every journal entry should be posted to the appropriate ledger accounts.
2. Debit entries are posted to the debit side of the concerned account.
3. Credit entries are posted to the credit side of the concerned account.
4. The corresponding account name should be written in the particulars column.
5. The date of the journal entry should be entered correctly.
6. The Journal Folio (J.F.) should be recorded for reference.
7. After posting all entries, each ledger account should be balanced.

Steps in Posting

The posting process involves the following steps:

Step 1: Identify the debit and credit accounts from the journal entry.

Step 2: Open separate ledger accounts for each account.

Step 3: Post the debit entry on the debit side of the concerned account.

Step 4: Post the credit entry on the credit side of the corresponding account.

Step 5: Enter the date, particulars, Journal Folio (J.F.), and amount.

Step 6: Repeat the process for all journal entries.

Step 7: Balance each ledger account at the end of the accounting period.

Illustration 1

The following transactions were recorded in the Journal of ABC Cooperative Society. Prepare necessary ledger accounts

Journal

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
01-04-20XX	Cash A/c Dr.		1,00,000	
	To Members' Share Capital A/c			1,00,000
03-04-20XX	Furniture A/c Dr.		20,000	
	To Cash A/c			20,000
05-04-20XX	Rent A/c Dr.		5,000	
	To Cash A/c			5,000

Solution

Cash Account

Date	Particulars	JF	Amount	Date	Particulars	J.F	Amount
01/04/20XX	Member's share capital		100000	03/04/20XX	Furniture		20000
				05/04/20XX	Rent		5000
					Balance c/d		75000
			100000				100000
	Balance b/d		75000				



Members' Share Capital Account

Date	Particulars	JF	Amount	Date	Particulars	J.F	Amount
	Balance c/d			01/04/20XX	Cash		100000
			100000				
			100000				100000
					Balance b/d		100000

Furniture Account

Date	Particulars	JF	Amount	Date	Particulars	J.F	Amount
	Cash		20000		Balance c/d		20000
			20000				20000
	Balance b/d		20000				

Rent Account

Date	Particulars	JF	Amount	Date	Particulars	J.F	Amount
	Cash		5000		Balance c/d		5000
			5000				5000
	Balance b/d		5000				

3.2.3 Different Types of Ledgers in Co- operative Societies

In a cooperative society, a large number of financial transactions take place every day. These transactions involve members, customers, suppliers, banks, employees, and other stakeholders. Recording all these transactions in a single ledger makes it difficult to locate information related to a particular account. Therefore, cooperative societies maintain different types of ledgers to classify and organize accounting information systematically.

The General Ledger serves as the principal ledger, while several subsidiary ledgers are maintained to record detailed information relating to specific accounts. This classification facilitates easy recording, quick retrieval of information, efficient internal control, and accurate preparation of financial statements.

The major types of ledgers maintained by cooperative societies are:

1. General Ledger
2. Members' Ledger
3. Share Capital Ledger
4. Deposit Ledger

5. Loan Ledger
6. Debtors Ledger
7. Creditors Ledger
8. Fixed Assets Ledger
9. Investment Ledger

Among these, the General Ledger is the principal ledger, whereas the others function as Subsidiary Ledgers.

1. General Ledger

The General Ledger contains the summary of all accounts relating to assets, liabilities, capital, income, and expenses. It acts as the central accounting record from which the Trial Balance and Financial Statements are prepared.

2. Members' Ledger

The Members' Ledger records individual transactions relating to each member of the cooperative society, such as share contributions, loans, repayments, and deposits.

Importance

- Maintains separate accounts for every member.
- Tracks outstanding balances.
- Facilitates member-wise reporting.

3. Share Capital Ledger

The Share Capital Ledger records the amount of share capital subscribed and paid by each member.

4. Deposit Ledger

The Deposit Ledger records deposits received from members, including savings deposits, fixed deposits, and recurring deposits.

5. Loan Ledger

The Loan Ledger records loans sanctioned to members and their repayments, including principal and interest.

6. Debtors Ledger

The Debtors Ledger contains individual accounts of customers who have purchased goods on credit.

7. Creditors Ledger

The Creditors Ledger records individual accounts of suppliers from whom goods are purchased on credit.



8. Fixed Assets Ledger

The Fixed Assets Ledger contains separate accounts for each fixed asset owned by the cooperative society, such as land, buildings, furniture, computers, and machinery.

9. Investment Ledger

The Investment Ledger records investments made by the cooperative society in government securities, fixed deposits, mutual funds, or other approved investments.

3.2.4 Subsidiary Ledgers

A Subsidiary Ledger is a ledger that contains detailed information relating to individual accounts whose summary is maintained in the General Ledger. It supports the General Ledger by providing detailed records of transactions for specific groups such as members, customers, suppliers, deposits, loans, and share capital.

Instead of recording every individual transaction in the General Ledger, the total balances are maintained in the control accounts, while the detailed records are kept in the Subsidiary Ledgers.

Objectives of Subsidiary Ledgers

The objectives of maintaining Subsidiary Ledgers are to:

- Maintain detailed records of individual accounts.
- Reduce the size of the General Ledger.
- Facilitate division of accounting work.
- Improve accuracy in accounting.
- Enable quick retrieval of information.
- Strengthen internal control.
- Assist in reconciliation with control accounts.

Advantages of Subsidiary Ledgers

The advantages of Subsidiary Ledgers include:

- Easy identification of individual account balances.
- Better control over members, debtors, creditors, deposits, and loans.
- Faster preparation of reports.
- Reduced chances of accounting errors.
- Convenient auditing and verification.
- Simplified reconciliation with the General Ledger.

Difference Between General Ledger and Subsidiary Ledger

Basis	General Ledger	Subsidiary Ledger
Meaning	Principal ledger containing summary accounts	Ledger containing detailed individual accounts
Purpose	Summarizes all financial transactions	Maintains detailed records of individual accounts
Scope	Assets, liabilities, capital, income and expenses	Members, debtors, creditors, loans, deposits, etc.
Number of Accounts	Limited	Large number of individual accounts
Use	Preparation of Trial Balance and Financial Statements	Detailed analysis and reconciliation
Relationship	Contains control accounts	Supports the control accounts in the General Ledger

3.2.5 Rectification of Errors

Accounting is a systematic process of recording, classifying, and summarizing financial transactions. However, despite following established accounting principles and procedures, errors may occur during the recording, posting, balancing, or preparation of accounts. These errors may arise due to oversight, misunderstanding of accounting principles, incorrect calculations, or negligence.

If these errors are not identified and corrected promptly, they may affect the accuracy of the Trial Balance and the financial statements, leading to incorrect financial information and poor decision-making. Therefore, it is essential to identify errors and rectify them as early as possible. The process of correcting accounting mistakes is known as Rectification of Errors.

Errors may be broadly classified into:

1. **Errors of Principle**
2. **Clerical Errors**

Rectification of Errors is the process of correcting mistakes made while recording, posting, balancing, or summarizing accounting transactions. The objective of



rectification is to ensure that the books of accounts present a true and fair view of the financial position and operating results of the organization.

Objectives of Rectification of Errors

The main objectives are:

- To ensure the accuracy of accounting records.
- To correct mistakes in books of accounts.
- To prepare an accurate Trial Balance.
- To facilitate the preparation of reliable financial statements.
- To maintain the credibility of accounting information.
- To prevent misstatement of assets, liabilities, income, and expenses.

1. Errors of Principle

An Error of Principle occurs when an accounting transaction is recorded in violation of the fundamental principles of accounting. Such errors arise when a transaction is recorded in the wrong type of account, even though the debit and credit aspects are arithmetically correct.

Errors of principle usually do not affect the agreement of the Trial Balance, because both debit and credit entries are recorded with equal amounts.

Causes of Errors of Principle

Errors of principle may occur due to:

- Lack of knowledge of accounting principles.
- Incorrect classification of accounts.
- Confusion between capital expenditure and revenue expenditure.
- Misinterpretation of accounting concepts.

Examples of Errors of Principle

Example 1

Office furniture costing ₹20,000 is purchased for cash but recorded as Purchases Account instead of Furniture Account.

Wrong Entry

Purchases A/c Dr. ₹20,000
To Cash A/c ₹20,000

Correct Entry

Furniture A/c Dr. ₹20,000
To Cash A/c ₹20,000

Rectification Entry

Furniture A/c Dr. ₹20,000
 To Purchases A/c ₹20,000

Example 2

Repair charges for machinery amounting to ₹5,000 are wrongly debited to Machinery Account instead of Repairs and Maintenance Account.

Wrong Entry

Machinery A/c Dr. ₹5,000
 To Cash A/c ₹5,000

Correct Entry

Repairs and Maintenance A/c Dr. ₹5,000
 To Cash A/c ₹5,000

Rectification Entry

Repairs and Maintenance A/c Dr. ₹5,000
 To Machinery A/c ₹5,000

Features of Errors of Principle

- Arise due to incorrect application of accounting principles.
- Do not affect the equality of debit and credit.
- Trial Balance generally agrees.
- Affect the accuracy of financial statements.

2. Clerical Errors

Clerical Errors are mistakes committed while recording, posting, balancing, or carrying forward accounting figures. These errors generally occur due to carelessness, oversight, or arithmetic mistakes.

Some clerical errors affect the agreement of the Trial Balance, while others do not.

Types of Clerical Errors

Clerical errors are commonly classified into:

1. Errors of Omission
2. Errors of Commission
3. Compensating Errors

A. Errors of Omission

An Error of Omission occurs when a transaction is wholly or partially omitted from the books of accounts.



i. Complete Omission

A transaction is completely omitted from the books.

Example

Goods purchased on credit from Bright Traders for ₹15,000 are not recorded in the journal.

Rectification Entry

Purchases A/c Dr. ₹15,000
To Bright Traders A/c ₹15,000

ii. Partial Omission

The transaction is recorded in the journal but omitted while posting to the ledger.

Example

Salary of ₹8,000 has been entered in the journal but not posted to the Salary Account.

Rectification

Post the omitted entry to the Salary Account.

B. Errors of Commission

An Error of Commission occurs when a transaction is recorded or posted incorrectly due to carelessness. An error of commission occurs when a transaction is recorded, posted, or calculated incorrectly due to clerical mistakes, carelessness, or negligence.

Examples include:

- Posting to the wrong account.
- Posting the wrong amount.
- Posting on the wrong side of an account.
- Incorrect totaling.

Example 1

Cash received from Mr. Arun ₹6,500 is posted to Mr. Arjun's account.

Rectification Entry

Mr. Arun A/c Dr. ₹6,500
To Mr. Arjun A/c ₹6,500

Example 2

Salary paid ₹7,800 is posted as ₹8,700.

Difference = ₹900 (Excess)

Rectification Entry

Cash A/c Dr. ₹900
To Salary A/c ₹900

C. Compensating Errors

Compensating errors occur when the effect of one error is cancelled by another error of equal amount. As a result, the Trial Balance may still agree even though errors exist.

Example

- Purchases Account is overstated by ₹2,000.
- Sales Account is also overstated by ₹2,000.

Since both debit and credit increase equally, the Trial Balance still agrees.

Difference Between Errors of Principle and Clerical Errors

Basis	Errors of Principle	Clerical Errors
Meaning	Errors due to violation of accounting principles	Errors due to carelessness or arithmetic mistakes
Cause	Incorrect classification of accounts	Mistakes in recording, posting, totaling, balancing, or carrying forward
Trial Balance	Usually agrees	May or may not agree
Nature	Conceptual error	Mechanical or arithmetic error
Example	Furniture debited to Purchases Account	Wrong posting or incorrect totaling

Illustration 2

The following errors were identified in the books of ABC Cooperative Society. Pass the rectification entries.

- (Furniture purchased for ₹25,000 was debited to Purchases Account.

Rectification Entry

Particulars	Debit (₹)	Credit (₹)
Furniture A/c Dr.	25,000	
To Purchases A/c		25,000
<i>(Being purchase of furniture wrongly debited to Purchases Account now rectified.)</i>		

- ii. Salary paid ₹12,000 was omitted from the books.

Rectification Entry

Particulars	Debit (₹)	Credit (₹)
Salary A/c Dr.	12,000	
To Cash A/c		12,000
<i>(Being omitted salary payment recorded.)</i>		

- iii. Cash received from Mr. Ramesh ₹10,000 was wrongly credited to Mr. Rajesh's Account.

Rectification Entry

Particulars	Debit (₹)	Credit (₹)
Mr. Rajesh A/c Dr.	10,000	
To Mr. Ramesh A/c		10,000
<i>(Being wrong posting corrected.)</i>		

Illustration 3

The following errors were identified in the books of BCA Cooperative Society during the month of April 20XX. Pass the necessary rectification entries.

1. Furniture costing ₹30,000 purchased for office use was wrongly debited to the Purchases Account.
2. Goods purchased on credit from Bright Traders for ₹25,000 were completely

omitted from the books.

3. Salary paid ₹12,000 was correctly recorded in the Cash Book but was not posted to the Salary Account.
4. Cash received from Mr. Arun ₹8,000 was wrongly credited to the account of Mr. Arjun.
5. Rent paid ₹9,500 was posted to the Rent Account as ₹5,900.
6. Machinery purchased for ₹80,000 was wrongly debited to the Repairs and Maintenance Account.

Solution

Rectification Entries

Particulars	Debit (₹)	Credit (₹)
Furniture A/c Dr. To Purchases A/	30,000	30,000
Purchases A/c Dr. To Bright Traders A/c	25,000	25,000
Mr. Arjun A/c Dr. To Mr. Arun A/c	8,000	8,000
Rent A/c Dr. To Suspense A/c	3,600	3,600
Machinery A/c Dr. To Repairs and Maintenance A/c	80,000	80,000

1. Furniture purchased debited to Purchases Account (Error of Principle)

Particulars	Debit (₹)	Credit (₹)
Furniture A/c Dr.	30,000	
To Purchases A/c		30,000

(Being furniture purchase wrongly debited to Purchases Account now rectified.)



(2) Credit purchase omitted completely (Error of Omission)

Particulars	Debit (₹)	Credit (₹)
Purchases A/c	25,000	
Dr.		25,000
To Bright Traders A/c		
<i>(Being omitted credit purchase now recorded.)</i>		

3. Salary Account not posted (Partial Error of Omission)

Since the transaction was already recorded in the Cash Book, no journal entry is required.

Rectification: Post ₹12,000 to the debit side of the Salary Account.

4. Cash received from Mr. Arun credited to Mr. Arjun (Error of Commission)

Particulars	Debit (₹)	Credit (₹)
Mr. Arjun A/c Dr.	8,000	
To Mr. Arun A/c		8,000
<i>(Being amount wrongly credited to Mr. Arjun instead of Mr. Arun now rectified.)</i>		

5. Rent Account posted with wrong amount (Error of Commission)

Actual amount = ₹9,500

Posted amount = ₹5,900

Difference = ₹3,600

Particulars	Debit (₹)	Credit (₹)
Rent A/c Dr.	3,600	3,600
To Suspense A/c*		
<i>(Being short posting of Rent Account rectified.)</i>		

Note: If the Trial Balance has not yet been prepared, the difference may simply be posted to the Rent Account without using a Suspense Account.

6. Machinery purchase debited to Repairs and Maintenance Account (Error of Principle)

Particulars	Debit (₹)	Credit (₹)
Machinery A/c Dr.	80,000	
To Repairs and Maintenance A/c		80,000
<i>(Being machinery purchase wrongly debited to Repairs and Maintenance Account now rectified.)</i>		

Illustration 4

The following errors were identified in the books of Japamas Cooperative Society during the month of May 20XX. Pass the necessary rectification entries.

- Office building purchased for ₹5,00,000 was wrongly debited to the Purchases Account.
- Credit sales to M/s Green Traders for ₹40,000 were completely omitted from the books.
- Insurance premium of ₹6,000 paid by cheque was correctly entered in the Cash Book but not posted to the Insurance Account.
- Cash received from Mr. Rakesh ₹15,000 was wrongly credited to the account of Mr. Rajesh.
- Carriage Inward paid ₹4,800 was posted to the Carriage Inward Account as ₹8,400.



6. Office equipment purchased for ₹60,000 was wrongly debited to the Office Expenses Account.

Solution

Particulars	Debit (₹)	Credit (₹)
Building A/c Dr.	5,00,000	
To Purchases A/c		5,00,000
<i>(Being office building wrongly debited to Purchases Account now rectified.)</i>		
Green Traders A/c Dr.	40,000	
To Sales A/c		40,000
<i>(Being omitted credit sales now recorded.)</i>		
<i>Since the transaction was already recorded in the Cash Book, no rectification journal entry is required.</i>		
<i>Rectification: Post ₹6,000 to the debit side of the Insurance Account</i>		
Mr. Rajesh A/c Dr.	15,000	
To Mr. Rakesh A/c		15,000
<i>(Being amount wrongly credited to Mr. Rajesh instead of Mr. Rakesh now rectified.)</i>		
Suspense A/c* Dr.	3,600	
To Carriage Inward A/c		3,600
<i>(Being excess posting of Carriage Inward Account rectified.)</i>		
Office Equipment A/c Dr.	60,000	
To Office Expenses A/c		60,000
<i>(Being office equipment wrongly debited to Office Expenses Account now rectified.)</i>		

3.2.6 Bank Reconciliation Statement

A Bank Reconciliation Statement (BRS) is a statement prepared to explain the difference between the balance shown in the Cash Book and the balance shown in the Pass Book/Bank Statement. Suppose your Cash Book shows Rs. 10,000, but the bank

statement shows Rs. 9,500. The difference may be because you issued a cheque for Rs. 500, but the bank has not yet paid it. A BRS explains this difference.

Why differences happen

The two balances may differ because of things like:

- cheques issued but not yet presented to the bank.
- cheques deposited but not yet credited by the bank.
- bank charges deducted by the bank.
- interest credited by the bank.
- direct deposits or payments made by customers through the bank.

Purpose of BRS

It helps to:

- check the accuracy of records.
- detect mistakes or fraud.
- know the correct bank balance.
- keep the Cash Book updated.

Illustration 5

Prepare Bank Reconciliation Statement from the following:

1. Balance as per Cash Book on 31.03.2019 - Rs. 17,500
2. Cheque for Rs. 8,450 deposited into bank but not yet credited in Pass Book.
3. A customer directly paid Rs. 6,500 into the bank.
4. Rs. 150 debited in the Pass Book as bank charges.
5. Cheque for Rs. 1,700 issued to a creditor but not yet presented to the bank.
6. Rs. 1,800 credited in the Pass Book as interest.

Solution

Bank Reconciliation Statement as on 31st March 2019

Particulars	Rs.	Rs.
Balance as per Cash Book		17,500
Add: A customer directly deposited into bank	6,500	
Add: Cheque issued to a creditor but not presented	1,700	
Add: Interest credited in Pass Book	1,800	10,000
		27,500
Less: Cheque deposited into bank but not credited	8,450	
Less: Bank charges debited in Pass Book	150	8,600
Balance as per Pass Book		18,900



3.2.6 Bank Reconciliation Statement

A Bank Reconciliation Statement (BRS) is a statement prepared to explain the difference between the balance shown in the Cash Book and the balance shown in the Pass Book/Bank Statement. Suppose your Cash Book shows Rs. 10,000, but the bank statement shows Rs. 9,500. The difference may be because you issued a cheque for Rs. 500, but the bank has not yet paid it. A BRS explains this difference.

Why differences happen

- The two balances may differ because of things like:
- cheques issued but not yet presented to the bank.
- cheques deposited but not yet credited by the bank.
- bank charges deducted by the bank.
- interest credited by the bank.
- direct deposits or payments made by customers through the bank.

Purpose of BRS

It helps to:

- check the accuracy of records.
- detect mistakes or fraud.
- know the correct bank balance.
- keep the Cash Book updated.

Illustration 5

Prepare Bank Reconciliation Statement from the following:

1. Balance as per Cash Book on 31.03.2019 - Rs. 17,500
2. Cheque for Rs. 8,450 deposited into bank but not yet credited in Pass Book.
3. A customer directly paid Rs. 6,500 into the bank.
4. Rs. 150 debited in the Pass Book as bank charges.
5. Cheque for Rs. 1,700 issued to a creditor but not yet presented to the bank.
6. Rs. 1,800 credited in the Pass Book as interest.

Solution

Bank Reconciliation Statement as on 31st March 2019

Particulars	Rs.	Rs.
Balance as per Cash Book		17,500
Add: A customer directly deposited into bank	6,500	

Add: Cheque issued to a creditor but not presented	1,700	
Add: Interest credited in Pass Book	1,800	10,000
		27,500
Less: Cheque deposited into bank but not credited	8,450	
Less: Bank charges debited in Pass Book	150	8,600
Balance as per Pass Book		18,900

Illustration 6

Prepare Bank Reconciliation Statement

1. Balance as per Pass Book on 31.03.2018 - Rs. 27,500
2. Cheque deposited into bank but not yet collected - Rs. 5,300
3. A customer directly paid into bank not recorded in Cash Book - Rs. 2,450
4. Bank debited Rs. 1,130 as insurance premium.
5. Cheques issued in March: Rs. 4,500 and Rs. 2,000; out of these, the cheque of Rs. 2,000 was encashed on 2nd April.
6. Dividend credited in the Pass Book not recorded in Cash Book - Rs. 900
7. Interest on deposit credited in Pass Book - Rs. 645

Solution

Bank Reconciliation Statement as on 31st March 2018

Particulars	Rs.	Rs.
Balance as per Pass Book		27,500
Add: Cheque deposited but not yet collected	5,300	
Add: Insurance premium debited by bank	1,130	6,430
		33,930
Less: A customer paid directly into bank	2,450	



Less: Cheque issued but not presented for payment	2,000	
Less: Dividend collected by the bank	900	
Less: Interest credited by the bank	645	5,995
Balance as per Cash Book		27,935

Recap

- ◇ Rectification of errors is the process of correcting mistakes made in the accounting records.
- ◇ Errors may occur during recording, posting, balancing, or classifying accounting transactions.
- ◇ Timely rectification of errors ensures the accuracy and reliability of accounting records.
- ◇ Accounting errors are broadly classified into Errors of Principle and Clerical Errors.
- ◇ Errors of Principle arise due to the incorrect application of accounting principles.
- ◇ Clerical Errors include Errors of Omission, Errors of Commission, and Compensating Errors.
- ◇ Complete omission occurs when a transaction is not recorded at all, while partial omission occurs when a transaction is recorded but not posted.
- ◇ Errors of Commission arise due to incorrect posting, wrong amounts, or posting to the wrong account.
- ◇ Some errors affect the agreement of the Trial Balance, while others do not.
- ◇ Rectification of errors helps in preparing an accurate Trial Balance and reliable financial statements.

Objective Questions

1. What is meant by rectification of errors?
2. Name the two broad categories of accounting errors.
3. Which type of error arises due to the incorrect application of accounting principles?

4. What is an error of omission?
5. What is an error of commission?
6. Which type of error occurs when two or more errors cancel the effect of each other?
7. Does an error of principle generally affect the agreement of the Trial Balance?
8. What is meant by complete omission?
9. What is meant by partial omission?
10. Why is rectification of errors necessary in accounting?

Answers

1. Rectification of errors is the process of correcting mistakes made in the accounting records.
2. Errors of Principle and Clerical Errors.
3. Error of Principle.
4. An error of omission is the failure to record a transaction wholly or partially in the books of accounts.
5. An error of commission is an error caused by incorrect recording, posting, or calculation of transactions.
6. Compensating Error.
7. No. An error of principle generally does not affect the agreement of the Trial Balance.
8. Complete omission means a transaction is entirely omitted from the books of accounts.
9. Partial omission means a transaction is recorded in the Books of Original Entry but not posted to the relevant ledger account.
10. Rectification of errors is necessary to ensure the accuracy of accounting records and to prepare correct financial statements.

Self -Assessment Questions

1. What is the rectification of errors?
2. Explain the different types of assembling errors?
3. Differentiate between complete omission and Partial omission?

Assignments

1. Define rectification of errors.
2. Explain the meaning of an error of principle with a suitable example.
3. What are clerical errors? Briefly explain their types.
4. Differentiate between complete omission and partial omission.
5. Explain the meaning of compensating errors.
6. Explain the different types of accounting errors with suitable examples.
7. Discuss the procedure for rectification of errors. Explain the rectification entries for various types of accounting errors with suitable illustrations.
8. The following errors were identified in the books of ABC Cooperative Society. Pass the necessary rectification entries:
 - (a) Furniture purchased for ₹25,000 was debited to Purchases Account.
 - (b) Credit purchase of goods from Bright Traders for ₹18,000 was omitted completely.
 - (c) Cash received from Mr. Arun ₹12,000 was wrongly credited to Mr. Arjun's account.
 - (d) Salary paid ₹8,500 was posted as ₹5,800.
9. The following errors were discovered before the preparation of the Trial Balance. Pass the rectification entries:
 - (a) Machinery purchased for ₹75,000 was debited to Repairs Account.
 - (b) Credit sales to Green Traders for ₹32,000 were omitted from the books.
 - (c) Insurance premium ₹4,500 paid by cheque was entered in the Cash Book but not posted to the Insurance Account.

- (d) Rent paid ₹6,400 was posted as ₹4,600.
10. "Errors of Principle do not usually affect the agreement of the Trial Balance, whereas Clerical Errors may or may not affect it." Explain the statement with suitable examples.
 11. Prepare a Bank Reconciliation Statement from the following information:
 - Balance as per Cash Book: Rs. 20,000
 - Cheque deposited but not yet collected: Rs. 3,000
 - Cheque issued but not yet presented: Rs. 2,000
 - Bank charges debited in Pass Book: Rs. 150
 - Interest credited in Pass Book: Rs. 500
 12. Prepare a Bank Reconciliation Statement as on 31st March 2024 from the following:
 - Balance as per Cash Book: Rs. 25,000
 - Cheque deposited into bank but not yet credited: Rs. 4,800
 - Cheque issued but not yet presented: Rs. 3,200
 - Bank charges debited in Pass Book: Rs. 250
 - Interest credited by bank: Rs. 600
 - A customer directly deposited into bank: Rs. 1,500
 13. Prepare a Bank Reconciliation Statement as on 30th June 2024 from the following:
 - Balance as per Pass Book: Rs. 18,400
 - Cheque deposited but not yet cleared: Rs. 2,700
 - A debtor directly paid into bank: Rs. 3,000
 - Bank collected dividend and credited in Pass Book: Rs. 900
 - Cheque issued but not presented for payment: Rs. 1,800
 - Bank debited insurance premium: Rs. 1,100
 14. Prepare a Bank Reconciliation Statement as on 31st December 2024 from the following:
 - Balance as per Cash Book: Rs. 32,500
 - Cheque deposited into bank but not yet collected: Rs. 5,500
 - Cheque issued but not yet presented: Rs. 4,000
 - Bank charges debited in Pass Book: Rs. 300
 - Interest on deposits credited in Pass Book: Rs. 750

- Direct payment by customer into bank: Rs. 2,200
- Dividend collected by bank and credited in Pass Book: Rs. 1,000

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Suggested Reading

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Unit

Receipts and Disbursement Statement and Trial Balance

Learning Outcomes

After completing this unit, learners will be able to:

- ◇ explain the concept, purpose, and importance of the Receipts and Disbursement Statement in cooperative societies.
- ◇ identify the various receipts and payments recorded in different types of primary cooperative societies.
- ◇ prepare a Receipts and Disbursement Statement from the Cash Book or given financial information.
- ◇ understand the application of the Receipts and Disbursement Statement in Primary Agricultural Credit Societies (PACS), consumer, marketing, housing, dairy, fishery, industrial, and processing cooperatives.
- ◇ explain the concept and objectives of a Trial Balance.

Prerequisites

Before studying this unit, learners are expected to have completed Unit 2: Books of Original Entry and Subsidiary Books. In the previous unit, they learned how financial transactions are recorded systematically in various subsidiary books, such as the Cash Book, Purchase Book, Sales Book, Returns Books, Bills Receivable Book, Bills Payable Book, and Journal Proper. They also gained an understanding of posting these transactions to the ledger and balancing ledger accounts. Building on this knowledge, the present unit enables learners to prepare the Receipts and Disbursement Statement by summarizing cash

and bank transactions recorded in the Cash Book and to prepare the Trial Balance using the balances extracted from different ledger accounts. Thus, a sound understanding of books of original entry, ledger posting, and balancing of accounts is essential for mastering the concepts and practical applications covered in this unit.

Keywords

Receipts and Disbursement Statement, Cash Receipts, Cash Disbursements, Cash Book, Bank Transactions

Discussion

3.3.1 Receipts and Disbursement Statement

A Receipts and Disbursement Statement is a summary of all cash and bank transactions of a business or organization during a particular accounting period. It records all cash receipts (money received) and all cash disbursements (money paid), irrespective of whether they relate to the current, previous, or future accounting period.

It is a cash-based statement, meaning only actual cash and bank transactions are recorded. It does not consider outstanding income, outstanding expenses, depreciation, or other non-cash items.

A Receipts and Disbursement Statement is a statement prepared to summarize all cash and bank receipts and payments during an accounting period, showing the opening balance, total receipts, total payments, and closing balance of cash and bank.

Features of a Receipts and Disbursement Statement

1. Prepared on a cash basis - Only actual cash and bank transactions are recorded.
2. Includes all receipts and payments - Both revenue and capital items are included.
3. Records transactions irrespective of the accounting period - It includes receipts or payments relating to previous, current, or future years.
4. Shows opening and closing cash/bank balances.
5. No adjustments are made for outstanding expenses, accrued income, depreciation, or prepaid expenses.
6. Acts as a summary of the Cash Book.

Format of a Receipts and Disbursement Statement Co-operative Society.

Receipts	Amount (₹)	Disbursements	Amount (₹)
To Balance b/d		By Salaries	xxx
Opening Cash in Hand	xxx	By Rent, Rates & Taxes	xxx
Opening Cash at Bank	xxx	By Office Expenses	xxx
To Entrance Fees	xxx	By Printing & Stationery	xxx
To Share Capital Received	xxx	By Audit Fees	xxx
To Admission Fees	xxx	By Interest Paid on Deposits/Loans	xxx
To Subscriptions Received	xxx	By Loans Given to Members	xxx
To Loans from Members Repaid (Recovered)	xxx	By Purchase of Fixed Assets	xxx
To Interest Received on Loans	xxx	By Purchase of Investments	xxx
To Interest on Investments	xxx	By Repayment of Bank Loan	xxx
To Sale of Investments	xxx	By Dividend Paid	xxx
To Loan Taken from Bank/ Financing Agency	xxx	By Sundry / Miscellaneous Expenses	xxx
To Donations / Grants	xxx	By General Expenses	xxx
To Miscellaneous Receipts	xxx	By Balance c/d	
		Closing Cash in Hand	xxx
		Closing Cash at Bank	xxx
TOTAL	xxx	TOTAL	xxx

Difference between Cash Book and Receipts & Disbursement Statement

Basis	Cash Book	Receipts & Disbursement Statement
Meaning	A book of original entry recording cash and bank transactions daily	A summary statement prepared from the Cash Book
Recording	Transactions are recorded daily	Prepared periodically (monthly, quarterly, or annually)
Nature	Book of original entry and ledger	Summary statement
Purpose	To record every cash transaction	To summarize cash receipts and payments
Details	Contains detailed entries	Contains summarized figures
Closing Balance	Determined after each transaction/day	Shows opening and closing balances for the period

Illustration 1

Parasuvaikkal Cooperative Society had the following cash transactions during April 2026:

- Opening Cash Balance - ₹15,000
- Members' Deposits Received - ₹2,00,000
- Loan Interest Received - ₹20,000
- Loan Repayment Received - ₹50,000
- Salaries Paid - ₹60,000
- Office Expenses Paid - ₹15,000
- Furniture Purchased - ₹30,000
- Loan Disbursed to Members - ₹1,20,000

Receipts and Disbursement Statement

Receipts	Amount (₹)	Payments	Amount (₹)
Opening cash balance	15,000	Salaries paid	60,000
Members' deposits received	2,00,000	Office expenses paid	15,000
Loan interest received	20,000	Furniture purchased	30,000
Loan repayment received	50,000	Loans disbursed to members	1,20,000
		Closing cash balance	60,000
Total	2,85,000	Total	2,85,000

Illustration 2

Prepare the Receipt and Disbursement Account of a Co-operative Society for the year ended 31st March 2024 from the following:

- Opening cash in hand: Rs. 12,000
- Subscription received during the year: Rs. 1,20,000
- Entrance fees received: Rs. 4,000
- Sale of old furniture: Rs. 6,000
- Rent received: Rs. 15,000
- Salaries paid: Rs. 42,000
- Printing and stationery paid: Rs. 8,000
- Repairs paid: Rs. 5,000
- Electricity charges paid: Rs. 7,500
- Closing cash in hand: Rs. 14,500

Receipt and Disbursement Account

Receipts	Amount (₹)	Payments	Amount (₹)
To Opening Cash in Hand	12,000	By Salaries Paid	42,000
To Subscriptions Received	1,20,000	By Printing & Stationery	8,000

To Entrance Fees Received	4,000	By Repairs Paid	5,000
To Sale of Old Furniture	6,000	By Electricity Charges	7,500
To Rent Received	15,000	By Closing Cash in Hand (Balancing Figure)	94,500
Total	1,57,000	Total	1,57,000

Illustration 3

Prepare the Receipt and Disbursement Account of a Co-operative Society from the following information and find out the cash at bank for the year ended 31st March 2024:

- Cash in hand on 1st April 2023: Rs. 18,000
- Cash at bank on 1st April 2023: Rs. 15,000
- Entrance fees received: Rs. 13,500
- Interest on investments received: Rs. 9,000
- Donations received: Rs. 2,000
- General expenses paid: Rs. 10,500
- Audit fees paid: Rs. 4,500
- Postage and stationery paid: Rs. 3,000
- Furniture purchased: Rs. 20,000
- Cash in hand on 31st March 2024: Rs. 14,500

Solution

Receipt and Disbursement Account

As on 31/03/2024

Receipts	Amount (₹)	Payments	Amount (₹)
To Opening Cash in Hand	18,000	By General Expenses	10,500
To Opening Cash at Bank	15,000	By Audit Fees	4,500
To Entrance Fees Received	13,500	By Postage & Stationery	3,000

To Interest on Investments Received	9,000	By Furniture Purchased	20,000
To Donations Received	2,000	By Closing Cash in Hand	14,500
		By Closing Cash at Bank (Balancing Figure)	5,000
Total	57,500	Total	57,500

Illustration 4

Prepare a Receipt and Disbursement Account from the following for the year ended 31st March 2024:

- Opening cash balance: Rs. 9,500
- Subscription received: Rs. 85,000
- Life membership fees received: Rs. 12,000
- Dividend received: Rs. 4,500
- Salaries paid: Rs. 30,000
- Rent paid: Rs. 9,000
- Office expenses paid: Rs. 6,500
- Purchase of sports equipment: Rs. 18,000
- Closing cash balance: Rs. 47,500

Solution

Receipt and Disbursement Account As on 31/03/2024

Receipts	Rs.	Disbursements	Rs.
To Balance b/d	9,500	By Salaries	30,000
To Subscription received	85,000	By Rent	9,000
To Life membership fees	12,000	By Office expenses	6,500
To Dividend received	4,500	By Purchase of sports equipment	18,000
		By Balance c/d	47,500
Total	1,11,000	Total	1,11,000



Illustration 5

Ledger accounts of Shivam Cooperative Credit Society - Year ended 31st March 2024 as follows. Prepare Receipts and Disbursement accounts

Particulars	Amount (₹)
Opening Cash in Hand	5,000
Opening Cash at Bank	20,000
Entrance Fees received	3,000
Subscriptions received	45,000
Interest received on loans to members	12,000
Salaries paid	18,000
Rent paid	6,000
Stationery purchased	2,500
Loan given to a member	25,000

Receipts and Disbursements Statement

Receipts	Amount (₹)	Disbursements	Amount (₹)
To Balance b/d		By Salaries	18,000
Cash in Hand	5,000	By Rent	6,000
Cash at Bank	20,000	By Stationery	2,500
Total Balance b/d	25,000	By Loan to Member	25,000
To Entrance Fees	3,000	By Balance c/d	
To Subscriptions	45,000	Cash in Hand	?
To Interest on Loans	12,000	Cash at Bank	? (bal.)
Total Receipts	85,000	Total Disbursements	85,000

Working and Result

Computation	Amount (₹)
Total Receipts side	85,000
Total identified Disbursements (excluding bal.)	51,500
Closing balance (Cash + Bank) = 85,000 – 51,500	33,500

Trial Balance

A Trial Balance is a statement prepared on a particular date to verify the arithmetical accuracy of the books of accounts. It is prepared by listing all ledger account balances, showing debit balances in one column and credit balances in another column. If the total of both columns agrees, it indicates that the ledger postings are arithmetically correct.

In co-operative societies, the Trial Balance serves as the foundation for preparing the Trading Account, Manufacturing Account (if applicable), Profit and Loss Account, and Balance Sheet. It also helps the management committee, auditors, and members to review the financial position of the society.

Objectives of Preparing Trial Balance

The main objectives are:

1. To verify the arithmetical accuracy of ledger postings.
2. To ascertain the balances of all ledger accounts.
3. To facilitate preparation of final accounts.
4. To detect clerical errors before preparing financial statements.
5. To assist auditors during statutory audit.
6. To provide a summary of financial transactions.

Features of Trial Balance in Co-operative Societies

- Prepared periodically (monthly, quarterly or annually).
- Based on ledger account balances.
- Contains both personal and impersonal accounts.
- Includes co-operative specific accounts such as:
 - ◇ Share Capital
 - ◇ Reserve Fund
 - ◇ Members' Deposits
 - ◇ Statutory Reserve



- ◇ Co-operative Education Fund
- ◇ Dividend Equalisation Fund
- ◇ Members' Loan Accounts
- Agreement of Trial Balance does not guarantee complete accuracy.

Steps in Preparing Trial Balance

Step 1

Balance all ledger accounts.

Step 2

Identify whether each balance is debit or credit.

Step 3

Enter the account name in the Trial Balance.

Step 4

Record debit balances in the Debit column and credit balances in the Credit column.

Step 5

Total both columns.

Step 6

Compare the totals. If both totals agree, the Trial Balance is considered arithmetically correct.

Common Ledger Accounts in Different Co-operative Societies

Debit Balances	Credit Balances
• Cash in Hand	• Share Capital
• Cash at Bank	• Reserve Fund
• Furniture	• Statutory Reserve
• Building	• Co-operative Education Fund
• Land	• Dividend Payable
• Plant and Machinery	• Members' Deposits
• Stock	• Sundry Creditors
• Purchases	• Sales
• Wages	• Interest Earned
• Salaries	• Commission Received
• Rent	• Entrance Fee
• Insurance	• Admission Fee

• Printing and Stationery	• Government Grant
• Electricity Charges	• Loan from Apex Bank
• Travelling Expenses	• Bank Overdraft
• Office Expenses	• Accumulated Surplus
• Audit Fees	
• Members' Loan Outstanding (Credit Society)	
• Advances	
• Interest Receivable	

Specimen Trial Balance of a Primary Agricultural Credit Society (PACS)

Trial Balance as on 31 March 2026	Debit (₹)	Credit (₹)
Cash in Hand	xxxx	-
Cash at Bank	xxxx	-
Members' Loans Outstanding	xxxx	-
Furniture	xxxx	-
Office Equipment	xxxx	-
Building	xxxx	-
Interest Receivable	xxxx	-
Salaries	xxxx	-
Rent	xxxx	-
Stationery	xxxx	-
Audit Fee	xxxx	-
Electricity Charges	xxxx	-
Share Capital	-	xxxx
Reserve Fund	-	xxxx
Members' Savings Deposits	-	xxxx
Fixed Deposits	-	xxxx
Loan from District Co-operative Bank	-	xxxx
Interest on Loans	-	xxxx
Entrance Fee	-	xxxx
Commission Received	-	xxxx
Sundry Creditors	-	xxxx
Total	xxxx	xxxx



Illustration 6

The following ledger balances were extracted from the books of a Dairy Co-operative Society as on 31 March 2026.

Particulars	Amount (₹)
Cash in Hand	3,36,000
Cash at Bank	1,80,000
Share Capital	6,00,000
Reserve Fund	1,20,000
Milk Purchase	18,50,000
Milk Sales	22,80,000
Salaries	2,10,000
Electricity Charges	60,000
Building	8,00,000
Furniture	1,00,000
Members' Deposits	2,50,000
Loan from Co-operative Bank	3,00,000
Printing & Stationery	35,000
Sundry Creditors	97,000
Transport Expenses	76,000

Prepare the Trial Balance.

Solution

Trial Balance of Dairy Co-operative Society as on 31 March 2026

Particulars	Debit (₹)	Credit (₹)
Cash in Hand	3,36,000	-
Cash at Bank	1,80,000	-
Milk Purchase	18,50,000	-
Salaries	2,10,000	-
Electricity Charges	60,000	-
Building	8,00,000	-
Furniture	1,00,000	-

Printing & Stationery	35,000	-
Transport Expenses	76,000	-
Share Capital	-	6,00,000
Reserve Fund	-	1,20,000
Members' Deposits	-	2,50,000
Loan from Co-operative Bank	-	3,00,000
Milk Sales	-	22,80,000
Sundry Creditors	-	97,000
Total	36,47,000	36,47,000

Illustration 7

The following ledger balances were extracted from the books of City Co-operative Society Ltd. as on 31st March 2024:

Particulars	Amount (₹)
Cash in Hand	15,000
Cash at Bank	85,000
Share Capital	5,00,000
Reserve Fund	1,00,000
Purchase of Goods	8,00,000
Sales of Goods	10,50,000
Salaries Paid	1,20,000
Rent Paid	36,000
Electricity Charges	24,000
Building	6,00,000
Furniture	80,000
Members' Deposits	1,80,000
Loan from Bank	50,000
Sundry Debtors	1,50,000
Sundry Creditors	95,000
Printing & Stationery	15,000
Transport Expenses	40,000
Audit Fees	10,000

Prepare the Trial Balance as on 31st March 2024.

Solution

Particulars	Debit (₹)	Credit (₹)
Cash in Hand	15,000	
Cash at Bank	85,000	
Purchase of Goods	8,00,000	
Salaries Paid	1,20,000	
Rent Paid	36,000	
Electricity Charges	24,000	
Building	6,00,000	
Furniture	80,000	
Sundry Debtors	1,50,000	
Printing & Stationery	15,000	
Transport Expenses	40,000	
Audit Fees	10,000	
Share Capital		5,00,000
Reserve Fund		1,00,000
Sales of Goods		10,50,000
Members' Deposits		1,80,000
Loan from Bank		50,000
Sundry Creditors		95,000
Total	19,75,000	19,75,000

Illustration 8

The following ledger balances were taken from the books of Green Valley Co-operative Society as on 31st March 2024:

Particulars	Amount (₹)
Cash in Hand	22,000
Cash at Bank	1,60,000
Share Capital	8,00,000
General Reserve	2,50,000
Milk Purchase	12,00,000
Milk Sales	15,50,000
Salaries	1,80,000
Electricity Charges	45,000
Building	10,00,000
Furniture	1,20,000

Members' Deposits	3,00,000
Term Loan	20,000
Sundry Debtors	2,00,000
Sundry Creditors	1,25,000
Printing & Stationery	28,000
Transport Expenses	60,000
Audit Fees	12,000
Insurance Premium	18,000
Paid	

Prepare the Trial Balance as on 31st March 2024.

Solution

Trial Balance as on 31st March 2024

Particulars	Debit (₹)	Credit (₹)
Cash in Hand	22,000	-
Cash at Bank	1,60,000	-
Share Capital	-	8,00,000
General Reserve	-	2,50,000
Milk Purchase	12,00,000	-
Milk Sales	-	15,50,000
Salaries	1,80,000	-
Electricity Charges	45,000	-
Building	10,00,000	-
Furniture	1,20,000	-
Members' Deposits	-	3,00,000
Term Loan	-	20,000
Sundry Debtors	2,00,000	-
Sundry Creditors	-	1,25,000
Printing & Stationery	28,000	-
Transport Expenses	60,000	-
Audit Fees	12,000	-
Insurance Premium	18,000	-
Paid		
	30,45,000	30,45,000

Recap

- ◇ Receipts and Disbursement Statement - Summary of all cash and bank receipts and payments.
- ◇ Cash receipts - Recorded irrespective of the accounting period.
- ◇ Cash payments - Include both revenue and capital payments.
- ◇ Opening and closing balances - Represent cash and bank balances.
- ◇ Uses of Receipts and Disbursement Statement - Helps in monitoring cash flow and preparing final accounts.
- ◇ Trial Balance - Statement showing the balances of all ledger accounts.
- ◇ Purpose of Trial Balance - To verify the arithmetical accuracy of ledger postings.
- ◇ Preparation of Trial Balance - Prepared from ledger balances.
- ◇ Debit and Credit Totals - Must be equal in a Trial Balance.
- ◇ Limitations of Trial Balance - Does not detect all types of accounting errors.

Objective Questions

1. What is the main purpose of preparing a Receipts and Disbursement Statement?
2. Which book provides the balances used for preparing a Trial Balance?
3. Does a Receipts and Disbursement Statement include both capital and revenue transactions?
4. What are the two sides of a Trial Balance?
5. Which balance appears at the beginning of a Receipts and Disbursement Statement?
6. What should be the relationship between the total debit and total credit balances in a Trial Balance?
7. Can a Trial Balance detect errors of principle?
8. Which accounting statement is prepared before the final accounts?

Answers

1. To summarize all cash and bank receipts and payments.
2. Ledger.
3. Yes.
4. Debit and Credit.
5. Opening cash and bank balance.
6. They should be equal.
7. No.
8. Trial Balance.

Self- Assessment Questions

1. What is the Receipts and Disbursement Statement?
2. What is the Trial Balance? Explain its Purpose and Preparation?
3. Differentiate between Receipts and Disbursement Statement and the Trial balance?

Assignments

1. Explain the objectives of preparing a Trial Balance.
2. Distinguish between a Receipts and Disbursement Statement and a Cash Book.
3. What are the limitations of a Trial Balance?
4. Describe the importance of Receipts and Disbursement Statements in different types of co-operative societies.



5. State any four features of a Receipts and Disbursement Statement.
6. What is meant by a Trial Balance?
7. The following transactions relate to Fishermen Co-operative Society.

Particulars	Amount (₹)
Opening Cash Balance	22,000
Opening Bank Balance	48,000
Fish Sales	8,20,000
Membership Fees	18,000
Grant Received	1,20,000
Purchase of Nets	85,000
Boat Repair Expenses	95,000
Fuel Expenses	1,25,000
Wages Paid	2,10,000
Office Expenses	22,000

Prepare the Receipts and Disbursement Statement.

8. The following balances were extracted from the books of Industrial Co-operative Society.

Ledger Account	Amount (₹)
Machinery	5,20,000
Cash	35,000
Raw Materials	2,80,000
Sales	6,40,000
Wages	1,60,000
Electricity Charges	48,000
Share Capital	3,00,000
Bank Loan	2,50,000
Sundry Debtors	1,30,000
Sundry Creditors	1,83,000
Commission Received	40,000

Prepare the Trial Balance.

9. The following ledger balances were extracted from the books of ABC Primary Agricultural Credit Society as on 31 March 2026.

Ledger Account	Amount (₹)
Cash	45,000
Bank	1,20,000
Purchases	4,20,000
Furniture	80,000
Salaries	90,000
Rent	30,000
Sundry Debtors	1,35,000
Sales	5,60,000
Share Capital	2,50,000
Sundry Creditors	1,40,000
Loan from District Co-operative Bank	1,20,000
Commission Received	70,000

Prepare the Trial Balance as on 31 March 2026.

10. The following balances were extracted from the books of Green Dairy Co-operative Society.

Ledger Account	Amount (₹)
Cash	28,000
Bank	1,12,000
Building	4,50,000
Purchases	5,40,000
Wages	1,20,000
Electricity Charges	40,000
Sundry Debtors	1,10,000
Sales	8,20,000
Share Capital	3,20,000
Sundry Creditors	1,55,000
Bank Loan	80,000
Interest Received	1,25,000

Prepare the Trial Balance as on 31 March 2026.

Reference

1. Krishnaswami O.R. *Co-operative Audit*, Oxford & IBH Publishing Co. New Delhi.
2. Wandekar D.V. *Cooperative Audit*, PragatiPrakashana, Mumbai.
3. D.R. Kapoor, *Hand Book of Cooperative Audit*, Anmol Publications Pvt. Ltd., 1998.
4. Khandelwal, M. C., *Co-operative Audit x-rayed, A Study Based on the Cooperative Banking Institutions of Rajasthan*, PitaliyaPustakBhandar,Jaipur

Suggested Reading

1. O.R. Krishnaswami, *Cooperative Account Keeping*, Oxford and IBH Publishing Co.Pvt. Ltd 1992.
2. Saminddin, Mahfoozur Rahman and HifzurRehman . *Co-operative Accounting and Auditing*, Himalaya Publishing House, Mumbai.
3. P. Manikavasagam, *A Treatise on Cooperative Account Keeping*, Rainbow Publications.
4. Department of Co-operation, *Government of Kerala : Co-operative Audit Manual*.

4 BLOCK

Co-operative Financial Reporting

Unit

Preparation of Accounts and Balance Sheet

Learning Outcomes

After completing this unit, the learner will be able to:

- ◇ understand the purpose and importance of preparing final accounts in co-operative societies.
- ◇ identify the components of the Manufacturing Account, Trading Account, Profit and Loss Account, and Balance Sheet.
- ◇ prepare a Trading Account to ascertain the gross profit or gross loss.
- ◇ prepare a Profit and Loss Account to determine the net profit or net loss.
- ◇ prepare a Balance Sheet showing the financial position of a co-operative society on a given date.

Prerequisites

Before studying this unit, learners should have a clear understanding of the accounting cycle covered in the previous units, including accounting principles, journal entries, ledger posting, subsidiary books, cash book, and trial balance. A trial balance only confirms the arithmetical accuracy of ledger accounts; however, it does not reveal the financial performance or financial position of a co-operative society. To know whether the society has earned a profit or incurred a loss, and to understand the value of its assets and liabilities at the end of the accounting period, it is necessary to prepare the final accounts. This unit builds on the knowledge of trial balance and enables learners to prepare the Manufacturing Account, Trading Account, Profit and Loss Account, and Balance Sheet. These statements are

essential for assessing the operational efficiency, profitability, and financial position of different types of co-operative societies and form the basis for informed managerial and financial decision-making.

Keywords

Final Accounts, Manufacturing Account, Trading Account, Profit and Loss Account, Balance Sheet, Cost of Goods Manufactured

Discussion

4.1.1 Manufacturing Trading account

A Manufacturing Trading Account is a financial statement prepared by a co-operative society (or any business) that engages in manufacturing activities, to determine the cost of goods manufactured and the gross profit/loss from trading operations during an accounting period. When a co-operative society manufactures goods (rather than just buying and selling them).

Format of Manufacturing Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Raw Material Consumed:		By By-products at net realisable value	xxx
Opening inventory	xxx		
Add: Purchases	xxx	By Closing Work-in-Process	xxx
Less: Closing inventory	xxx		
To Direct Wages	xxx	By Trading A/c	xxx
To Direct expenses:	xxx	Cost of production	xxx
Prime cost	xxxx		
To Factory overheads:			
Royalty	xxx		
Hire charges	xxx		
To Indirect expenses:			
Repairs & Maintenance	xxx		



Depreciation	xxx		
Factory cost	xxx		
To Opening Work-in-process	xxx		

- Left side (Debit) builds up the total cost of production: raw material consumed + direct wages + direct expenses (prime cost) + factory overheads + indirect expenses + opening WIP.
- Right side (Credit) deducts/adjusts for:
- By-products (valued at net realisable value) - reduces the cost since by-product sale value is recovered
- Closing Work-in-Process - cost of unfinished goods carried to next period
- Balancing figure = Cost of Production, which is transferred to the Trading Account

Illustration 1

Kattakkada Co-operative Society runs a factory which produces soaps. The following details were available in respect of its manufacturing activities for the year ended on 31.3.2022:

Particulars	₹
Opening Work-in-Process (10,000 units)	16,000
Closing Work-in-Process (12,000 units)	20,000
Opening inventory of Raw Materials	1,70,000
Closing inventory of Raw Materials	1,90,000
Purchases	8,20,000
Hire charges of machine @ ₹0.60 per unit manufactured	2,20,000
Hire charges of factory	-
Direct wages - Contracted @ ₹0.80 per unit manufactured and @ ₹0.40 per unit of Closing W.I.P.	-
Repairs and Maintenance	1,80,000
Units produced - 5,00,000 units	-

Prepare a Manufacturing Account of the society for the year ended 31.3.2022.

Solution

Manufacturing Account for the Year ended 31.3.2022

Particulars		Units	Amount (₹)	Particulars	Units	Amount (₹)
To Opening Work-in-Process		10,000	16,000	By Closing Work-in-Process	12,000	20,000
To Raw Materials Consumed:				By Trading A/c - Cost of finished goods transferred	5,00,000	19,00,800
Opening inventory	1,70,000					
Add: Purchases	8,20,000					
(Sub-total)	9,90,000					
Less: Closing Inventory	(1,90,000)		8,00,000			
To Direct Wages - W.N. (1)			4,04,800			
To Direct expenses:						
Hire charges on Machinery - W.N. (2)			3,00,000			
To Indirect expenses:						
Hire charges of Factory Shed			2,20,000			
Repairs & Maintenance			1,80,000			
Total			19,20,800	Total		19,20,800

Working note:

Direct wages	₹
5,00,000 units @ ₹0.80	4,00,000
12,000 units @ ₹0.40	4,800
Total	4,04,800

Hire charges on Machinery: 5,00,000 units @ ₹0.60 = ₹3,00,000

4.1.2 Trading Account

A Trading Account of a co-operative society is a financial statement prepared at the end of an accounting period to ascertain the gross profit or gross loss arising from the purchase and sale of goods or from the sale of goods manufactured by the society. It forms the first part of the final accounts and records all direct trading transactions, such as opening stock, purchases, carriage inward, direct expenses, cost of goods manufactured (in the case of manufacturing co-operative societies), sales, and closing stock. By comparing the net sales with the cost of goods sold, the Trading Account reveals the gross result of the society's trading activities before considering administrative, selling, financial, and other indirect expenses. The gross profit or gross loss determined through the Trading Account is subsequently transferred to the Profit and Loss Account for the calculation of the net profit or net loss. Thus, the Trading Account helps assess the efficiency of the core business operations of a co-operative society and serves as an important basis for preparing its final accounts.

Format of Trading Account

Trading Account for the Year Ended

Dr.	Amount (₹)	Cr.	Amount (₹)
Particulars		Particulars	
To Opening Stock	xxx	By Sales	xxx
To Purchases	xxx	Less: Sales Returns	(xxx)
Less: Purchase Returns	(xxx)	Net Sales	xxx
Net Purchases	xxx	By Closing Stock	xxx
To Carriage Inward / Freight Inward	xxx		
To Wages (Direct)	xxx		

To Customs Duty / Octroi / Import Duty (if any)	xxx		
To Direct Expenses	xxx		
To Gross Profit c/d (Balancing Figure)	xxx	Gross Loss c/d)	
(Balancing Figure	xxx		
Total	xxxx	Total	xxxx

Illustration 2

The following particulars are extracted from the books of Kisan Seva Sahakari Society Ltd. for the year ended 31st March, 2023. Prepare the Trading Account for the year ended 31st March, 2023.

Particulars	Rs
Opening Stock	24,000
Purchases	3,20,000
Purchase Returns	8,000
Carriage Inward	6,000
Wages	15,000
Sales	4,80,000
Sales Returns	10,000
Octroi Duty	4,000
Closing Stock	42,000

Solution

Books of Kisan Seva Sahakari Society Ltd.

Trading Account

for the year ended 31st March, 2023

Dr. Cr.

Particulars	Amount Rs	Particulars	Amount Rs
To Opening Stock	24,000	By	
To		Sales 4,80,000	
Purchases 3,20,000		Less: Sales	4,70,000
Less: Purchase	3,12,000	Returns 10,000	
Returns 8,000		By Closing Stock	42,000
To Carriage Inward	6,000		
To Wages	15,000		



To Octroi Duty	4,000		
To Gross Profit transferred to Profit & Loss A/c	1,51,000		
Total	5,12,000	Total	5,12,000

Illustration 3

The following particulars are extracted from the books of Grameen Audyogik Sahakari Samiti Ltd., a co-operative society engaged in trading of agricultural inputs, for the year ended 31st March, 2023. Prepare the Trading Account for the year ended 31st March, 2023.

Particulars	Rs
Opening Stock	36,000
Purchases	4,50,000
Purchase Returns	12,000
Freight and Cartage	8,500
Wages (Godown Labour)	11,500
Sales	6,20,000
Sales Returns	15,000
Custom Duty on Imported Fertilizers	6,000
Closing Stock	54,000
Fuel and Power (manufacturing)	4,500
Packing Charges (on Purchases)	3,500

Solution

Books of Grameen Audyogik Sahakari Samiti Ltd.

Trading Account

for the year ended 31st March, 2023

Dr. Cr.

Particulars	Amount Rs	Particulars	Amount Rs
To Opening Stock	36,000	By Sales 6,20,000	
To Purchases 4,50,000		Less: Sales Returns 15,000	6,05,000

Less: Purchase Returns 12,000	4,38,000	By Closing Stock	54,000
To Freight and Cartage	8,500		
To Wages (Godown Labour)	11,500		
To Custom Duty on Imported Fertilizers	6,000		
To Fuel and Power (manufacturing)	4,500		
To Packing Charges (on Purchases)	3,500		
To Gross Profit transferred to Profit & Loss A/c	1,51,000		
Total	6,59,000	Total	6,59,000

4.1.3 Profit and Loss Account

The Profit and Loss Account is a financial statement prepared to ascertain the net profit or net loss of a business (or net surplus/deficit, in the case of a co-operative society) for a given accounting period. It is prepared after the Trading Account and starts with the Gross Profit (or Gross Loss) brought down from the Trading Account.

While the Trading Account deals only with direct expenses and direct incomes related to buying/manufacturing and selling goods, the Profit and Loss Account deals with indirect expenses (operating and administrative costs not directly tied to production or purchase of goods) and indirect incomes (incomes not arising from the main trading activity).

The balancing figure of this account represents:

- Net Profit, if total income exceeds total expenses (transferred to Capital Account, or in a co-operative society, to the General Reserve/Members' Surplus), or
- Net Loss, if total expenses exceed total income.

Format of Profit and Loss Account

Profit and Loss Account

for the year ended

Dr. Cr.

Particulars	Amount Rs	Particulars	Amount Rs
To Gross Loss b/d (if any)		By Gross Profit b/d	
To Salaries		By Interest Received	
To Rent, Rates & Taxes		By Discount Received	
To Office Expenses		By Commission Received	
To Printing & Stationery		By Rent Received	
To Postage & Telegram		By Dividend Received	
To Advertisement		By Profit on Sale of Asset	
To Carriage on Sales			
To Discount Allowed			
To Bad Debts			
To Depreciation			
To Audit Fees			
To Legal Charges			
To Interest on Loan			
To Net Profit (transferred to Capital/Reserve A/c)		By Net Loss (transferred to Capital/Reserve A/c)	
Total		Total	

Illustration 4

The following balances were extracted from the books of Sahyog Grahak Sahakari Bhandar Ltd. for the year ended 31st March, 2023:

Particulars	Rs	Particulars	Rs
Opening Stock	18,000	Sales	5,10,000
Purchases	3,60,000	Sales Returns	8,000
Purchase Returns	6,000	Interest on Investment	2,000
Wages	12,000	Discount Received	1,500
Carriage Inward	4,000	Commission Received	3,000
Salaries	22,000	Closing Stock	30,000
Rent and Rates	9,600		
Printing and Stationery	1,400		
Advertisement	6,000		
Discount Allowed	2,500		
Bad Debts	1,800		
Depreciation	3,200		

Prepare Trading and Profit and Loss Account for the year ended 31st March, 2023.

Solution

Books of Sahyog Grahak Sahakari Bhandar Ltd.

Trading and Profit & Loss Account

for the year ended 31st March, 2023

Dr. Cr.

Particulars	Amount Rs	Particulars	Amount Rs
To Opening Stock	18,000	By Sales 5,10,000	
To Purchases 3,60,000		Less: Sales Returns 8,000	5,02,000
Less: Purchase Returns 6,000	3,54,000	By Closing Stock	30,000
To Wages	12,000		
To Carriage Inward	4,000		
To Gross Profit c/d	1,44,000		



Total	5,32,000	Total	5,32,000
To Salaries	22,000	By Gross Profit b/d	1,44,000
To Rent and Rates	9,600	By Interest on Investment	2,000
To Printing and Stationery	1,400	By Discount Received	1,500
To Advertisement	6,000	By Commission Received	3,000
To Discount Allowed	2,500		
To Bad Debts	1,800		
To Depreciation	3,200		
To Net Profit transferred to General Reserve A/c	1,04,000		
	1,50,500		1,50,500

Illustration 5

The following balances were extracted from the books of Krishak Vikas Sahakari Society Ltd. for the year ended 31st March, 2023:

Particulars	Rs	Particulars	Rs
Opening Stock	26,500	Sales	4,15,000
Purchases	2,80,000	Purchase Returns	5,000
Wages	9,500	Sales Returns	5,000
Octroi Duty	3,000	Interest Received	1,800
Salaries	18,500	Discount Received	1,200
Office Rent	7,200	Closing Stock	22,000
Legal Charges	2,000		
Audit Fees	1,500		
Interest on Loan	4,000		
Depreciation on Furniture	1,800		

Prepare Trading and Profit and Loss Account for the year ended 31st March, 2023.

Solution

Books of Krishak Vikas Sahakari Society Ltd.
Trading and Profit & Loss Account
for the year ended 31st March, 2023

Dr. Cr.

Particulars	Amount Rs	Particulars	Amount Rs
To Opening Stock	26,500	By Sales 4,15,000	
To		Less: Sales	4,10,000
Purchases 2,80,000		Returns 5,000	
Less: Purchase		By Closing Stock	22,000
Returns 5,000	2,75,000		
To Wages	9,500		
To Octroi Duty	3,000		
To Gross Profit c/d	1,18,000		
Total	4,32,000	Total	4,32,000
To Salaries	18,500	By Gross Profit b/d	1,18,000
To Office Rent	7,200	By Interest Received	1,800
To Legal Charges	2,000	By Discount Received	1,200
To Audit Fees	1,500		
To Interest on Loan	4,000		
To Depreciation on			
Furniture	1,800		
To Net Profit			
transferred to General	86,000		
Reserve A/c			
Total	1,21,000	Total	1,21,000

Illustration 6

From the following information of M/s Nand Lal & Bros. for the year ending 31st March, 2006, prepare Trading A/c and Profit and Loss A/c for the year ended 31st March, 2006.

Particulars	Rs	Particulars	Rs
Stock 1.4.2005	5,800	Sales	72,000
Purchases - cash	42,000	Return Inward	2,000
Purchases - credit	18,000	Interest on Investment	1,500
Freight Inward	1,800	Discount Received	1,200
Wages	4,500	Closing stock	7,200
Carriage on Sales	800		



Telephone Charges	1,600
Electricity Expenses	1,200
Office Rent Paid	6,000
Salaries	8,000
Depreciation	1,400

Solution

Books of M/s Nand Lal & Bros.
Trading and Profit & Loss Account
for the year ended 31st March, 2006

Dr. Cr.

Particulars	Amount Rs	Particulars	Amount Rs
To Stock (1.4.2005)	5,800	By Sales 72,000	
To Purchases		Less: Return Inward 2,000	70,000
Cash 42,000		By Closing stock	7,200
Credit 18,000	60,000		
To Freight Inward	1,800		
To Wages	4,500		
To Gross Profit c/d	5,100		
Total	77,200	Total	77,200
To Carriage on Sale	800	By Gross Profit b/d	5,100
To Telephone Charges	1,600	By Interest on Investment	1,500
To Electricity Expenses	1,200	By Discount Received	1,200
To Office Rent	6,000	By Net Loss transferred to Capital A/c	11,200
To Salaries	8,000		
To Depreciation	1,400		
Total	19,000	Total	19,000

4.1.4 Balance Sheet

A Balance Sheet of a co-operative society is a statement of financial position prepared at the end of an accounting period to show the assets, liabilities, and members' funds of the society on a specific date. Unlike the Trading Account and Profit and Loss Account, which measure the financial performance of the society over a period, the Balance Sheet presents a snapshot of what the society owns (assets) and what it owes (liabilities) at a particular point in time. It is prepared after the Trading Account and Profit and Loss Account, and the net profit or net loss determined from the Profit and Loss Account is transferred to the capital or reserve funds as per the applicable provisions. The Balance Sheet includes fixed assets, current assets, investments, cash and bank balances, members' share capital, reserves, deposits, borrowings, and other liabilities. It enables members, management, creditors, and regulatory authorities to assess the liquidity, solvency, and overall financial strength of the co-operative society and serves as an important tool for financial planning and decision-making.

Objectives of a Balance Sheet

1. To present the financial position of the co-operative society on a specific date.
2. To disclose the assets, liabilities, and members' funds of the society.
3. To determine the financial strength and solvency of the society.
4. To assist management and members in financial decision-making.
5. To provide information to auditors, creditors, financial institutions, and regulatory authorities.
6. To facilitate comparison of the society's financial position over different accounting periods.

Pro Forma of Balance Sheet

Balance Sheet of _____ Co-operative Society
As on _____

Liabilities	₹	Assets	₹
Share Capital	xxx	Cash in Hand	xxx
Reserve Fund	xxx	Cash at Bank	xxx
General Reserve	xxx	Investments	xxx
Surplus (Profit)	xxx	Sundry Debtors	xxx
Members' Deposits	xxx	Bills Receivable	xxx
Loans from Co-operative Bank	xxx	Furniture and Fixtures	xxx
Sundry Creditors	xxx	Plant and Machinery	xxx
Bills Payable	xxx	Building	xxx



Outstanding Expenses	xxx	Land	xxx
Other Liabilities	xxx	Vehicles	xxx
		Office Equipment	xxx
		Prepaid Expenses	xxx
		Accrued Income	xxx
Total	xxxx	Total	xxxx

Illustration 7

Following is the Trial Balance of Kisan Utthan Sahakari Society Ltd. as at 31st March, 2023:

Particulars	Debit Rs	Particulars	Credit Rs
Opening Stock	20,000	Sales	4,60,000
Purchases	3,00,000	Commission Received	5,000
Wages	10,000	Share Capital	1,00,000
Salaries	24,000	Reserve Fund	30,000
Rent	12,000	Sundry Creditors	20,000
Insurance Premium	3,600	Loan from Co-operative Bank	40,000
Sundry Debtors	40,000		
Furniture	30,000		
Building	1,50,000		
Cash at Bank	60,400		
Cash in Hand	5,000		
Total	6,55,000	Total	6,55,000

Adjustments:

1. Closing Stock valued at Rs 35,000
2. Salaries outstanding Rs 2,000
3. Insurance Premium prepaid Rs 900
4. Commission accrued but not received Rs 1,000
5. Depreciate Furniture @ 10% p.a.
6. Provide for Bad Debts @ 5% on Sundry Debtors

Prepare Trading Account, Profit and Loss Account, and Balance Sheet as at 31st March, 2023.

Solution

Trading and Profit & Loss Account for the year ended 31st March, 2023

Dr. Cr.

Particulars	Amount Rs	Particulars	Amount Rs
To Opening Stock	20,000	By Sales	4,60,000
To Purchases	3,00,000	By Closing Stock	35,000
To Wages	10,000		
To Gross Profit c/d	1,65,000		
Total	4,95,000	Total	4,95,000
To Salaries 24,000		By Gross Profit b/d	1,65,000
<i>Add:</i>		By Commission Received 5,000	
Outstanding 2,000	26,000	<i>Add:</i>	
To Rent	12,000	Accrued 1,000	6,000
To Insurance Premium 3,600			
<i>Less: Prepaid 900</i>	<i>2,700</i>		
To Depreciation on Furniture	3,000		
To Provision for Bad Debts	2,000		
To Net Surplus transferred to General Reserve A/c	1,25,300		
Total	1,71,000	Total	1,71,000

Balance Sheet as at 31st March, 2023

Liabilities	Amount Rs	Assets	Amount Rs
Share Capital	1,00,000	Building	1,50,000
Reserve Fund	30,000	Furniture 30,000	
Net Surplus	1,25,300	<i>Less: Depreciation 3,000</i>	27,000
Sundry Creditors	20,000	Sundry Debtors 40,000	



Loan from Co-operative Bank	40,000	Less: Provision 2,000	38,000
Outstanding Salaries	2,000	Closing Stock	35,000
		Prepaid Insurance	900
		Accrued Commission	1,000
		Cash at Bank	60,400
		Cash in Hand	5,000
Total	3,17,300	Total	3,17,300

Illustration 8

Following is the Trial Balance of Mahila Bachat Sahakari Samiti Ltd. as at 31st March, 2023:

Particulars	Debit Rs	Particulars	Credit Rs
Opening Stock	15,000	Sales	3,80,000
Purchases	2,40,000	Rent Received	9,600
Carriage Inward	5,000	Share Capital	1,00,000
Salaries	20,000	Reserve Fund	25,000
General Expenses	8,000	Sundry Creditors	18,000
Sundry Debtors	50,000	Loan from Co-operative Bank	40,000
Machinery	60,000		
Interest on Loan	4,000		
Cash at Bank	1,50,600		
Cash in Hand	20,000		
Total	5,72,600	Total	5,72,600

Adjustments:

1. Closing Stock valued at Rs 28,000
2. Rent received includes Rs 1,600 received in advance for the next year
3. Outstanding General Expenses Rs 1,200
4. Interest on Loan outstanding Rs 500

5. Depreciate Machinery @ 15% p.a.
6. Write off further Bad Debts Rs 2,000; provide a Reserve for Doubtful Debts @ 5% on remaining debtors

Prepare Trading Account, Profit and Loss Account, and Balance Sheet as at 31st March, 2023.

Solution

**Trading and Profit & Loss Account
for the year ended 31st March, 2023**

Dr. Cr.

Particulars	Amount Rs	Particulars	Amount Rs
To Opening Stock	15,000	By Sales	3,80,000
To Purchases	2,40,000	By Closing Stock	28,000
To Carriage Inward	5,000		
To Gross Profit c/d	1,48,000		
	4,08,000		4,08,000
To Salaries	20,000	By Gross Profit b/d	1,48,000
To General Expenses 8,000		By Rent	
<i>Add:</i>		Received 9,600	
Outstanding 1,200	9,200	<i>Less:</i>	
To Interest on Loan 4,000		Advance 1,600	8,000
<i>Add:</i>			
Outstanding 500	4,500		
To Depreciation on Machinery	9,000		
To Bad Debts (2,000 + 2,400)	4,400		
To Net Surplus transferred to General Reserve	1,08,900		
A/c			
Total	1,56,000	Total	1,56,000

Balance Sheet as at 31st March, 2023

Liabilities	Amount Rs	Assets	Amount Rs
Share Capital	1,00,000	Machinery 60,000	
Reserve Fund	25,000	Less:	51,000
Net Surplus	1,08,900	Depreciation 9,000	
Sundry Creditors	18,000	Sundry	
Loan from Co-operative Bank	40,000	Debtors 48,000	
Outstanding	1,200	Less:	45,600
General Expenses		Reserve 2,400	
Outstanding	500	Closing Stock	28,000
Interest on Loan		Cash at Bank	1,50,600
Rent Received in Advance	1,600	Cash in Hand	20,000
Total	2,95,200	Total	2,95,200

Illustration 9

Following is the Trial Balance of Rural Co-operative Marketing Society Ltd. as at 31st March, 2023:

Particulars	Debit Rs	Particulars	Credit Rs
Opening Stock	30,000	Sales	6,50,000
Purchases	4,20,000	Share Capital	2,00,000
Wages	18,000	Reserve Fund	50,000
Salaries	36,000	Sundry Creditors	30,000
Office Rent	14,400	Loan from Co-operative Bank	60,000
Printing and Stationery	3,000		
Sundry Debtors	60,000		
Investments	50,000		
Building	2,00,000		
Cash at Bank	1,40,600		
Cash in Hand	18,000		
Total	9,90,000	Total	9,90,000

Adjustments:

1. Closing Stock valued at Rs 45,000
2. Salaries outstanding Rs 3,000
3. Office Rent prepaid Rs 1,200
4. Interest accrued on Investments @ 6% p.a. (not yet received)
5. Depreciate Building @ 5% p.a.
6. Provide for Doubtful Debts @ 4% on Sundry Debtors

Prepare Trading Account, Profit and Loss Account, and Balance Sheet as at 31st March, 2023.

Solution

Trading and Profit & Loss Account
for the year ended 31st March, 2023

Dr. Cr.

Particulars	Amount Rs	Particulars	Amount Rs
To Opening Stock	30,000	By Sales	6,50,000
To Purchases	4,20,000	By Closing Stock	45,000
To Wages	18,000		
To Gross Profit c/d	2,27,000		
Total	6,95,000	Total	6,95,000
To Salaries 36,000		By Gross Profit b/d	2,27,000
<i>Add:</i>		By Interest Accrued	3,000
Outstanding 3,000	39,000	on Investments	
To Office			
Rent 14,400			
<i>Less: Prepaid 1,200</i>	13,200		
To Printing and			
Stationery	3,000		
To Depreciation on			
Building	10,000		
To Provision for			
Doubtful Debts	2,400		
To Net Surplus			
transferred to			
General Reserve	1,62,400		
A/c			
Total	2,30,000	Total	2,30,000

Balance Sheet as at 31st March, 2023

Liabilities	Amount Rs	Assets	Amount Rs
Share Capital	2,00,000	Building 2,00,000	
Reserve Fund	50,000	Less: Depreciation 10,000	1,90,000
Net Surplus	1,62,400	Investments	50,000
Sundry Creditors	30,000	Accrued Interest on Investments	3,000
Loan from Co-operative Bank	60,000	Sundry Debtors 60,000	
Outstanding Salaries	3,000	Less: Provision 2,400	57,600
		Closing Stock	45,000
		Prepaid Office Rent	1,200
		Cash at Bank	1,40,600
		Cash in Hand	18,000
Total	5,05,400	Total	5,05,400

Recap

- ◇ A Manufacturing Account is prepared to determine the cost of goods manufactured by the co-operative society.
- ◇ A Trading Account is prepared to ascertain the gross profit or gross loss of the co-operative society.
- ◇ A Profit and Loss Account is prepared to determine the net profit or net loss after considering indirect expenses, other incomes, and losses.
- ◇ A Balance Sheet shows the financial position of the co-operative society on a particular date.
- ◇ Gross Profit is the excess of net sales over the cost of goods sold.
- ◇ Net Profit is the amount obtained by adding other incomes to gross profit and deducting indirect expenses and losses.
- ◇ The Balance Sheet Equation states that total assets are always equal to total liabilities and members' funds.

Objective Questions

1. What is the main objective of preparing a Manufacturing Account?
2. Which account is prepared immediately after the Manufacturing Account?
3. What is the balancing figure of the Trading Account called when the credit side exceeds the debit side?
4. Which account determines the Net Profit or Net Loss of a co-operative society?
5. In which financial statement are assets and liabilities shown?
6. Which stock appears on the credit side of the Trading Account?
7. What is transferred from the Trading Account to the Profit and Loss Account?
8. Which account includes indirect expenses such as salaries, rent, and depreciation?
9. What is the primary purpose of preparing a Balance Sheet?
10. Which principle states that the total assets of a business must equal its total liabilities and members' funds?

Answers

1. To ascertain the cost of goods manufactured.
2. Trading Account.
3. Gross Profit.
4. Profit and Loss Account.
5. Balance Sheet.
6. Closing Stock.
7. Gross Profit or Gross Loss.
8. Profit and Loss Account.
9. To show the financial position of the co-operative society.
10. Accounting Equation (Assets = Liabilities + Members' Funds).



Self -Assessment Questions

1. What is a Trading Account? State its objectives.
2. What are the items shown on the Debit side of a Trading Account?
3. What are the items shown on the Credit side of a Trading Account?
4. What is a Profit & Loss Account? What is its purpose?
5. Following is the Trial Balance of Mahila Bachat Sahakari Samiti Ltd. as at 31st March, 2023:

Particulars	Debit Rs	Particulars	Credit Rs
Opening Stock	35,000	Sales	2,80,000
Purchases	1,40,000	Rent Received	9,600
Carriage Inward	5,000	Share Capital	1,00,000
Salaries	20,000	Reserve Fund	45,000
General	8,000	Sundry	18,000
Expenses		Creditors	
Sundry Debtors	50,000	Loan from Co-operative Bank	40,000
Machinery	60,000		
Interest on Loan	4,000		
Cash at Bank	1,70,600		
Total	4,92,600	Total	5,72,600

Adjustments:

1. Closing Stock valued at Rs 28,000
2. Rent Received includes Rs 1,900 received in advance for the next year
3. Outstanding General Expenses Rs 1,200
4. Interest on Loan outstanding Rs 500
5. Depreciate Machinery @ 15% p.a.
6. Write off further Bad Debts Rs 2,000; provide a Reserve for Doubtful Debts @ 5% on remaining debtors

Prepare Trading Account, Profit and Loss Account, and Balance Sheet as at 31st March, 2023.

7. The following balances were extracted from the books of Pravasi co-operative Society Ltd. for the year ended 31st March, 2023:

Particulars	Rs	Particulars	Rs
Opening Stock	56,500	Sales	4,15,000
Purchases	2,60,000	Purchase Returns	9,000
Wages	9,700	Sales Returns	5,000
Octroi Duty	9,000	Interest Received	1,800
Salaries	18,500	Discount	1,200
Office Rent	7,200	Received	20,000
Legal Charges	2,000	Closing Stock	20,000
Audit Fees	1,500		
Interest on Loan	5,000		
Depreciation on Furniture	5,200		

Prepare Trading and Profit and Loss Account for the year ended 31st March, 2023.

Assignments

1. Differentiate between Gross Profit and Net Profit with examples?
2. Explain the classification of Assets with examples.
3. Prepare Trading Account and Profit and Loss Account of Raman Irani from the following balances for the year ending 31st March, 2006.

Particulars	Amount (₹)	Particulars	Amount (₹)
Opening Stock	14,600	Trading Expenses	1,450
Purchases	68,700	Discount Allowed	1,250
Sales	85,300	Discount Received	800
Return Outward	2,200	Bill Receivables	4,500
Carriage Inward	2,100	Debtors	16,800
Capital	50,000	Closing Stock	28,700
Drawings	12,000		
Insurance	1,600		
Advertisement	2,400		
Salesmen's	5,200		
Salaries			



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4. Khandelwal, M. C., *Co-operative Audit x-rayed, A Study Based on the Cooperative Banking Institutions of Rajasthan*, PitaliyaPustakBhandar,- Jaipur

Suggested Reading

1. O.R. Krishnaswami, *Cooperative Account Keeping*, Oxford and IBH Publishing Co.Pvt. Ltd 1992.
2. Saminddin, Mahfoozur Rahman and HifzurRehman . *Co-operative Accounting and Auditing*, Himalaya Publishing House, Mumbai.
3. P. Manikavasagam, *A Treatise on Cooperative Account Keeping*, Rainbow Publications.
4. Department of Co-operation, Government of Kerala : *Co-operative Audit Manual*.

Unit

Principles in The Preparation of Accounts

Learning Outcomes

After completing this unit, learners will be able to:

- ◇ explain the basic principles governing the preparation of the Profit and Loss Account and Balance Sheet in different types of co-operative societies.
- ◇ identify the accounting requirements applicable to consumer, marketing, housing, dairy, and Primary Agricultural Credit Societies (PACS).
- ◇ classify various items of income, expenditure, assets, liabilities, reserves, and members' funds according to co-operative accounting principles.
- ◇ apply statutory and accounting principles while preparing final accounts for different categories of co-operative societies.

Prerequisites

In the previous unit, you learned how to prepare the Trial Balance of different types of co-operative societies and understood its role in verifying the arithmetical accuracy of accounting records. A correctly prepared trial balance serves as the foundation for preparing the final accounts of a co-operative society. Building on that knowledge, this unit explains how the balances obtained from the trial balance are classified and presented in the Profit and Loss Account and Balance Sheet by following the accounting principles applicable to different co-operative societies such as consumer, marketing, housing, dairy, and Primary Agricultural Credit Societies (PACS). Therefore, a clear understanding of trial balance preparation and the classification of accounts will enable you to prepare and interpret the financial statements of various co-operative societies effectively.

Keywords

Profit and Loss Account, Balance Sheet, Final Accounts, Co-operative Accounting, Financial Statements, Primary Agricultural Credit Society (PACS), Accounting Principles

Discussion

4.2.1 Principles Governing Preparation of Profit & Loss Account and Balance Sheet in Co-operative Societies

Co-operative societies are formed on the principle of 'service before profit' and are governed by the State Co-operative Societies Act (or the Multi-State Co-operative Societies Act, 2002, where applicable), the Rules framed thereunder, and the Bye-laws of the individual society. Unlike joint-stock companies, whose accounts are governed primarily by the Companies Act, co-operative accounts are governed by a dual framework:

1. Statutory framework - Act, Rules, and directions of the Registrar of Co-operative Societies (RCS).
2. Bye-law framework - internal rules of the specific society, approved by the Registrar, which prescribe the exact heads of income/expenditure, appropriation of surplus, and format of accounts.

Because objectives differ (consumer welfare, better marketing prices, housing facilities, milk procurement, or rural credit), the broad accounting principles are common, but the specific treatment of income, expenditure, and balance sheet items varies by type of society. This note first sets out the general principles applicable to all societies, and then the special principles applicable to Consumer, Marketing, Housing, Dairy, and Primary Agricultural Credit Societies (PACS).

4.2.2 General Principles Common to All Co-operative Societies

1. Legal and Regulatory Basis
 - Final accounts must be prepared in the format prescribed by the Registrar under the Co-operative Societies Act/Rules of the state, not in the format used by companies.
 - Accounts are subject to statutory audit by an auditor appointed/approved by the Registrar (not by members, unlike companies), and audit classification (A, B, C, D) affects the society's standing.

2. Fund-Based, Not Purely Profit-Based, Orientation

- The excess of income over expenditure is termed 'surplus' rather than 'profit,' reflecting the mutual/service character of the society.
- Surplus is not distributed freely; its appropriation is governed by statute and bye-laws.

3. Compulsory Appropriation of Surplus (Common Reserves)

- Before any dividend can be paid, the following statutory appropriations are generally required (percentages vary by state Act):
- Statutory Reserve Fund - usually not less than 25% of net profit, transferred every year; cannot be distributed to members and is used to cover future losses.
- Co-operative Education Fund - a fixed percentage (often ~1%) payable to the state co-operative union.
- Common Good Fund / Charitable Fund - for the welfare of members and the locality.
- Dividend Equalisation Fund - to stabilise the dividend rate across good and bad years.
- Price Fluctuation Fund / Contingency Reserve - especially relevant to trading/marketing/dairy societies dealing in commodities with volatile prices.
- Only after these appropriations is a limited dividend (capped by the Act, e.g., a maximum percentage on paid-up share capital) permitted to be declared.

4. Member vs Non-Member Distinction

- Since a co-operative society primarily transacts with its own members, the P&L account/Trading Account often discloses separately the profit earned from members and from non-members, since bye-laws may restrict the proportion of business done with outsiders and profits from non-members may be treated differently (e.g., transferred fully to reserve rather than distributed).

5. Share Capital and Members' Funds

- Share capital is not freely transferable; it can only be transferred with the consent of the managing committee, and a member's liability is usually limited to the face value of the shares held.
- The balance sheet shows Share Capital, distinguishing government share capital (where the state has contributed) from members' share capital, since redemption/dividend terms differ.

6. Loans and Borrowings

- Co-operative societies typically borrow from higher-tier co-operative institutions (e.g., District Central Co-operative Bank, State Co-operative Bank, State/National Federation), and such loans appear as secured borrowings in the balance sheet, often against hypothecation of stock or mortgage of property.



7. Government Aid

- Grants, subsidies, and share capital contribution by the government (common in credit and marketing societies) are shown distinctly, since such capital may carry different dividend/redemption rights and is often non-transferable.

8. Accounting Concepts Applied

- Accrual basis, going concern, consistency, and prudence are followed as in any other entity; however, statutory format sometimes overrides certain disclosure choices otherwise available under general accounting standards.

4.2.3 Principles governing the preparation of Profit and Loss Account and Balance Sheet of Special Type of Co-operative Societies

The preparation of financial statements of co-operative societies is governed by the Co-operative Societies Act and Rules applicable to the respective state, along with relevant accounting principles. Special types of co-operative societies may have different formats and accounting requirements depending on the nature of their activities. Principles applicable to the preparation of Profit and Loss Account and Balance Sheet of Special Type of Co-operative Societies is discussed below-

4.2.3.1 Consumer Co-operative Societies

Consumer co-operative societies are voluntary associations formed by consumers to purchase goods in bulk and supply them to members at reasonable and fair prices. They aim to protect consumers from exploitation by middlemen, excessive prices, and unfair trade practices. The society purchases goods directly from wholesalers, manufacturers, or producers and sells them to members and, where permitted, to the general public.

Trading and Profit & Loss Account

- Prepared like an ordinary trading concern: $\text{Opening Stock} + \text{Purchases} + \text{Direct Expenses} - \text{Closing Stock} = \text{Cost of Goods Sold}$, compared with Sales to derive Gross Profit.
- Sales/purchases are often analysed member-wise and non-member-wise, since the 'patronage rebate' (see below) is calculated only on purchases made by members.
- Indirect expenses (salaries, rent, godown expenses, etc.) are charged to P&L to arrive at net surplus.

Distinctive Feature - Rebate on Purchases (Patronage Dividend)

- Unlike a company, where 'dividend' is a return on capital, a consumer society primarily rewards patronage - i.e., the extent to which a member purchased goods from the society - through a rebate on purchases, calculated as a percentage of the value of goods purchased by each member during the year.
- This rebate is an appropriation of surplus, not a trading expense, and is shown

after arriving at net surplus, in the Profit and Loss Appropriation Account.

- Dividend on share capital is separate and limited by the Act's ceiling rate.

Reserve Fund and Other Appropriations

- Statutory reserve (commonly 25%), Co-operative Education Fund, Common Good Fund are deducted before rebate/dividend.

Balance Sheet - Principles.

- Stock-in-trade valued at cost or market price, whichever is lower - a significant asset given the trading nature.
- Sundry Debtors are usually minimal since sales to members are mostly on cash/credit-limited basis; credit sales, if any, are closely monitored.
- Reserve for bad and doubtful debts may be created for credit sales to non-members.
- Fixed assets (godown, shop premises, furniture, weighing/measuring equipment) shown at cost less depreciation.

4.2.3.2. Marketing Co-operative Societies

Marketing co-operative societies are formed by producers, particularly farmers and small producers, to collectively market and sell their products. They help members obtain better prices, reduce the role of middlemen, arrange storage and transportation, and improve their bargaining power.

Income and Expenditure Account

- Because produce is generally sold on behalf of members (agency basis) rather than purchased outright, the main income is commission, service charges, grading charges, and processing charges, not "gross profit on sale."
- Where the society purchases produce outright for resale (own-account trading), a separate Trading Account is prepared for that segment, distinct from the commission/agency business.

Pool Account System

- Produce of the same grade/quality received from different members during a season is often pooled and sold collectively; sale proceeds (net of expenses and commission) are distributed to members pro rata to the quantity/grade supplied, not member by member per individual sale. This 'Pool Account' is a distinctive statement prepared alongside the P&L account.

Reserves Specific to Marketing Societies

- Price Fluctuation Fund - since produce prices are volatile between procurement and eventual sale, a reserve is built to absorb losses from price decline.
- Godown/Storage Reserve and Bad Debts Reserve (advances given to members against produce deposited, pending sale) are common.



Balance Sheet - Principle

- Stock held on behalf of members (pledged/pooled stock) is shown distinctly from own stock-in-trade, since the society does not own pooled produce - it merely holds it as an agent; a corresponding liability (amount due to members for produce held) appears on the liabilities side.
- Advances against produce (money given to members before final sale, adjustable against sale proceeds) appear as an asset.
- Warehouse/godown and grading/processing machinery as fixed assets.

4.2.3.3. Housing Co-operative Societies

Housing co-operative societies are formed by individuals who come together to provide housing facilities to their members at reasonable cost. The society may acquire land, construct houses or apartments, develop residential properties, and allot them to members. It may also undertake maintenance and other common services.

No Trading Account

- Since there is no purchase/sale of goods, there is no Trading Account; only an Income and Expenditure Account (P&L account) is prepared.
- Income Recognition
- Main income: members' subscriptions/maintenance charges, ground rent, entrance fees, transfer fees, non-occupancy charges (where a member lets out the flat), and interest on members' loan instalments.
- Where the society has itself borrowed to construct the building and re-lends to members, interest received from members on their share of the loan vs interest paid to the lending institution is separately disclosed - the 'spread' partly funds administrative costs.

Expenditure

- Repairs and maintenance, municipal taxes, salaries of watchman/staff, insurance of the building, and depreciation on the building are principal charges.
- Sinking Fund - A Distinctive Feature
- Housing societies are required to build up a Sinking Fund by annual contributions, meant for major repairs or reconstruction of the building in future (since buildings depreciate physically over decades). This is shown as a reserve/fund on the liabilities side, backed by earmarked investments on the asset side.

Balance Sheet - Principle

- Land and Building is the dominant, often single largest, asset - shown at cost, since housing societies typically do not trade in property but hold it for members' residential use; depreciation is charged on the building (not land).
- Members' Loan Account (mortgage) - where the society has advanced the cost

of construction to members repayable in instalments - appears as an asset, with overdue instalments shown separately.

- Outstanding maintenance charges / non-occupancy charges appear as debtors.
- Liabilities include loans from the Housing Finance/Co-operative Bank, and the members' share capital (often nominal, since the objective is service, not investment).

4.2.3.4. Dairy Co-operative Societies

Dairy co-operative societies are organisations formed by milk producers to collectively collect, process, and market milk and milk products. Members supply milk to the society, which may process and sell it to consumers, retailers, or larger dairy organisations. The society helps farmers obtain a fair price for their milk and provides services such as veterinary support, cattle feed, and technical assistance.

Trading/Manufacturing and Profit & Loss Account

- Milk Procurement Account: records quantity and value of milk purchased from members, usually based on fat and SNF (solids-not-fat) content, not just volume - a distinctive quality-linked pricing feature unique to dairy accounting.
- Processing/Manufacturing Account (at Union/Federation level): cost of converting raw milk into milk products (ghee, butter, powder, curd, paneer) - showing raw material (milk) consumed, processing expenses, and by-products recovered.
- Sales Account: sale of milk to the Union/Federation (at village level) or to the market/consumers (at Union/Federation level).
- Gross Profit/Surplus = Sale value of milk & products - Cost of procurement - Processing expenses.

Distinctive Features

- Incentive/Bonus to members based on quantity and quality (fat/SNF) of milk poured, paid in addition to the basic procurement price - similar in spirit to the patronage rebate of a consumer society, but calculated on quantity and quality supplied, not amount purchased.
- Price Fluctuation/Equalisation Reserve - milk product prices (especially of milk powder, butter) are volatile and seasonal (flush vs lean season), so a reserve smooths out surplus/deficit across the year.
- By-Products Account - items like skimmed milk, whey, ghee residue are accounted for separately since they materially affect overall profitability.
- Transport and Chilling Centre expenses - significant cost head because milk is perishable, requiring cold-chain logistics; shown as a distinct expense.

Balance Sheet- Principle.

- Stock of milk and milk products valued at cost or realisable value, whichever is lower, with special care for perishable stock (milk cannot be carried forward



as closing stock in the ordinary sense - valued as processed inventory like SMP, ghee, etc.).

- Plant and machinery (chilling plant, pasteurisers, processing equipment) is a major fixed asset with substantial depreciation.
- Amount payable to members for milk supplied (procurement price payable, often disbursed within a few days) is a current liability.
- Grants/loans from NDDDB (National Dairy Development Board) or the state government, where received, are shown as specific capital/reserve items with conditions on utilisation.

4.2.3.5. Primary Agricultural Credit Societies (PACS)

Primary Agricultural Credit Societies (PACS) are grassroots-level co-operative societies formed mainly to provide short-term and medium-term credit and other financial services to farmers and rural members. They generally mobilise funds from members and provide loans for agricultural activities such as cultivation, purchase of seeds, fertilisers, pesticides, and other farm requirements.

No Trading Account - Only Profit & Loss Account

- As PACS do not buy/sell goods (barring any incidental trading in agricultural inputs, which, if undertaken, is shown separately), there is no Trading Account; the main statement is the Profit and Loss Account, essentially an Interest Income and Expenditure Account.

Income Recognition - Interest

- Main income: Interest received/receivable on loans and advances to members.
- Interest is normally accounted on an accrual basis for 'performing' loans, but interest on overdue/doubtful loans is generally recognised only on receipt (cash basis) as per RBI/NABARD prudential norms adapted for co-operative credit institutions - this is a critical, examinable distinction from ordinary accrual accounting.
- Other income: entrance fees, membership fees, commission for acting as agent for input/fertiliser distribution or crop insurance, if undertaken.

Expenditure

- Interest paid on borrowings from the Central Co-operative Bank / other refinancing agencies (a major expense, since PACS largely on-lend borrowed funds).
- Salaries of secretary/staff, office expenses, audit fees.
- Provision for overdue interest / Bad and Doubtful Debts Reserve - since agricultural loans face high default risk due to crop failure, weather, etc., prudent provisioning (often as per NABARD-prescribed norms/asset classification - standard, sub-standard, doubtful, loss) is a distinguishing feature of PACS accounting.

Statutory Reserve and Appropriation

- Statutory Reserve Fund - often a higher minimum percentage (commonly not less than 25%, sometimes higher for credit societies given the risk profile) is compulsorily transferred before dividend.
- Bad Debts Reserve, Agricultural Credit Stabilisation Fund (to reschedule loans in the event of natural calamity/crop failure) are typical additional appropriations unique to credit societies.

Balance Sheet -Principle.

- Loans and Advances to members form the principal asset, classified by:
- Purpose - short-term (crop/seasonal loans) vs medium-term (for implements, wells, etc.)
- Security - loans against produce, personal surety, or mortgage of land
- Recovery status - current dues vs overdue loans, separately disclosed, since overdue percentage is a key regulatory performance indicator for PACS.
- Cash Credit / Borrowings from the District Central Co-operative Bank form the principal liability, since PACS primarily on-lend funds borrowed from the financing bank rather than their own owned funds.
- Owned Funds = Share capital + Reserves - a key ratio (owned funds to working capital) monitored by the Registrar/NABARD to assess the society's financial health and borrowing eligibility.
- Deposits mobilised from members (if the PACS is permitted to accept deposits) shown as a liability.

Feature	Consumer	Marketing	Housing	Dairy	PACS
Nature of activity	Trading (buy & sell goods)	Agency/ commission sale + pooling	Non-trading, service/asset holding	Manufacturing + trading (milk & products)	Financial intermediation (lending)
Main statement besides P&L	Trading A/c	Trading A/c + Pool A/c	Income & Expenditure only	Manufacturing + Trading A/c	Interest Income & Expenditure only
Principal income	Sales/Gross profit	Commission, grading/processing charges	Subscription, maintenance, ground rent	Sale of milk/ products	Interest on loans
Distinctive appropriation to members	Rebate on purchases	Pool proceeds pro-rata to produce supplied	N/A (service society)	Incentive on fat/SNF-based supply	N/A (borrowers, not sellers)

Distinctive reserve	Reserve fund, bad debts reserve	Price fluctuation fund	Sinking fund for building repairs	Price fluctuation/ equalisation reserve	Bad debts/ overdue reserve, agricultural stabilisation fund
Key balance sheet asset	Stock-in-trade	Stock held on behalf of members (agency stock)	Land and building	Plant & machinery, processed stock	Loans and advances (classified by overdue status)
Key liability	Trade creditors, bank loan	Amount due to members for pooled produce	Sinking fund, members' loan	Amount payable to members for milk	Borrowings from Central Co-op Bank, deposits

Recap

- ◇ Co-operative societies are service-oriented organisations governed by the Co-operative Societies Act, Rules, Registrar's directions, and bye-laws.
- ◇ Surplus is the excess of income over expenditure and is appropriated to Statutory Reserve Fund, Co-operative Education Fund, Common Good Fund, Dividend Equalisation Fund, and Price Fluctuation Fund, as applicable.
- ◇ Member and non-member transactions are accounted for separately, and Government Share Capital is separately disclosed in the Balance Sheet.
- ◇ Consumer Co-operative Societies prepare a Trading Account and provide patronage rebate to members.
- ◇ Marketing Co-operative Societies maintain a Pool Account and earn commission income from marketing activities.
- ◇ Housing Co-operative Societies prepare an Income and Expenditure Account and maintain a Sinking Fund.
- ◇ Dairy Co-operative Societies prepare Milk Procurement and Manufacturing Accounts.
- ◇ PACS mainly earn interest income from loans and maintain provisions such as Bad Debts Reserve and Agricultural Credit Stabilisation Fund.
- ◇ Profit and Loss Account determines the net surplus or deficit, while the Balance Sheet presents assets, liabilities, reserves, and members' funds.

- ◇ Major assets include stock-in-trade in consumer societies, loans and advances in PACS, plant and machinery in dairy societies, and land and buildings in housing societies.
- ◇ Stock-in-trade is generally valued at cost or market value, whichever is lower, while Pool Stock represents members' produce held by marketing societies.

Objective Questions

1. What is the guiding principle of co-operative societies?
2. Which authority prescribes the format of final accounts for co-operative societies?
3. What is the excess of income over expenditure called in a co-operative society?
4. Which reserve fund is compulsorily created before declaring a dividend?
5. What is the minimum percentage of net profit generally transferred to the Statutory Reserve Fund?
6. What is the rebate given to members based on their purchases in a consumer co-operative society called?
7. Which accounting statement is specially prepared in a marketing co-operative society for pooled produce?
8. Which type of co-operative society prepares only an Income and Expenditure Account and not a Trading Account?
9. What fund is created for future major repairs in a housing co-operative society?
10. In a dairy co-operative society, milk is valued based on which quality parameters?
11. Which account records the quantity and value of milk purchased from members?
12. Which reserve is created in dairy societies to absorb losses arising from price fluctuations?
13. What is the principal source of income of a PACS?
14. On what basis is interest on doubtful loans generally recognised in PACS?
15. Which institution is the principal source of borrowings for a PACS?

Answers

1. Service before profit.
2. Registrar of Co-operative Societies.
3. Surplus.
4. Statutory Reserve Fund.
5. 25% of net profit.
6. Patronage rebate.
7. Pool Account.
8. Housing co-operative society.
9. Sinking Fund.
10. Fat and SNF (Solids-Not-Fat) content.
11. Milk Procurement Account.
12. Price Fluctuation or Equalisation Reserve.
13. Interest on loans and advances.
14. Cash basis (on receipt).
15. District Central Co-operative Bank.

Self-Assessment Questions

1. Explain the legal and regulatory framework governing the preparation of final accounts in co-operative societies.
2. Discuss the general principles common to all co-operative societies in the preparation of the Profit and Loss Account and Balance Sheet.
3. Explain the compulsory appropriations of surplus in co-operative societies and their significance.
4. Describe the accounting treatment of member and non-member transactions in co-operative societies.
5. Explain the preparation of the Trading Account and Profit and Loss Account of a consumer co-operative society.

6. Discuss the concept of patronage rebate and its accounting treatment in a consumer co-operative society.
7. Explain the preparation of the Income and Expenditure Account and Pool Account in a marketing co-operative society.
8. Describe the balance sheet features of a marketing co-operative society.
9. Explain why housing co-operative societies do not prepare a Trading Account.
10. Discuss the accounting treatment of income, expenditure, and the Sinking Fund in a housing co-operative society.
11. Explain the preparation of the Manufacturing Account and Trading Account in a dairy co-operative society

Assignments

1. Discuss the distinctive accounting features of dairy co-operative societies.
2. Explain the principles governing the preparation of the Profit and Loss Account of a Primary Agricultural Credit Society (PACS).
3. Describe the balance sheet features of a PACS with special reference to loans, advances, and borrowings.
4. Compare the accounting principles and financial statement preparation of Consumer, Marketing, Housing, Dairy, and Primary Agricultural Credit Societies (PACS).

Reference

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SGOU

5 BLOCK

Maintenance of Accounts

Unit

Introduction and Special Features

Learning Outcomes

After completing this unit, the learner will be able to:

- ◇ comprehend the concept and importance of maintaining accounts in different categories of co-operative societies
- ◇ identify the statutory and accounting requirements applicable to various cooperative societies

Prerequisites

Co-operative societies operate in diverse sectors such as banking, agriculture, dairy, housing, consumer distribution, and marketing. Although all these organisations follow the fundamental principles of accounting, the nature of their activities requires them to maintain different accounting records and financial statements. For example, a Credit Co-operative Society records loans, deposits, and interest transactions, whereas a Housing Cooperative Society focuses on maintenance charges, building funds, and member contributions. Understanding these differences is essential for anyone involved in co-operative accounting.

A learner studying this topic will be able to appreciate why a uniform accounting system cannot be applied to every co-operative society. Knowledge of the special accounting features of different categories of co-operative societies helps accountants, auditors, managers, and students maintain accurate books of accounts, ensure statutory compliance, and prepare reliable financial reports. This understanding also minimises accounting errors and promotes transparency and accountability in co-operative management.

For instance, an accountant appointed in a Dairy Co-operative Society cannot follow the same accounting procedures used in a Consumer Co-operative Society because each society deals with different transactions, income sources, and statutory requirements. Therefore, learning the special features of maintaining accounts in different categories of co-operative societies equips learners with the practical knowledge required to handle category-specific accounting practices effectively and confidently.

Keywords

Co-operative Society, Co-operative Accounting, Credit Co-operative Society, Consumer Co-operative Society, Marketing Co-operative Society, Housing Co-operative Society, Dairy Co-operative Society

Discussion

5.1.1 Co-operative accounting

Co-operative accounting is a distinct branch of accounting because a co-operative society is not run purely for profit - it is run for the mutual economic benefit of its members, on co-operative principles. Because of this, the law itself (not just accounting convention) prescribes *how* accounts are to be kept, *what* funds must be created out of profits, *who* audits them, and *what format* the final statements must take.

In Kerala, the entire legal and accounting framework of a registered co-operative society flows from:

- The Kerala Co-operative Societies Act, 1969 (Act 21 of 1969) - the parent legislation, and
- The Kerala Co-operative Societies Rules, 1969, framed under Section 109 of the Act.

The Act defines "auditing of accounts of co-operative societies" as a close examination of financial transactions and overdue debts, the maintenance of books of accounts, documents and other records, and preparation of an audit report - including an inquiry into the affairs of the society to check the correctness of accounts and how far its activities promoted the economic welfare of members in accordance with co-operative principles.

This single definition explains why co-operative accounting cannot be studied as ordinary commercial accounting - it is accounting *plus* statutory compliance *plus* audit under a special departmental machinery (the Director of Co-operative Audit), not under the Companies Act framework.



The accounting or "co-operative year" is also statutorily fixed - it runs from the first day of April of any year to the 31st of March of the succeeding year, or, for a society permitted otherwise by the Registrar, up to such other date as sanctioned. This uniform year end is what allows the Registrar, the Audit Department, and financing banks to consolidate figures of thousands of societies into one State-level picture every year.

5.1.2 The Three-Tier Co-operative Structure in Kerala

Kerala's co-operative movement (like most of India) is organised on a three-tier federal structure, and accounting requirements change materially as you move up each tier:

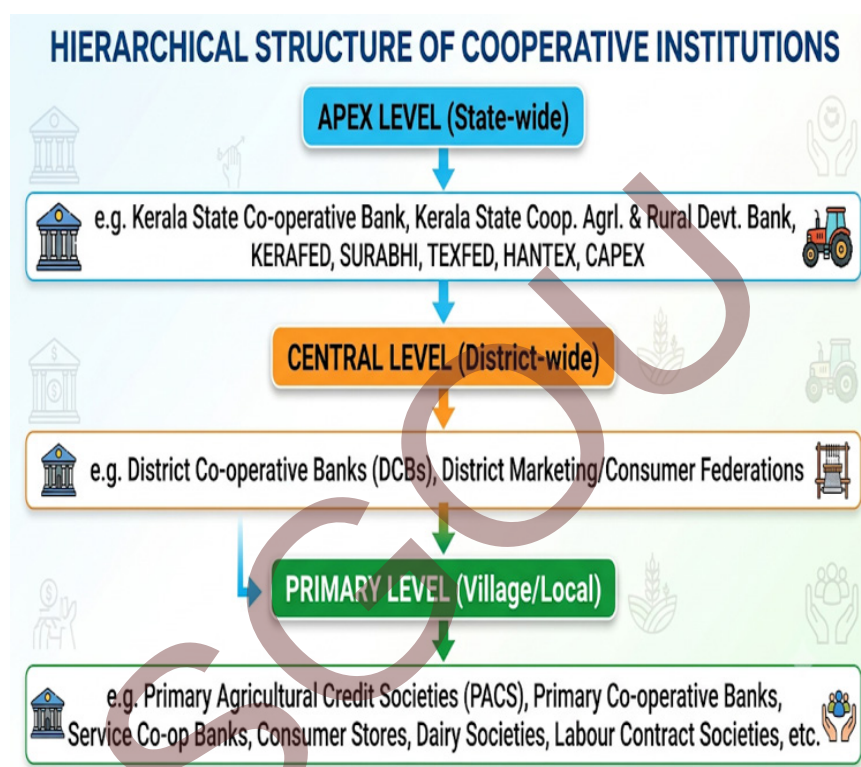


Fig.5.1.1. Hierarchical Structure of Co-operative Institutions

The Act itself builds this hierarchy into its definitions: an "apex society" is one having the *whole State* as its area of operation, whose members are only other societies with similar objects, and which is declared as such by the Registrar. 'Apex society' means a society having the whole of the State as its area of operation and having as its members only other societies with similar objects and declared as such by the Registrar. A society lower down (central/primary) is correspondingly confined to a district or a smaller local area and typically has individuals (not just societies) as members.

In practice: the Kerala State Co-operative Bank functions as the apex financing institution for the credit sector - it borrows from NABARD and channels funds down to the District Co-operative Banks and further to Primary Agricultural Credit Societies. The Kerala State Co-operative Bank, with its headquarters at Trivandrum, is the apex cooperative society in the State - it finances and controls the working of the Central

co-operative banks in the State, and serves as a link between NABARD, from which it borrows funds, and the Central co-operative banks and village primary co-operative societies. For long-term credit, a parallel apex-central-primary chain exists through the Kerala State Co-operative Agriculture and Rural Development Bank at the apex and Primary Co-operative Agriculture and Rural Development Banks at the taluk/block level, financing long-term investment needs like irrigation and plantation development.

Table- 5.1.1-3 - Tier Co-operative credit Structure in Kerala

Feature	Primary Level	Central Level	Apex Level
Members	Individuals (and sometimes societies)	Primary societies (as member-societies) + individuals in some cases	Only societies/ central banks
Books maintained	Basic - cash book, ledger, member pass books	Branch + Head Office books, inter-branch accounts	Consolidated statewide accounts, treasury accounts
Audit authority	Auditor deputed by Director of Co-operative Audit	Same, but larger scale, often continuous audit	Statutory + RBI inspection (for banks) + Co-op audit
Regulatory overlay	KCS Act & Rules only	KCS Act & Rules + RBI (if licensed bank)	KCS Act & Rules + Banking Regulation Act, 1949 (AACS) + RBI/NABARD
Consolidation need	None (base unit)	Consolidates data of member primaries for reporting upward	Consolidates data of all central banks/societies in the State

5.1.3 Special features of Maintenance of Account of Different Categories of Co-operative

Before looking separately at credit and non-credit societies, certain accounting requirements apply uniformly, because they arise directly from the Act and Rules:

5.1.3.1 Appropriation of Net Profit - Section 56

Every society, before it can touch its profit for dividend, must statutorily set aside fixed proportions to specific funds. Under Section 56(1):



- a. transfer an amount not being less than fifteen per cent of the net profits to the reserve fund; and
- b. credit such portion of the net profits, not exceeding five per cent, as may be prescribed, to the Co-operative Education Fund;
- c. ten per cent of the net profit to the Co-operative Member Relief Fund as may be prescribed.

Only the balance left after these compulsory appropriations may be used for member distributions such as:

- dividend on paid-up share capital, subject to a ceiling -payment of dividends to members on their paid-up share capital at such rate not exceeding twenty five per cent as may be prescribed;
- bonus/patronage to members based on the volume of business each member did with the society, as specified in the bye-laws; payment of bonus to members on the amount or volume of business done by them with the society, to the extent and the manner specified in the bye-laws; and
- a further 7% to the Agricultural Credit Stabilisation Fund in the case of societies to which that applies.

This is the single most important feature that separates a co-operative's Profit & Loss Appropriation Account from that of an ordinary company - reserve/education/relief fund transfers come before dividend, and are compulsory, not discretionary.

5.1.3.2 Reserve Fund - Rules 60 and 61

The Reserve Fund created under Section 56 is not merely an accounting entry. Its investment and utilisation are governed by Rules 60 and 61 of the Kerala Co-operative Societies Rules. Rule 60 prescribes the manner in which the Reserve Fund shall be invested (i.e, Mode of Investment of Reserve Fund), while Rule 61 specifies the purposes for which the Reserve Fund may be used (i.e, Object of Reserve Fund) and also provides for its disposal upon the winding up of a society. This means the Reserve Fund appears on the Balance Sheet matched by specific earmarked investments, not merely mixed into general working capital - an important audit checkpoint.

5.1.3.3 Writing off Bad Debts - Rule 62

Bad debts and losses cannot simply be written off by a society's management at will; Rule 62 governs the *procedure* for writing off bad debts and losses, which typically requires sanction of the general body / Registrar depending on the amount, and disclosure in the accounts.

5.1.3.4 Fluid Resources - Rule 63

Every society (especially credit societies) must maintain a prescribed minimum proportion of its liabilities to members and depositors in liquid/fluid form (cash, bank balances, government securities). Rule 63. Maintenance of fluid resources by societies

- this is analogous to the SLR concept in banking and is a distinctive solvency-related accounting/reporting requirement peculiar to co-operative credit institutions.

5.1.3.5 Audit - Sections 63–66 and Rules 64–65

Unlike companies audited by chartered accountants of the members' choice, co-operative societies in Kerala are audited through a statutory departmental machinery - the Director of Co-operative Audit - and the audit fee itself is fixed by that authority and recoverable as arrears if unpaid. The amount of fee or cost for the audit of accounts of society for each year shall be such as may be fixed by the Director of Co-operative Audit. The fee shall be paid by the society concerned within thirty days of intimation thereof, and in case of non-payment within the period it shall be recoverable in the manner specified in section 79, or can be recovered from the account maintained in the financing bank by the society, through an order issued by the Registrar. Rule 64 (Audit) and Rule 65 (Levy of Audit fees) supplement this. Because the audit fee itself can be recovered compulsorily from a society's bank account, 'audit fee payable' is a standard, statutorily-backed liability line in co-operative balance sheets that has no exact parallel in ordinary company accounts.

5.1.3.6 Computerised/Uniform Accounting Software

Recent amendments push societies toward a common, Registrar-approved accounting software, to standardise books across thousands of societies and enable real-time supervision: the accounts of societies shall be prepared only by using software approved by the Registrar, and the Registrar shall issue necessary guidelines for installation, maintenance and use of common software to all co-operative societies. This is gradually eliminating manual ledgers, particularly at primary level, and is a feature students should note as a *current* special feature of Kerala's co-operative accounting.

5.1.4 Book Profit vs. Divisible Profit

The primary objective of a co-operative society is to provide services to its members rather than to maximise profits. However, after preparing the Profit and Loss Account at the end of an accounting year, a co-operative society may earn a surplus or profit. This profit cannot be distributed directly among the members. Before distribution, the society must comply with the provisions of the Co-operative Societies Act, Rules, and its Bye-laws. Therefore, it is important to distinguish between Book Profit and Divisible Profit.

5.1.4.1 Book Profit

Book profit (also called "gross profit" or "net profit as per accounts") is the profit that emerges directly from the society's Profit and Loss Account, prepared according to normal accounting principles - income less expenses, depreciation, and provisions for known liabilities.

Features:

- It is an accounting figure, arrived at strictly by following accounting standards and the norms prescribed by the Registrar of Co-operative Societies.



- It has not yet been adjusted for statutory appropriations (reserve fund, education fund, etc.) or for past losses.
- It may include notional or unrealised items (e.g., appreciation on investments) that cannot lawfully be distributed to members.
- It is the profit reported at the top of the appropriation account, before any deductions mandated by the Co-operative Societies Act.

Illustration 1

A Consumer Co-operative Society prepares its Profit and Loss Account for the year ended 31 March 2026 and finds that:

- Net Sales Surplus: ₹8,50,000
- Less: Administrative Expenses: ₹2,00,000
- Less: Depreciation: ₹50,000

Net Profit as per Profit and Loss Account = ₹6,00,000

Here, ₹6,00,000 is the Book Profit because it is the profit recorded in the books before any statutory appropriations.

5.1.4.2 Divisible Profit

Divisible profit is the balance that actually remains available for distribution to members (as dividend, bonus, or patronage refund) after all statutory and other compulsory appropriations have been deducted from book profit.

Generally, before arriving at divisible profit, the following appropriations may be made:

- Statutory Reserve Fund
- Co-operative Education Fund
- Common Good Fund
- Dividend Equalisation Fund (where applicable)
- Other statutory or bye-law requirements

Only the remaining balance is available for distribution as dividend, patronage rebate, bonus, or other permissible appropriations.

Divisible Profit = Book Profit – (Statutory Reserve Fund + Cooperative Education Fund + Provision for bad/doubtful debts + Carried-forward losses, if any + Any other compulsory appropriation under the Act/Rules/Bylaws)

Features:

- It is a residual figure, not an independent accounting concept.
- Only divisible profit can be paid out to members; book profit cannot be distributed as-is.
- It reflects what the law considers "safe" to hand out without weakening the

society's financial base.

Illustration 2

A Primary Agricultural Credit Society has a Book Profit of ₹6,00,000 for the year.

The following appropriations are required:

Particulars	Amount (₹)
Book Profit	6,00,000
Less: Statutory Reserve Fund (25%)	1,50,000
Less: Co-operative Education Fund	6,000
Less: Common Good Fund	12,000
Less: Other statutory appropriations	32,000
Divisible Profit	4,00,000

Thus, ₹4,00,000 is the amount available for distribution in accordance with the Act and the Bye-laws.

Table 5.1.2. Book Profit Vs Divisible Profit

Basis	Book Profit	Divisible Profit
Meaning	Profit as shown in the P&L Account	Profit left after statutory appropriations
Stage	Starting point of appropriation	Final/residual figure
Governed by	Accounting principles	Co-operative Societies Act, Rules, and Bylaws
Distribution to members	No, not directly	Yes
Inclusion of unrealised gains	May include them	Excludes them (realised, distributable surplus only)
Purpose	Measures overall financial performance	Determines the actual dividend/bonus pool

Table 5.1.3. Distribution of Net Profit

Co-operative law lays down a specific order of appropriation that a society must



follow before any surplus reaches members.

Step	Item	Kerala Act, 1969 - Provision
1	Statutory Reserve Fund	Not less than 15% of net profits [S.56(1)(a)] - mandatory minimum; a society can transfer more but not less
2	Co-operative Education Fund	Up to 5% of net profits, as prescribed [S.56(1)(b)] - paid toward co-operative education (routed via the Registrar/Co-operative Union)
2A	Co-operative Member Relief Fund	10% of net profits, as prescribed [S.56(1)(c), inserted by Act 8/2013] - Kerala added this as a third <i>compulsory</i> deduction, on top of Reserve Fund and Education Fund
3-4	Bad/doubtful debts, past losses	Not separately numbered in S.56 itself - handled through normal accounting provisions before "net profit" is even arrived at, and through Rule 62 (writing off bad debts and losses)
5	Dividend on share capital	Not exceeding 25% of paid-up share capital, at a rate prescribed [S.56(2)(a)] (raised from 20% by Kerala Act 7/2010)
6	Bonus to members	On volume/amount of business done with the society, as specified in the bylaws [S.56(2)(b)] - no fixed statutory percentage; bylaws fix the rate
7	Other funds	Agricultural Credit Stabilization Fund - 7% [S.56(2)(c)]; Professional Education Fund - 5% [S.56(2)(cc)]; Charitable donations - up to 10% [S.56(2)(d)]
8	Balance	May be utilised for any purpose specified in the bylaws, except payment of bonus to employees [S.56(2)(e)]

5.1.5. Statutory Basis - the Co-operative Societies Act

Co-operative societies in India are governed either by their respective State

Co-operative Societies Act (e.g., the Kerala Co-operative Societies Act, 1969) or, for societies operating across states, by the Multi-State Co-operative Societies Act, 2002. Both types of legislation contain a specific section on 'Disposal of net profit.'

Example - Kerala Co-operative Societies Act, 1969, Section 56 (Disposal of net profit) requires that a society, out of its net profits in any year:

- transfer not less than a prescribed minimum percentage of net profits to the Reserve Fund; and
- credit a further specified portion (subject to a ceiling) to the Co-operative Education Fund.

Only after these compulsory transfers can any part of the profit be applied toward dividend, bonus, or other distribution to members. The Act also generally prohibits distribution of any funds *other than* net profit (or a permitted dividend/bonus equalisation fund) among members - protecting share capital and reserves from being paid out as if they were profit.

Similarly, the Multi-State Co-operative Societies Act, 2002 (Section 63) prescribes that a multi-state co-operative society must transfer specified percentages of its net profit to designated funds before distribution, and most State Acts (Maharashtra, West Bengal, etc.) follow a broadly similar pattern, differing mainly in the exact percentages and the names of the funds. The Co-operative Societies Rules framed under the Act (state-specific) prescribe the operational details: exact percentages for each fund, the manner of investing reserve funds, timelines for transfer, and the procedure for utilising funds like the Education Fund (often routed through the State Co-operative Union).

5.1.6 Role of Bylaws

The Bylaws are the society's own internal rulebook, framed by its members/board and registered with the Registrar. Bylaws:

- Cannot override or dilute any statutory requirement of the Act or Rules - they operate strictly within the boundaries the Act sets.
- Can add further conditions - for example, specifying the exact rate of dividend (within the ceiling fixed by the Act/Rules), laying down the basis and formula for calculating patronage bonus, creating additional voluntary funds (e.g., a members' welfare fund), or fixing remuneration payable to a member for services rendered to the society.
- Provide the mechanism for how the general body approves the appropriation account and profit distribution proposal each year, usually at the Annual General Meeting, based on the audited accounts.

Table 5.1.4. Statutory vs. Non-Statutory Requirements



Aspect	Statutory Requirement	Non-Statutory Requirement
Source	Co-operative Societies Act and Rules made under it	Bylaws of the society / board resolutions / conventions
Nature	Compulsory - no discretion to the society	Optional/discretionary, within limits allowed by the Act
Examples	Minimum transfer to Reserve Fund; transfer to Co-operative Education Fund; ceiling on dividend rate; prohibition on distributing capital as profit	Rate of bonus/patronage refund (within the Act's ceiling); creation of a welfare or charitable fund; remuneration to members for services rendered; manner of utilising a permitted "other purposes" fund
Consequence of non-compliance	Registrar can refuse to register the appropriation, surcharge office-bearers, or take other action under the Act	Generally an internal/administrative matter; can be corrected by amending the bylaws through the general body and Registrar's approval
Flexibility across societies	Uniform for all societies under that Act	Varies from society to society depending on its bylaws
Can be changed by whom	Only by legislative amendment to the Act/ Rules	By the general body of members, subject to Registrar's approval of the bylaw amendment

Statutory requirements:

- Compulsory transfer to Reserve Fund at a minimum prescribed percentage.
- Compulsory transfer to Co-operative Education Fund.
- Ceiling on the rate of dividend payable on share capital.
- Restriction that no fund other than net profit (or a permitted equalisation fund) may be distributed among members.
- Requirement of audited accounts and Registrar's oversight before distribution.

Non-statutory requirements:

- The precise formula for calculating patronage/bonus to members based on their transactions with the society.
- Creation and utilisation of optional funds like a Common Good Fund, Building Fund, or Members' Welfare Fund (as long as within any overall ceiling the Act allows for "other purposes").

- Scale of remuneration/honorarium payable to a member for services rendered to the society.
- Internal procedure and timelines for placing the appropriation proposal before the Annual General Meeting.

Recap

- ◇ Book Profit is the net profit as per the Profit and Loss Account
- ◇ Divisible Profit means Profit available after statutory appropriations
- ◇ Profit and Loss Account is the Basis for determining book profit
- ◇ Statutory Appropriations are Mandatory deductions before profit distribution
- ◇ Statutory Reserve Fund is Compulsory transfer from net profit
- ◇ Co-operative Education Fund is Contribution for co-operative education
- ◇ Common Good Fund issued for Welfare of members and society
- ◇ Dividend Equalisation Fund issued for Stabilisation of dividend distribution
- ◇ Distribution of Net Profit are Governed by the Act, Rules, and Bye-laws
- ◇ Dividend is Distribution from divisible profit only
- ◇ Patronage Rebate means Distribution based on members' transactions
- ◇ Bye-laws are the Internal rules governing profit distribution
- ◇ Co-operative Societies Act is the Legal framework for profit appropriation
- ◇ Surplus Distribution is Subject to statutory requirements

Objective Questions

1. What is Book Profit?
2. From which financial statement is Book Profit determined?
3. What is Divisible Profit?
4. Can the entire Book Profit be distributed among members?
5. Which fund receives the compulsory statutory transfer from net profit?
6. What is the purpose of the Co-operative Education Fund?
7. Which fund is created for the welfare of members and society?



8. Which document prescribes the internal rules for profit distribution in a co-operative society?
9. What is the legal framework governing the distribution of net profit in co-operative societies?
10. Which profit is available for distribution to members?
11. What is deducted from Book Profit to arrive at Divisible Profit?
12. Can dividend be declared before statutory appropriations are made?
13. On what basis is patronage rebate distributed?
14. Why is Divisible Profit generally less than Book Profit?
15. What is the primary objective of distributing profits in a co-operative society?

Answers

1. Net profit shown in the Profit and Loss Account.
2. Profit and Loss Account.
3. Profit available for distribution after statutory appropriations.
4. No.
5. Statutory Reserve Fund.
6. To promote co-operative education.
7. Common Good Fund.
8. Bye-laws.
9. The Co-operative Societies Act and Rules.
10. Divisible Profit.
11. Statutory appropriations and other mandatory deductions.
12. No.
13. Members' transactions with the society.
14. Because statutory appropriations are deducted from Book Profit.
15. To distribute surplus in accordance with statutory provisions and the society's Bye-laws.

Self- Assessment Questions

1. Explain the concept of Book Profit in a co-operative society with a suitable illustration.
2. Define Divisible Profit and explain how it is determined.
3. Distinguish between Book Profit and Divisible Profit.
4. Explain the statutory appropriations that must be made before distributing the net profit of a co-operative society.
5. Discuss the role of the Co-operative Societies Act and Bye-laws in the distribution of net profits.
6. Explain why the entire Book Profit cannot be distributed among members.
7. Describe the procedure for arriving at Divisible Profit from Book Profit.
8. Discuss the significance of the Statutory Reserve Fund in co-operative societies.
9. Explain the importance of the Co-operative Education Fund and Common Good Fund.
10. Describe the role of Bye-laws in determining the distribution of net profits.

Assignments

1. Explain the legal provisions governing the declaration of dividend in co-operative societies.
2. Discuss the importance of statutory appropriations in ensuring the financial stability of co-operative societies.
3. Differentiate between statutory and non-statutory appropriations of profit.
4. Explain the concept of patronage rebate and its relationship with divisible profit.
5. Prepare a note explaining the process of distribution of net profits in a co-operative society.

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Unit

Credit and Non-Credit Co-Operatives.

Learning Outcomes

After studying this unit, the learner will be able to:

- ◇ explain the classification of co-operative societies into credit and non-credit co-operatives
- ◇ differentiate between primary, central, and apex level co-operative institutions based on their functions and operational area
- ◇ describe the objectives, structure, and functions of credit co-operatives at different levels
- ◇ explain the role and significance of non-credit co-operative societies in promoting socio-economic development

Prerequisites

Co-operative societies are established to meet the economic and social needs of their members through collective effort. However, not all co-operatives perform the same functions. While some societies primarily provide financial assistance through loans and credit facilities, others engage in activities such as marketing, consumer distribution, dairy farming, housing, labour welfare, or industrial production. Understanding these classifications enables learners to appreciate how co-operatives address diverse community needs through specialised services.

The study of credit and non-credit co-operatives at the primary, central, and apex levels helps learners understand the organisational framework of the co-operative movement. For example, a farmer may obtain a crop loan from a Primary Agri-

cultural Credit Society (PACS), while policy support and financial assistance flow from district and state-level co-operative institutions. Similarly, consumers purchase essential commodities through consumer co-operatives, and artisans market their products through marketing co-operatives. These illustrations demonstrate how different categories of co-operatives function together within a coordinated system.

Knowledge of special types of co-operatives is equally important because modern co-operatives operate in diverse sectors such as housing, fisheries, labour, dairy, women empowerment, and industrial development. By studying this topic, learners gain a comprehensive understanding of the varied roles played by co-operative institutions, enabling them to identify the appropriate co-operative structure for different economic activities and appreciate the contribution of co-operatives to inclusive and sustainable development.

Keywords

Credit Co-operative, Non-Credit Co-operative, Primary Co-operative Society, Central Co-operative Society, Apex Co-operative Society, Primary Agricultural Credit Society (PACS), District Co-operative Bank, State Co-operative Bank

Discussion

5.2.1 Credit Co-operative Societies

A Credit Co-operative Society is a co-operative society established primarily to provide financial assistance to its members in the form of loans and credit facilities. These societies encourage savings among members, mobilise deposits, and provide affordable credit for agricultural, business, housing, educational, or personal purposes. Their main objective is to protect members from exploitation by private moneylenders by providing timely and low-cost financial services.

Objectives

- Encourage thrift and savings among members.
- Provide loans at reasonable interest rates.
- Meet the credit requirements of members.
- Promote financial inclusion and rural development.

Examples

- Primary Agricultural Credit Society (PACS)
- Primary Co-operative Bank

- Urban Co-operative Bank
- District Co-operative Bank (Central Level)
- State Co-operative Bank (Apex Level)
- Co-operative Agricultural and Rural Development Bank

5.2.1.1 Special Features of Accounts - CREDIT Co-operatives

A. Primary Level (PACS / Primary/Service Co-operative Banks)

- Member-wise subsidiary ledgers are the backbone: Share Ledger, Loan Ledger (often subdivided into short-term, medium-term, and long-term loans), and Deposit Ledger (savings, fixed, recurring deposits). The general ledger control accounts must tally with the total of these subsidiary ledgers every day - a feature almost unique to credit societies because of the sheer number of small, individual member accounts.
- Interest accounting on an accrual basis for loans (interest receivable) but overdue/doubtful interest is taken to an 'Interest Suspense/Overdue Interest Reserve' account rather than straight to income, so that profits are not overstated by interest that may never be recovered.
- Provision for Bad and Doubtful Debts is a mandatory charge before arriving at 'net profit' under Section 56 - this is why, unlike a trading concern, the credit society's P&L Appropriation Account shows Reserve Fund/Education Fund/Member Relief Fund transfers calculated *after* this provisioning, not before.
- Statutory Reserve Fund (minimum 15% of net profit, Section 56(1)(a)) is unusually large compared to ordinary companies (which have no such statutory minimum), reflecting the emphasis on capital adequacy of a member-owned lender.
- Restriction on loans and borrowings (Rules 55 and 56) means the Balance Sheet must separately disclose borrowings from higher-tier institutions (District Co-op Bank) as distinct from member deposits, since both look like 'liabilities' but are governed by different statutory ceilings.
- Fluid resources ratio (Rule 63) must be demonstrated in the Balance Sheet/notes - cash + approved securities as a percentage of deposits + borrowing liabilities.

Table 5.2.1. Profit & Loss Appropriation of a Primary Credit Society

Particulars	Amount (₹)
Net Profit for the Year	4,00,000
Less: Appropriations	
Transfer to Reserve Fund (15% minimum)	(60,000)
Transfer to Co-operative Education Fund (5% maximum)	(20,000)



Transfer to Co-operative Member Relief Fund (10%)	(40,000)
Balance Available for Distribution	2,80,000
Less: Distribution to Members	
Dividend to Members on Paid-up Share Capital (12%, within the 25% statutory ceiling)	(1,50,000)
Bonus/Patronage to Members on Business Done	(80,000)
Balance Carried to General Reserve / Balance Sheet	50,000

B. Central Level (District Co-operative Banks - DCBs)

- Accounting shifts from single-unit bookkeeping to branch accounting - a DCB operates through many branches across a district, so Head-Office and Branch reconciliation, inter-branch transfer accounts, and consolidated Trial Balances become the special feature.
- Being licensed banks, DCBs must additionally follow Reserve Bank of India norms for income recognition, asset classification (NPA norms), and provisioning - dual compliance with both the KCS Act/Rules *and* the Banking Regulation Act, 1949 (as applicable to co-operative societies).
- NPA classification and provisioning (standard/sub-standard/doubtful/loss assets) becomes a distinct accounting exercise not seen at primary-society level in the same regulatory depth.
- Statutory Liquidity Ratio (SLR)/CRR-type maintenance is verified by auditors - the auditor is expected to check that the bank complied with the provisions of the Banking Regulation Act with respect to SLR maintenance, and that returns have been filed by the bank properly and timely. Investments made to satisfy such requirements must be separately verifiable in the accounts.
- DCBs act as the refinancing conduit - funds received from the apex bank and lent onward to primary societies must be reflected through distinct 'Refinance from Apex Bank' and 'Loans to Primary Societies' heads, so upward and downward flows are traceable.

C. Apex Level (State Co-operative Bank / Kerala Bank; State Co-op Agri. & Rural Development Bank)

- Accounting here is essentially consolidation accounting - the apex bank's balance sheet aggregates the position of all its constituent central banks/branches across the State.
- As the borrowing conduit from NABARD, the apex bank's accounts show large refinance liabilities and corresponding on-lending assets, requiring careful matching of tenor and interest rate spreads.

- Deposit insurance and unclaimed deposit accounting: apex banks maintain records for funds like the Depositor Education and Awareness Fund (DEAF) -the bank is required to maintain complete details such as name of customer, account number, and amount, including interest accrued transferred to the fund, and submit monthly returns of amounts transferred - an accounting obligation that simply does not arise at primary level.
- Being registered under the KCS Act and licensed under the Banking Regulation Act, apex banks are subject to a layered audit - statutory co-operative audit plus RBI inspection - and their published accounts (Balance Sheet, P&L) generally follow the *banking company format* (Third Schedule-type presentation) rather than the simple co-operative society format used by primary non-banking societies.

5.2.2 Non-Credit Co-operative Societies

A Non-Credit Co-operative Society is a co-operative society that does not primarily provide loans or financial assistance. Instead, it supplies goods, markets products, provides services, creates employment, or undertakes production activities to improve the economic and social welfare of its members.

Objectives

- Supply essential goods at reasonable prices.
- Help members market their products.
- Generate employment opportunities.
- Promote production and service activities.
- Improve the standard of living of members.

Examples

- Consumer Co-operatives
- Marketing Co-operatives
- Industrial Co-operatives

Table 5.2.2. Classification for Accounting Purposes: Credit vs Non-Credit Societies

Basis	Credit Societies	Non-Credit Societies
Primary object	Mobilising deposits/ share capital and lending to members	Trading, processing, marketing, providing services (not lending as the core business)
Core books	Loan ledger, Deposit ledger, Interest ledger, Overdue register	Stock/Trading account, Purchase & Sales registers

Main statutory accounts	Profit & Loss A/c dominated by interest income/expense;	Trading and Profit & Loss A/c dominated by purchases/sales;
	Balance Sheet dominated by loans & deposits	Balance Sheet dominated by stock, debtors, fixed assets
Regulatory overlay	May additionally need RBI licence (if it is a bank)	Usually only KCS Act/Rules; sometimes sector regulator (e.g., APMC-type rules for marketing societies)
Example at each level	Primary: PACS / Service Co-op Bank; Central: District Co-op Bank; Apex: Kerala State Co-op Bank	Primary: Consumer store, Milk society; Central: District marketing federation; Apex: KERAFED, SURABHI, TEXTFED

5.2.2.1. Special Features of Accounts - NON-CREDIT Co-operatives

A. Primary Level (Consumer stores, Milk/Dairy societies, Labour Contract societies, Weavers' societies, etc.)

- The core statement is a Trading and Profit & Loss Account (as in any trading concern) - Purchases, Sales, Stock, Gross Profit - which is largely absent (or minor) in a pure credit society's accounts.
- Patronage/bonus linked to purchases, not just share capital, is a distinguishing feature: members of a consumer store, for instance, may receive a rebate proportional to their *purchases* from the store during the year, apart from ordinary dividend on shares, exactly as contemplated by Section 56(2)(b) payment of bonus to members on the amount or volume of business done by them with the society.
- Stock valuation and physical verification registers assume importance, since these societies hold inventory (groceries, milk, handloom cloth, coir, etc.) unlike credit societies.
- Labour co-operatives (e.g., a workers' co-operative running an industry) must additionally account for wages, workers' welfare fund, and 'workers' participation in management' bonus structures - for example, the well-known Kerala Dinesh Beedi Workers' Central Co-operative Society, a labour co-operative registered in 1969 with the slogan "Workers' participation in Management." Dinesh Beedi Workers Central Co-operative Society was started/registered in 1969, with headquarters in Kannur, and its slogan is

“Workers participation in Management.” Such societies need payroll-linked accounting integrated with co-operative profit-sharing, a feature not found in either a pure credit society or an ordinary consumer store.

B. Central Level (District wholesale/marketing federations)

Accounting is built around commission and consignment: a district marketing federation typically sells produce on behalf of primary societies/farmers rather than buying and reselling outright, so a Consignment Account / Commission Account (recording sales made on members' behalf, commission earned, and net proceeds remitted to primaries) is a distinguishing statutory-cum-commercial feature.

Grading, storage, and processing charges collected from primary societies need separate service-income heads, distinct from trading margins.

C. Apex Level (KERAFED, HANTEX, HANVEEV, TEXTFED, SURABHI, CAPEX, etc.)

Kerala has numerous sector-specific apex federations functioning under the Registrar of Co-operative Societies or under Functional Registrars - for example, the Kerala State Textile Co-operative Federation (Texfed), Kerala State Cashew Workers Apex Industrial Co-operative Society (Capex), Kerala Handicrafts Apex Co-operative Society (Surabhi), and Kerala Coconut Farmers Co-operative Federation (Kerafed).

Special accounting features at this level include:

- Consolidation of numerous primary/central society accounts into one apex-level Trading and P&L Account and Balance Sheet, often across product lines (e.g., Kerafed consolidating coconut-based products from many primary societies).
- Government subsidy and grant accounting: many apex federations receive price-support subsidies, marketing subsidies, or capital grants from the State Government, which must be accounted for separately (as capital reserve or deferred income, depending on the nature of the grant) rather than merged into trading income.
- Brand/showroom-based retail accounting - apex bodies like Surabhi (handicrafts) run branded retail outlets, requiring branch-wise stock and sales reconciliation similar to a retail chain, layered on top of co-operative fund accounting.

5.2.3 Special Type Co-operatives - Distinct Accounting Peculiarities

Beyond the simple credit/non-credit, primary/central/apex grid, certain special-purpose co-operatives have accounting features driven entirely by the nature of their object:

5.2.3.1 Housing Co-operatives

- Long-gestation mortgage loan accounting: loans to members are secured by



mortgage of the flat/house itself, requiring a Mortgage Loan Ledger distinct from ordinary unsecured member loans.

- Distinct categories exist even within housing co-operatives - a House Building Society (society builds houses on behalf of members), a House Construction Society (society acquires land, constructs, and allots on a purchase system), and a House Mortgage Society (advances loans for repair/remodelling of existing houses) - each with a different asset-recognition pattern: work-in-progress for house construction accounts, versus straightforward loan-and-interest accounting for mortgage societies.
- Maintenance/sinking fund accounting for common areas is an ongoing feature once the housing project is complete, similar to an apartment owners' association.

5.2.3.2 Fisheries, Dairy and Agricultural Processing Co-operatives

Seasonal/perishable stock accounting - milk, fish and other perishables require daily (sometimes twice-daily) stock and price accounting, with quick settlement to primary producer-members, unlike the monthly/annual cycle common elsewhere.

Government schemes (e.g., integrated fisheries development projects) route subsidy funds through these societies, again requiring subsidy/grant accounting distinct from trading income.

5.2.3.3 Long-Term Land Development / Agricultural and Rural Development Banks

- These operate on a mortgage-of-land security basis for long-term investment credit (irrigation, plantation, land development) rather than short-term crop loans, so the loan ledger structure, security registers, and provisioning periods differ materially from a short-term PACS loan ledger. The Long Term Co-operative Credit Structure consists of the Apex Bank (Kerala State Co-operative Agriculture and Rural Development Bank) and Primary Co-operative Agriculture and Rural Development Banks at taluk/block levels, providing investment credit for activities like minor irrigation, horticulture, and plantation crops.

5.2.3.4 SC/ST and Women's Co-operative Federations

- These federations largely administer government welfare scheme funds and grants on behalf of specific member communities, so grant-in-aid accounting, scheme-wise fund utilisation certificates, and government audit paras dominate their accounting far more than ordinary trading or credit operations. The Kerala State SC/ST Federation and the Kerala State Women's Co-operative Federation function as apex-level bodies under the co-operative structure.

5.2.3.5 Urban Co-operative Banks / Urban Co-operative Societies

- The Act draws a specific statutory distinction: an Urban Co-operative Bank"

means a society registered under the Act having its area of operation in urban areas and undertaking banking business with a licence from the Reserve Bank of India, whereas an Urban Co-operative Society" undertakes non-agricultural credit activities and raises funds to lend to members, with its area of operation generally confined to a municipality or corporation. The accounting consequence is significant: a licensed Urban Co-operative *Bank* must follow RBI's banking-format accounts and prudential norms, while an Urban Co-operative *Society* (without an RBI licence) continues to follow the simpler co-operative-society format under the KCS Act/Rules alone - the same 'urban, non-agricultural credit' activity, but two different accounting regimes depending on licensing status.

Table 5.2.3. Classification of Societies Based on Traditional Co-operative Literature

Category	Primary Level	Central Level	Apex Level
Credit	Member ledgers (share/loan/deposit); overdue interest reserve; Rule 63 fluid resources	Branch accounting; RBI + KCS dual compliance; NPA provisioning	Consolidation of all central banks; NABARD refinance accounting; DEAF/unclaimed deposit accounting; banking-format Balance Sheet
Non-Credit	Trading A/c; stock registers; purchase-linked patronage bonus; payroll-linked accounting (labour societies)	Consignment/commission accounting; grading & processing charges	Multi-society consolidation; government subsidy/grant accounting; branded retail accounting
Special Type	Mortgage loan ledgers (housing); perishable stock accounting (dairy/fisheries); scheme fund accounting (SC/ST, Women's federations)	-	Long-term land-mortgage credit structure (Rural Development Banks); statewide scheme administration

Common Features of Accounting in All Categories and Levels of Co-operative Societies

Although co-operative societies are established for different purposes-such as providing loans, marketing agricultural products, running dairy businesses, supplying consumer goods, or constructing houses-they all function under a common legal

framework. In Kerala, every co-operative society, whether it is a Primary, Central, or Apex Society, is governed by the Kerala Co-operative Societies Act, 1969 and the Kerala Co-operative Societies Rules, 1969. These laws prescribe how societies should maintain their accounts, appropriate their profits, invest their funds, and conduct audits. Therefore, while the nature of business may differ, the legal and accounting requirements remain largely the same.

For example, a Primary Agricultural Credit Society (PACS) mainly provides loans to farmers, whereas a Consumer Co-operative Society sells essential commodities to its members. Similarly, a Dairy Co-operative Society collects and markets milk, while a Housing Co-operative Society assists members in acquiring houses. Although the day-to-day accounting records of these societies differ because of the nature of their transactions, the manner in which they distribute profits, maintain statutory funds, undergo audits, and comply with legal provisions is governed by the same Act and Rules. This common legal framework ensures uniformity, transparency, and accountability in the functioning of all co-operative societies.

The common accounting and legal requirements applicable to all co-operative societies are explained below.

1. Appropriation of Profit

At the end of every financial year, a co-operative society prepares its financial statements and determines its net profit. Unlike ordinary business organisations, the profit earned by a co-operative society cannot be distributed entirely among its members. The Kerala Co-operative Societies Act and Rules specify how the profit should be appropriated.

a. Transfer to Reserve Fund

Every co-operative society must transfer at least 15% of its net profit to the Reserve Fund.

The Reserve Fund acts as a financial safeguard for the society. It strengthens the financial position of the society and helps it meet future contingencies, losses, or expansion requirements.

Example:

If the net profit of a co-operative society is ₹5,00,000,

Reserve Fund = 15% of ₹5,00,000 = ₹75,000

This amount cannot normally be distributed among members.

b. Contribution to Co-operative Education Fund

A co-operative society may contribute up to 5% of its net profit to the Co-operative Education Fund.

The objective of this fund is to promote:

- Co-operative education

- Training programmes
- Member awareness
- Capacity building of employees and office bearers

A well-trained membership improves the efficiency and democratic functioning of co-operative institutions.

c. Contribution to Member Relief Fund

Many co-operative societies contribute 10% of their profit to the Co-operative Member Relief Fund.

This fund is utilised to provide financial assistance to members during unforeseen situations such as:

- Natural disasters
- Serious illness
- Death of members
- Other emergencies

Thus, co-operative societies not only conduct business but also extend social security to their members.

d. Dividend to Members

After making the statutory transfers, the remaining profit may be distributed to members as dividend.

However, the Act places a limit on the dividend payable. Normally, the dividend should not exceed 25% of the paid-up share capital, unless otherwise permitted under the law.

This restriction ensures that societies retain sufficient funds for future development instead of distributing excessive profits.

e. Bonus or Patronage Bonus

Some co-operative societies distribute a bonus (patronage bonus) to members.

Unlike dividends, which are based on the amount of share capital held by members, patronage bonus is generally based on the extent of business transacted with the society.

For example:

- A dairy co-operative may distribute bonus according to the quantity of milk supplied by each member.
- A marketing co-operative may distribute bonus according to the quantity of produce marketed through the society.

This reflects the co-operative principle of rewarding members according to their participation in the society.

f. Statutory Audit

Every co-operative society is required to undergo a statutory audit.

The audit is conducted under the supervision of the Director of Co-operative Audit or by auditors authorised under the Kerala Co-operative Societies Act.

The objectives of a statutory audit are:

- To verify the correctness of accounts.
- To detect errors and fraud.
- To ensure compliance with the Act, Rules, and bye-laws.
- To assess the financial health of the society.
- To protect the interests of members.

Unlike ordinary companies, where auditors are generally appointed by shareholders, co-operative societies follow a statutory audit system prescribed by law.

The society is also required to pay the prescribed audit fee.

g. Regulation of Funds

The Kerala Co-operative Societies Act also prescribes how co-operative societies should manage and invest their funds.

Reserve Fund Investment

The Reserve Fund cannot be utilised freely.

It must be invested only in the manner specified under the Rules, such as:

- Deposits with approved co-operative banks
- Government securities
- Other approved investments

This protects the financial stability of co-operative institutions.

Fluid Resources

Every co-operative society must maintain sufficient fluid resources.

Fluid resources refer to cash and other assets that can easily be converted into cash to meet day-to-day financial obligations.

Examples include:

- Cash in hand
- Cash at bank
- Short-term deposits
- Other highly liquid investments

Maintaining adequate fluid resources enables the society to:

- Pay depositors promptly.
- Disburse loans.
- Meet operating expenses.
- Handle emergencies.

5.2.5. Why is Co-operative Accounting Different from Commercial Accounting?

The basic principles of accounting, such as the double-entry system and preparation of financial statements, are common to both commercial businesses and co-operative societies. However, co-operative accounting has several distinctive features that arise from the co-operative form of organisation.

A commercial business primarily aims to maximise profit for its owners, whereas a co-operative society exists to promote the economic and social welfare of its members. Consequently, the profit of a co-operative society cannot be distributed freely. It must first be appropriated according to statutory provisions by transferring specified amounts to the Reserve Fund, Education Fund, and Member Relief Fund before any dividend or bonus is declared. Furthermore, every co-operative society is subject to statutory audit and must manage its funds in accordance with the Kerala Co-operative Societies Act and Rules.

Therefore, even though different co-operative societies engage in different activities—such as lending, marketing, dairy farming, housing, or consumer services—they all follow a uniform statutory framework for profit appropriation, audit, and fund management. This combination of business-specific accounting practices and common legal requirements makes co-operative accounting a distinct branch of accounting, separate from ordinary commercial accounting. It reflects not only financial management but also the co-operative principles of mutual help, democratic control, accountability, and member welfare.

Recap

- ◇ Credit Co-operative Society is established to provide loans and other financial assistance to members.
- ◇ Non-Credit Co-operative Society is formed to provide goods, services, production, marketing, or employment opportunities.
- ◇ Credit Co-operatives encourage thrift, mobilize deposits, and provide affordable credit.
- ◇ Non-Credit Co-operatives maintain trading activities instead of lending operations.



- ◇ Primary Credit Societies maintain member-wise share, loan, and deposit ledgers.
- ◇ District Co-operative Banks follow branch accounting and RBI prudential norms.
- ◇ Apex Co-operative Banks prepare consolidated financial statements and maintain refinance accounts.
- ◇ Housing Co-operative Societies maintain mortgage loan ledgers and maintenance funds.
- ◇ Dairy and Fisheries Co-operatives account for perishable stock and government subsidies.
- ◇ Minimum 15% of net profit transferred every year to Reserve fund.
- ◇ Contribution up to 5% of net profit for co-operative education and training.
- ◇ Member Relief Fund provides financial assistance to members during emergencies.
- ◇ Statutory Audit conducted under the supervision of the Director of Co-operative Audit.
- ◇ Cash and other liquid assets maintained to meet day-to-day obligations are called Fluid Resources.
- ◇ Co-operative Accounting combines business-specific accounting with statutory provisions under the Kerala Co-operative Societies Act and Rules.

Objective Questions

1. What is a Credit Co-operative Society?
2. What is the primary objective of a Non-Credit Co-operative Society?
3. Which books of accounts are mainly maintained by a credit co-operative society?
4. What is the minimum percentage of net profit transferred to the Reserve Fund?
5. Which authority conducts the statutory audit of co-operative societies?
6. What is meant by patronage bonus?
7. Which accounting statement is the primary financial statement of a consumer co-operative society?

8. Which institution acts as the apex refinancing agency for co-operative banks?
9. Which type of co-operative society maintains mortgage loan ledgers?
10. Why is stock valuation important in non-credit co-operative societies?
11. What are fluid resources?
12. What is the maximum percentage of profit that may be contributed to the Co-operative Education Fund?
13. What is the maximum statutory ceiling for dividend on paid-up share capital?
14. Which co-operative societies require accounting for perishable stock?
15. Why is co-operative accounting considered different from commercial accounting?

Answers

1. A co-operative society established to provide loans and other financial assistance to its members.
2. To provide goods, services, production, marketing, or employment rather than credit.
3. Loan Ledger, Deposit Ledger, Interest Ledger, Share Ledger, and Overdue Register.
4. Fifteen percent (15%).
5. The Director of Co-operative Audit or an authorized auditor.
6. A bonus distributed to members based on the volume of business transacted with the society.
7. Trading Account and Profit and Loss Account.
8. NABARD.
9. Housing Co-operative Society.
10. Because these societies maintain inventories that require proper valuation and physical verification.
11. Cash and other liquid assets available to meet day-to-day financial obligations.
12. Five percent (5%).
13. Twenty-five percent (25%).



14. Dairy, Fisheries, and Agricultural Processing Co-operative Societies.
15. Because it combines ordinary accounting principles with statutory provisions relating to profit appropriation, audit, reserve funds, and fund management under the Kerala Co-operative Societies Act.

Self-Assessment Questions

1. Explain the meaning, objectives, and features of Credit Co-operative Societies.
2. Discuss the objectives and functions of Non-Credit Co-operative Societies.
3. Describe the special features of accounting in Primary Credit Co-operative Societies.
4. Explain the accounting features of District Co-operative Banks.
5. Discuss the accounting characteristics of Apex Co-operative Banks.
6. Distinguish between Credit and Non-Credit Co-operative Societies with suitable examples.
7. Explain the accounting features of Primary Non-Credit Co-operative Societies.
8. Discuss the accounting system followed by Apex Non-Credit Co-operative Federations.
9. Explain the accounting peculiarities of Housing Co-operative Societies.
10. Describe the accounting features of Dairy and Fisheries Co-operative Societies.
11. Explain the accounting practices followed by Long-Term Agricultural and Rural Development Banks.
12. Discuss the accounting features of SC/ST and Women's Co-operative Federations.

Assignments

1. Explain the common provisions relating to profit appropriation, statutory audit, and fund regulation applicable to all co-operative societies.
2. Discuss the role of statutory reserves, education fund, member relief fund, dividend, and patronage bonus in co-operative accounting.

3. Explain why co-operative accounting is considered a distinct branch of accounting compared with ordinary commercial accounting.

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6 BLOCK

Co-operative Auditing

SGOU

Unit

Introduction to Co-operative Auditing

Learning Outcomes

After completing this unit, learners will be able to:

- ◇ explain the origin, definition, features, objectives, and need for co-operative auditing
- ◇ distinguish between co-operative audit, general audit, financial audit, and administrative audit
- ◇ describe the advantages and significance of co-operative auditing in ensuring transparency and accountability
- ◇ explain the rights, duties, and responsibilities of a co-operative auditor

Prerequisites

Co-operative auditing is the systematic examination of the accounts, records, and activities of a co-operative society to ensure financial accuracy, legal compliance, and adherence to co-operative principles. It involves verifying books of accounts, vouchers, assets, liabilities, and financial statements to determine whether they present a true and fair view of the society's financial position. The concept of co-operative auditing extends beyond the verification of financial records. It also evaluates the efficiency of management, the effectiveness of internal controls, compliance with the Co-operative Societies Act, Rules, and Bye-laws, and the proper utilisation of funds. Co-operative auditing aims to protect the interests of members by promoting transparency, accountability, and financial discipline. The concept includes understanding the origin, definition, features, objectives, advantages, and need for co-operative auditing. It also covers the distinctions between co-operative audit, general audit, financial audit, and administrative audit. In addition, the concept explains the rights, duties, and responsibilities of a

co-operative auditor in conducting an independent and unbiased examination of the affairs of a co-operative society. Overall, co-operative auditing serves as an important mechanism for ensuring sound financial management, good governance, and the sustainable growth of co-operative institutions.

Keywords

Co-operative Audit, Audit Report, Statutory Compliance

Discussion

6.1.1. Introduction

Co-operative auditing is the examination and verification of the accounts, records, and activities of a co-operative society by a qualified auditor. Its main purpose is to ensure that the financial statements present a true and fair view of the society's financial position and that its operations comply with the Co-operative Societies Act, Rules, and Bye-laws.

In addition to checking the accuracy of accounts, co-operative auditing evaluates whether the society is functioning according to co-operative principles and protecting the interests of its members. The auditor verifies receipts, payments, assets, liabilities, loans, investments, and statutory records to detect errors, fraud, or mismanagement. The audit also assesses the effectiveness of internal controls, management efficiency, and compliance with legal requirements.

Co-operative auditing promotes transparency, accountability, and financial discipline. It safeguards the assets of the society, strengthens members' confidence, and helps ensure the efficient and lawful management of co-operative institutions, driving their stability and long-term success.

6.1.1.2 Origin of Co-operative Auditing

The origin of co-operative auditing is closely associated with the emergence and growth of the co-operative movement across the world during the nineteenth century. The Industrial Revolution brought significant economic and social changes, resulting in poverty, unemployment, exploitation by middlemen, and lack of access to affordable credit for the working class and small producers. To overcome these challenges, people began forming co-operative societies based on the principles of mutual help, self-help, democracy, and collective ownership. As these societies expanded in number and size, the need for a systematic mechanism to verify their financial transactions and ensure accountability became increasingly important. This necessity led to the development of co-operative auditing.

The modern co-operative movement is generally traced to the establishment of the Rochdale Society of Equitable Pioneers in 1844 at Rochdale, England. The Rochdale Pioneers introduced sound business practices, democratic management, proper accounting, and regular inspection of accounts. They recognised that transparent financial records and independent examination of accounts were essential for maintaining the confidence of members. Their success inspired similar co-operative organisations throughout Europe and other parts of the world, making auditing an integral part of co-operative administration.

In several European countries, particularly Germany, Italy, and Denmark, co-operative societies experienced rapid growth in agriculture, banking, and consumer sectors. Governments realised that regular auditing was necessary not only to detect fraud and financial irregularities but also to assess whether societies were functioning according to co-operative principles. Consequently, many countries introduced legal provisions making audit compulsory for registered co-operative societies. Thus, co-operative auditing gradually evolved as a specialised branch of auditing distinct from commercial auditing.

Evolution of Co-operative Auditing in India

In India, the co-operative movement began during the British period with the enactment of the Co-operative Credit Societies Act, 1904. The Act was introduced to protect farmers from the exploitation of moneylenders by encouraging the formation of co-operative credit societies. As these societies handled public funds contributed by members, the Government considered it essential to ensure proper utilisation of these funds. Therefore, provisions were made for the inspection and verification of accounts.

The movement received greater legal support through the Co-operative Societies Act, 1912, which expanded the scope of co-operatives beyond credit societies and strengthened the system of supervision and audit. The Registrar of Co-operative Societies was entrusted with the responsibility of ensuring that every registered co-operative society maintained proper accounts and underwent regular audit. Over time, auditing became a statutory requirement under various State Co-operative Societies Acts.

After India's independence, the co-operative sector expanded significantly in areas such as agricultural credit, dairy, housing, consumer stores, marketing, fisheries, and industrial co-operatives. With increasing government assistance, public deposits, and member investments, the importance of co-operative auditing became even more pronounced. Auditors were expected not only to verify financial statements but also to examine compliance with the Co-operative Societies Act, Rules, Bye-laws, government directives, and co-operative principles.

Today, co-operative auditing is recognised as a specialised audit system designed to safeguard the interests of members, creditors, depositors, and the government. Unlike commercial auditing, it evaluates both the financial soundness and the operational efficiency of co-operative societies. It promotes transparency, accountability, democratic governance, and prudent financial management, thereby strengthening public confidence in the co-operative movement and ensuring the sustainable development of co-operative institutions.



6.1.1.3. Definition of Co-operative Auditing

Co-operative auditing is the systematic examination and verification of the books of accounts, financial records, and activities of a co-operative society by a qualified auditor to ensure that the accounts present a true and fair view of its financial position and that the society complies with the provisions of the Co-operative Societies Act, Rules, and Bye-laws.

According to the Reserve Bank of India (RBI):

"Co-operative audit is not merely a financial audit but an administrative audit, intended to ensure that the affairs of the co-operative society are conducted in accordance with co-operative principles, statutory provisions, and sound business practices."

6.1.2. Features of Co-operative Auditing

1. Statutory Audit

Co-operative auditing is compulsory under the Co-operative Societies Act applicable in the respective State or under the Multi-State Co-operative Societies Act. Every registered co-operative society must have its accounts audited at least once every financial year. This legal requirement ensures uniformity and financial discipline among co-operative institutions. Failure to conduct the audit may attract penalties or other legal actions against the society. A statutory audit enhances the credibility and reliability of the financial statements. It also ensures that societies remain accountable to their members and regulatory authorities. Therefore, statutory audit forms the legal foundation of co-operative auditing.

2. Independent Examination

Co-operative auditing is carried out by an independent auditor who is free from the influence of the management of the society. Independence enables the auditor to examine the records objectively and impartially. The auditor verifies the books of accounts without any personal interest or bias. This impartial approach increases the credibility of the audit report. Independent examination also helps in identifying financial irregularities that management may overlook or conceal. Members and stakeholders gain confidence in the fairness of the audit findings. Hence, auditor independence is essential for maintaining public trust.

3. Verification of Financial Statements

One of the major features of co-operative auditing is the verification of financial statements. The auditor checks whether the receipts, payments, income, expenditure, assets, and liabilities are correctly recorded in the books of accounts. Supporting documents such as vouchers, invoices, receipts, and bank statements are carefully examined. The auditor ensures that the financial statements comply with accepted accounting principles and legal requirements. Any errors or misstatements identified during the audit are reported to the management. This verification ensures that the financial reports reflect the true financial position of the society. As a result, members can rely on the financial statements for decision-making.

4. Compliance with Laws and Bye-laws

A co-operative auditor examines whether the society complies with the provisions of the Co-operative Societies Act, Rules, Bye-laws, and government directions. Compliance ensures that the society functions within the legal framework established for co-operative institutions. The auditor verifies whether meetings, elections, maintenance of statutory registers, and financial transactions are comply with legal provisions. Any violation or non-compliance is reported in the audit report. This helps management take corrective measures before legal complications arise. Compliance auditing strengthens good governance within the society. It also protects the society from legal penalties and administrative action.

5. Examination of Co-operative Principles

Unlike commercial auditing, co-operative auditing evaluates whether the society follows the fundamental principles of co-operation. The auditor examines democratic management, voluntary membership, member participation, autonomy, education, and concern for the community. The audit verifies whether surplus is distributed fairly according to the bye-laws. It also checks whether the society operates for the benefit of its members rather than for profit maximisation. This evaluation helps preserve the unique identity of co-operative institutions. Members gain confidence that the society is functioning according to its original objectives. Thus, co-operative principles are an essential aspect of co-operative auditing.

6. Protection of Members' Interests

The primary objective of a co-operative society is to serve its members, and auditing helps safeguard their interests. The auditor verifies whether members' deposits, share capital, and other funds are properly utilised. Misuse or misappropriation of funds is identified and reported immediately. Auditing also ensures that loans, subsidies, and other financial benefits are distributed fairly among eligible members. The audit protects members from financial losses caused by negligence or fraud. It promotes confidence among members regarding the management of the society. Consequently, members actively participate in the growth and development of the co-operative.

7. Detection of Errors and Fraud

Co-operative auditing plays an important role in identifying accounting errors and financial frauds. The auditor carefully examines vouchers, cash books, ledgers, and other financial records to detect irregularities. Errors may occur due to carelessness, while frauds are committed intentionally for personal gain. The audit helps identify embezzlement, misappropriation of funds, fake entries, and unauthorised transactions. Early detection prevents further financial losses to society. The auditor also recommends measures to strengthen controls and prevent future frauds. This enhances financial discipline and protects the assets of the co-operative society.

8. Evaluation of Internal Control System

An effective internal control system is essential for the efficient functioning of a co-operative society. During the audit, the auditor evaluates whether adequate internal



controls exist over cash, inventory, accounting records, and financial transactions. Weaknesses in internal controls increase the risk of fraud and errors. The auditor assesses whether duties are properly segregated among employees and whether authorisation procedures are followed. Suggestions are provided for improving the control system wherever deficiencies are identified. Strong internal controls improve operational efficiency and financial security. Therefore, evaluating internal controls is a vital part of co-operative auditing.

9. Assessment of Operational Efficiency

Co-operative auditing is not limited to financial verification but also evaluates the operational efficiency of the society. The auditor examines whether resources are utilised economically and effectively. The efficiency of management, loan recovery, inventory management, and service delivery is also reviewed. Operational weaknesses affecting the performance of the society are identified during the audit. Recommendations are made to improve productivity and resource utilisation. This helps the society achieve its objectives more effectively. As a result, the overall performance and sustainability of the co-operative society improve.

10. Guidance for Improvement

A co-operative audit is not merely fault-finding but also advisory in nature. After completing the audit, the auditor provides constructive suggestions to improve accounting practices, financial management, and administrative procedures. Recommendations may include strengthening internal controls, improving record maintenance, enhancing recovery of loans, and ensuring better compliance with laws. These suggestions help management overcome deficiencies and improve efficiency. The audit report serves as a valuable guide for future planning and decision-making. Management can implement corrective measures based on the auditor's observations. Thus, co-operative auditing contributes to the continuous improvement of society.

11. Promotion of Transparency and Accountability

Transparency and accountability are fundamental to the success of co-operative societies. Co-operative auditing ensures that all financial transactions are properly recorded and disclosed in the financial statements. The auditor verifies whether management has honestly discharged its responsibilities. Regular auditing reduces the chances of corruption, misuse of funds, and financial manipulation. Members receive reliable financial information regarding the performance of their society. This openness encourages trust between the management and members. Therefore, auditing promotes ethical governance and responsible financial administration.

12. Building Public Confidence

Regular co-operative audits enhance the confidence of members, depositors, creditors, government agencies, and the general public. An audited financial statement indicates that the society follows proper accounting practices and legal requirements. Financial transparency improves the reputation and credibility of the co-operative institution.

6.1.3. Objectives of Co-operative Auditing

Co-operative auditing aims to ensure the financial soundness, legal compliance, transparency, and efficient management of co-operative societies. Unlike commercial auditing, it focuses not only on financial accuracy but also on protecting the interests of members and ensuring adherence to co-operative principles. The major objectives of co-operative auditing are explained below.

1. To Verify the Accuracy of Accounts

One of the primary objectives of co-operative auditing is to verify the accuracy of the books of accounts maintained by the society. The auditor examines whether all financial transactions are properly recorded and supported by adequate documentary evidence. He verifies cash books, ledgers, vouchers, journals, and other accounting records. This helps ensure that the financial statements present a true and fair view of the society's financial position.

2. To Ensure Compliance with Laws and Bye-laws

Co-operative auditing ensures that the society functions in accordance with the Co-operative Societies Act, Rules, Bye-laws, and other applicable laws. The auditor verifies whether statutory registers, books of accounts, and mandatory records are properly maintained. The auditor also examines whether meetings, elections, and financial transactions are conducted according to legal provisions. Any violation of legal requirements is reported in the audit report. This helps the society avoid legal disputes and regulatory penalties. Compliance with laws also promotes disciplined and responsible management.

3. To Protect the Interests of Members

The main purpose of a co-operative society is to promote the welfare of its members. Co-operative auditing ensures that members' funds, deposits, and share capital are used only for authorised purposes. The auditor verifies whether loans, subsidies, and other benefits are fairly distributed among eligible members. The auditor checks whether management decisions safeguard the interests of all members without discrimination. Any misuse or misappropriation of members' funds is reported immediately. This objective strengthens members' confidence in the functioning of the society.

4. To Detect and Prevent Errors and Frauds

Another important objective of co-operative auditing is the detection and prevention of accounting errors, frauds, and misappropriation. The auditor carefully examines vouchers, receipts, cash balances, and financial records to identify suspicious transactions. Frauds such as embezzlement, forgery, and misappropriation of funds can be detected through systematic audit procedures.

5. To Evaluate the Financial Position of the Society

Co-operative auditing helps determine the actual financial condition of the society. The auditor examines the balance sheet, income and expenditure account, and other



financial statements to assess financial performance. The auditor evaluates the liquidity, solvency, profitability, and overall financial stability of the society. This information enables members and management to understand the financial health of the institution. A sound financial position helps the society expand its activities and serve members more effectively. Therefore, financial evaluation is an essential objective of co-operative auditing.

6. To Assess Internal Control and Management Efficiency

An important objective of co-operative auditing is to evaluate the effectiveness of the internal control system and management practices. The auditor examines whether proper procedures exist for handling cash, inventory, loans, and accounting records. The auditor verifies whether duties and responsibilities are properly divided among employees. Weaknesses in internal control are identified, and recommendations are made for improvement. The audit also evaluates whether resources are utilised efficiently and economically. Strong internal controls improve operational efficiency and reduce the risk of fraud and errors.

7. To Ensure Adherence to Co-operative Principles

Co-operative auditing is unique because it verifies whether the society follows the basic principles of co-operation. The auditor examines democratic management, voluntary membership, member participation, autonomy, and concern for the community. The auditor verifies whether the society operates for the mutual benefit of its members rather than for profit maximisation. The audit also ensures that surplus is distributed according to the bye-laws. Adherence to co-operative principles preserves the identity and objectives of the society. This objective distinguishes co-operative auditing from commercial auditing.

8. To Promote Transparency and Accountability

Transparency and accountability are essential for the success of co-operative societies. The audit ensures that financial transactions are properly recorded and openly disclosed in the financial statements. The auditor examines whether office bearers and employees have discharged their responsibilities honestly and efficiently. Regular auditing discourages corruption and misuse of funds. Members receive accurate information about the financial performance of the society. This objective strengthens trust between the management and members and promotes good governance.

6.1.4. Advantages of Co-operative Auditing

Co-operative auditing offers numerous benefits to co-operative societies by ensuring financial discipline, transparency, accountability, and efficient management. It strengthens public confidence and helps societies achieve their objectives while protecting the interests of members. The major advantages of co-operative auditing are explained below.

1. Ensures Financial Accuracy

Co-operative auditing verifies the correctness of the books of accounts and financial statements maintained by the society. It ensures that all receipts, payments, assets, and liabilities are properly recorded. The auditor checks supporting documents to confirm the authenticity of financial transactions. This minimises accounting errors and misstatements. As a result, the financial statements present a true and fair view of the society's financial position.

2. Detects and Prevents Fraud

Regular auditing helps identify fraud, embezzlement, misappropriation of funds, and other financial irregularities. The auditor carefully examines vouchers, cash books, ledgers, and bank records to detect suspicious transactions. Weaknesses in financial controls are also identified during the audit. Recommendations are provided to prevent similar instances of fraud in the future. This protects the assets and funds of the co-operative society.

3. Promotes Transparency and Accountability

Auditing ensures that all financial transactions are properly recorded and disclosed to members. It makes the management accountable for the proper use of society funds. Regular audit reports provide members with reliable financial information. Transparency reduces the possibility of corruption and misuse of resources. Consequently, confidence in the management of the society is strengthened.

4. Ensures Legal Compliance

Co-operative auditing verifies whether the society complies with the provisions of the Co-operative Societies Act, Rules, Bye-laws, and other applicable laws. The auditor identifies any legal violations or procedural lapses during the audit. Timely reporting enables the management to take corrective action. Compliance reduces the risk of legal disputes and penalties. It also ensures that the society functions within the prescribed legal framework.

5. Protects Members' Interests

The primary objective of a co-operative society is to serve its members, and auditing helps achieve this objective. The auditor ensures that members' funds, deposits, and share capital are utilised for authorised purposes. Any misuse or diversion of funds is immediately reported. Fair distribution of benefits and proper financial management safeguard members' rights. This increases members' confidence and participation in the society.

6. Improves Management Efficiency

The audit evaluates the efficiency of the management in utilising financial and other resources. Weaknesses in administrative and accounting procedures are identified during the audit. The auditor suggests practical measures for improving operational efficiency. Better management practices result in improved service delivery and financial



performance. This contributes to the long-term success of the co-operative society.

7. Enhances Public Confidence

An audited co-operative society enjoys greater confidence among members, depositors, creditors, and government agencies. Audited financial statements demonstrate that the society follows sound accounting and management practices. Financial institutions are more willing to provide loans to societies with clean audit reports. Public confidence helps attract new members and financial support. This contributes to the growth and stability of the co-operative movement.

6.1.5. Need for Co-operative Auditing

Co-operative auditing is an indispensable component of the co-operative movement. It serves this purpose by verifying financial records, ensuring compliance with legal provisions, and promoting transparency and accountability. The need for co-operative auditing can be understood under the following headings.

1. To Ensure Financial Accuracy

The primary need for co-operative auditing is to verify the correctness and reliability of the financial records maintained by the society. The auditor examines books of accounts, vouchers, receipts, ledgers, cash books, and financial statements to ensure that all transactions are properly recorded. This verification helps identify accounting errors, omissions, and inaccuracies. Accurate financial statements present a true and fair view of the society's financial position, enabling members and management to make informed decisions. Reliable accounting records also enhance the credibility of the society before regulatory authorities and financial institutions.

2. To Prevent Fraud and Misappropriation

Co-operative societies deal with members' savings, share capital, loans, and government assistance, making them vulnerable to fraud and misuse of funds. Regular auditing helps detect embezzlement, forgery, unauthorised payments, and other financial irregularities. The auditor carefully verifies supporting documents and evaluates internal control systems to identify weaknesses. Recommendations are made to strengthen financial controls and prevent future frauds. Thus, auditing safeguards the assets of the society and protects members from financial losses.

3. To Ensure Compliance with Laws and Bye-laws

Every co-operative society is legally required to function in accordance with the Co-operative Societies Act, Rules, Bye-laws, and government directives. Co-operative auditing verifies whether these legal provisions are properly followed in the day-to-day administration of the society. The auditor checks statutory registers, financial records, conduct of meetings, elections, and other legal requirements. Any non-compliance is reported to the management for corrective action. This helps the society avoid legal disputes, penalties, and administrative intervention while promoting good governance.

4. To Protect Members' Interests

The welfare of members is the primary objective of every co-operative society. Co-operative auditing ensures that members' funds are utilised only for authorised purposes and that loans, dividends, and other benefits are distributed fairly according to the bye-laws. The auditor verifies whether the management has acted in the best interests of all members. Regular audits increase transparency and accountability, thereby strengthening members' confidence in the management. This encourages greater participation and trust in the activities of the society.

5. To Improve Efficiency and Public Confidence

Co-operative auditing not only verifies financial records but also evaluates the efficiency of management and internal control systems. The auditor identifies operational weaknesses and suggests measures to improve financial management, record keeping, loan recovery, and administrative practices. These recommendations help enhance the overall performance of the society. A properly audited co-operative society enjoys greater confidence among members, depositors, creditors, financial institutions, and government agencies. Clean audit reports improve the reputation and credibility of the society, making it easier to obtain financial assistance and attract new members. Therefore, co-operative auditing plays a vital role in ensuring the sustainable growth and success of the co-operative movement.

6.1.6. Difference between Co-operative Audit, General Audit, Financial Audit and Administrative Audit

Different types of audits have evolved to meet the specific needs of various organisations. Among these, Co-operative Audit, General Audit, Financial Audit, and Administrative Audit serve different purposes and focus on different aspects of an organisation.

A Co-operative Audit is a specialised audit conducted exclusively for co-operative societies. It not only verifies financial records but also examines compliance with the Co-operative Societies Act, Rules, Bye-laws, and the principles of co-operation. A General Audit primarily focuses on verifying accounting records and financial transactions of any business organisation. A Financial Audit examines financial statements to determine whether they present a true and fair view of the financial position of an entity. An Administrative Audit evaluates the efficiency, effectiveness, and quality of management, administration, and internal controls.

The major differences among these four types of audits are explained below.



Table 6.1.1. Differences between Co-operative Audit and General Audit

Basis	Co-operative Audit	General Audit
Meaning	Co-operative audit is the examination of the accounts, records, and working of a co-operative society.	General audit is the examination of the financial records of any business organisation to verify their accuracy.
Applicability	Applicable only to registered co-operative societies.	Applicable to all types of business organisations, companies, firms, trusts, and institutions.
Legal Basis	Governed by the Co-operative Societies Act, Rules, and Bye-laws.	Governed by the Companies Act, Income Tax Act, partnership laws, and other relevant statutes.
Main Objective	To verify financial records and ensure compliance with co-operative principles and laws.	To verify the correctness of financial records and financial statements.
Scope	Covers financial audit, administrative review, legal compliance, operational efficiency, and adherence to co-operative principles.	Mainly limited to verification of financial transactions and accounting records.
Auditor	Conducted by an auditor authorised under the Co-operative Societies Act or appointed by the Registrar.	Conducted by Chartered Accountants or other authorised auditors.
Member Welfare	Gives special importance to protecting members' interests.	Focuses mainly on owners, shareholders, investors, and creditors.
Audit Report	Includes comments on financial position, management, statutory compliance, and observance of co-operative principles.	Primarily reports on the truth and fairness of financial statements.
Special Features	Examines democratic management, utilisation of funds, and member services.	Does not normally examine adherence to co-operative principles or member participation.

Table 6.1.2. Differences between Co-operative Audit and Financial Audit

Basis	Co-operative Audit	Financial Audit
Meaning	A comprehensive audit of co-operative societies covering financial and non-financial aspects.	An audit conducted mainly to verify the accuracy of financial statements.
Objective	To ensure financial accuracy, legal compliance, operational efficiency, and member welfare.	To express an opinion on whether financial statements present a true and fair view.
Scope	Broad scope including accounts, administration, internal controls, and compliance with co-operative laws.	Restricted mainly to financial records and accounting statements.
Legal Compliance	Verifies compliance with the Co-operative Societies Act, Rules, and Bye-laws.	Verifies compliance with accounting standards and financial reporting requirements.
Co-operative Principles	Examines adherence to co-operative principles and democratic functioning.	Does not evaluate co-operative principles or member participation.
Operational Review	Reviews operational efficiency, loan recovery, member services, and resource utilisation.	Generally does not assess operational efficiency unless it affects financial reporting.
Internal Controls	Evaluates financial as well as administrative internal controls.	Focuses mainly on internal controls affecting financial reporting.
Audit Report	Contains observations on financial, legal, and operational matters.	Expresses an opinion on the financial statements only.

Table 6.1.3. Differences between Co-operative Audit and Administrative Audit

Basis	Co-operative Audit	Administrative Audit
Meaning	Examination of financial records and overall functioning of co-operative societies.	Examination of administrative efficiency, managerial performance, and organisational effectiveness.
Main Purpose	To ensure financial correctness, legal compliance, and adherence to co-operative principles.	To evaluate whether administrative functions are efficient and effective.
Primary Focus	Financial management, legal compliance, member welfare, and operational performance.	Planning, organising, staffing, directing, coordination, and control.
Scope	Covers accounting, finance, administration, internal control, and statutory compliance.	Covers management systems, policies, procedures, decision-making, and organisational structure.
Financial Verification	Includes detailed verification of accounts and financial statements.	Financial verification is not the primary objective.
Legal Compliance	Ensures compliance with co-operative laws and bye-laws.	Evaluates administrative policies and management practices rather than statutory accounting compliance.
Performance Evaluation	Evaluates financial and operational performance together.	Primarily evaluates managerial efficiency and administrative effectiveness.
Recommendations	Suggests improvements in accounting, financial management, and governance.	Suggests improvements in organisational structure, management policies, and administrative procedures.
Outcome	Protects members' interests while ensuring sound financial management.	Improves organisational efficiency and quality of administration.

6.1.7.Rights, Duties and Responsibilities of a Co-operative Auditor

A co-operative auditor plays a vital role in ensuring the financial soundness, transparency, and accountability of co-operative societies. Unlike the auditor of a commercial organisation, a co-operative auditor examines not only the accuracy of financial statements but also whether the society functions in accordance with the Co-operative Societies Act, Rules, Bye-laws, and the principles of co-operation. The auditor safeguards the interests of members, creditors, depositors, and the government by conducting an independent and objective examination of the society's affairs. The rights, duties, and responsibilities of a co-operative auditor are discussed below:

6.1.7.1.Rights of a Co-operative Auditor

1. Right to Access Books and Records

The auditor has the right to inspect all books of accounts, vouchers, ledgers, cash books, registers, minutes, contracts, and other financial records of the society. Management must provide unrestricted access to these records whenever required. This enables the auditor to perform a comprehensive examination of the society's financial affairs. Without complete access, an effective audit cannot be conducted. This right ensures transparency and facilitates the preparation of an accurate audit report.

2. Right to Obtain Information and Explanations

The auditor has the right to seek information, clarifications, and explanations from the managing committee, employees, and office bearers of the society. They are legally bound to provide correct and complete information. If any information is withheld, the auditor may report the matter in the audit report. This right enables the auditor to resolve doubts regarding financial transactions and management decisions. It helps ensure the completeness and reliability of the audit.

3. Right to Verify Assets and Liabilities

The auditor has the authority to physically verify cash balances, inventories, investments, fixed assets, securities, and other properties of the society. They may also verify liabilities, loans, and outstanding obligations. Physical verification helps confirm the existence and valuation of assets. It also reduces the possibility of fraud or misappropriation. This right is essential for expressing an independent opinion on the financial position of the society.

4. Right to Report Independently

The auditor has the right to prepare and submit an independent audit report without interference from the management. They must report all material facts, irregularities, legal violations, and financial weaknesses honestly. Management cannot compel the auditor to suppress adverse findings. This independence enhances the credibility of the audit report. It also strengthens members' confidence in the audit process.

6.1.7.2.Duties of a Co-operative Auditor

1. Examination of Books of Accounts

The primary duty of the auditor is to examine the books of accounts maintained by the co-operative society. The auditor verifies whether all transactions are properly recorded and supported by documentary evidence. Receipts, payments, income, expenditure, assets, and liabilities are thoroughly checked. Any accounting errors or omissions are identified during the audit. This duty ensures the accuracy of financial statements.

2. Verification of Legal Compliance

The auditor must ensure that the society complies with the provisions of the Co-operative Societies Act, Rules, Bye-laws, and government directives. The auditor verifies statutory registers, minutes of meetings, election procedures, and other legal requirements. Any violation of legal provisions must be reported. Compliance auditing promotes good governance and protects the society from legal consequences. It also ensures proper administration.

3. Detection of Errors and Fraud

The auditor has a duty to identify fraud, embezzlement, misappropriation of funds, and financial irregularities. They carefully examine vouchers, bank accounts, cash transactions, and accounting records. Suspicious transactions are investigated thoroughly. The auditor also evaluates internal control systems to reduce the risk of future frauds. This duty safeguards the assets and financial stability of the society.

4. Preparation of Audit Report

After completing the audit, the auditor must prepare a clear, objective, and comprehensive audit report. The report should present findings regarding the financial position, legal compliance, internal controls, and operational efficiency of the society. It should also include recommendations for improvement. The report must be submitted to the competent authority within the prescribed time. A well-prepared audit report supports informed decision-making by the management and members.

6.1.7.3. Responsibilities of a Co-operative Auditor

1. Responsibility to Members

The auditor is responsible for protecting the interests of the members of the co-operative society. The auditor must ensure that members' funds are utilised only for authorised purposes. The auditor should report any misuse of funds or unfair practices affecting members. Their work should enhance transparency and accountability in the society. By performing his duties honestly, he helps maintain members' confidence.

2. Responsibility to Maintain Independence and Integrity

A co-operative auditor must remain impartial, independent, and free from personal bias. They should not allow management or external parties to influence their professional judgment. The auditor must maintain confidentiality regarding information

obtained during the audit unless disclosure is legally required. Ethical conduct and professional integrity are essential for maintaining public trust. Independence ensures that audit findings are objective and reliable.

3. Responsibility to Ensure Fair Reporting

The auditor is responsible for expressing an unbiased opinion on the financial statements and overall functioning of the society. The audit report should reflect the true financial position without concealment or misrepresentation. Material errors, frauds, and non-compliance should be clearly disclosed. The auditor must avoid negligence while conducting the audit. Fair reporting enhances the credibility of the co-operative society.

4. Responsibility to Recommend Improvements

The role of the auditor extends beyond detecting errors. The auditor is responsible for suggesting practical measures to improve accounting systems, internal controls, financial management, and administrative practices. Recommendations should help the society strengthen governance and operational efficiency. The auditor should encourage compliance with co-operative principles and legal provisions. These suggestions contribute to the long-term development and sustainability of the society.

Recap

- ◇ Co-operative auditing is a statutory audit.
- ◇ Auditing protects members' interests.
- ◇ Audit promotes transparency.
- ◇ Financial audit focuses on financial statements.
- ◇ Administrative audit evaluates management efficiency.
- ◇ Audit evidence supports audit findings.
- ◇ Audit reports communicate observations.
- ◇ Audit improves governance.
- ◇ Proper records facilitate auditing.
- ◇ Ethical conduct is vital for auditors.
- ◇ Co-operative auditing promotes sustainable management.

Objective Questions

1. Who conducts a co-operative audit?
2. Why is co-operative auditing necessary?
3. When is a co-operative audit generally conducted?
4. Which law governs co-operative auditing?
5. Who appoints the co-operative auditor?
6. Which audit focuses mainly on financial statements?
7. Which audit evaluates administrative efficiency?
8. Which records are verified during audit?
9. Which principle promotes accountability?
10. What is statutory compliance?

Answers

1. A qualified co-operative auditor.
2. To ensure financial accuracy and legal compliance.
3. At the end of each financial year.
4. The Co-operative Societies Act.
5. The competent authority as prescribed by law.
6. Financial audit.
7. Administrative audit.
8. Books of accounts and supporting documents.
9. Transparency.
10. Compliance with legal requirements.

Self-Assessment Questions

1. Describe the features of co-operative auditing.
2. Explain the advantages of co-operative auditing.
3. Differentiate between co-operative audit and general audit.
4. Explain the rights of a co-operative auditor.
5. Explain the responsibilities of a co-operative auditor.
6. Discuss the importance of statutory compliance in co-operative auditing.
7. Explain the significance of auditor independence.
8. Describe the role of audit reports in co-operative societies.
9. Explain how co-operative auditing promotes good governance.

Assignments

1. Compare financial audit and administrative audit using suitable examples.
2. Examine a specimen audit report and list its important components.
3. Interview an auditor or society official to understand the importance of co-operative auditing and prepare a report.

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Unit

Vouching, Verification, Valuation and Audit Reports

Learning Outcomes

After completing this unit, learners will be able to:

- ◇ explain the concepts and objectives of vouching, verification, and valuation in auditing.
- ◇ examine the audit procedures for final accounts, balance sheets, assets, liabilities, reserves, and provisions.
- ◇ identify cases of misappropriation, embezzlement, and other financial irregularities during an audit.

Prerequisites

Auditing involves the systematic examination of financial records to ensure their accuracy, reliability, and compliance with applicable laws and accounting principles. Vouching is the process of examining documentary evidence such as vouchers, invoices, receipts, and agreements to verify that every transaction recorded in the books of accounts is genuine, properly authorised, and accurately entered. Verification is the examination of assets and liabilities to confirm their existence, ownership, and correctness, while valuation ensures that these assets and liabilities are recorded at appropriate values in accordance with accepted accounting principles. The audit of final accounts and the Balance Sheet involves examining the Trading Account, Profit and Loss Account, and Balance Sheet to determine whether they present a true and fair view of the financial position and performance of an organisation.

The audit also includes the examination of reserves and provisions to ensure that they are created, maintained, and disclosed in accordance with legal and accounting requirements.

Misappropriation and embezzlement are important forms of financial fraud that auditors seek to detect through careful examination of records and internal controls. The findings of the audit are communicated through the Audit Report, which expresses the auditor's opinion on the financial statements. Detailed observations, irregularities, and recommendations are recorded in the Audit Memorandum, while the Audit Certificate serves as the official confirmation that the statutory audit has been completed and approved by the competent audit authority. These concepts collectively ensure transparency, accountability, and reliability in financial reporting.

Keywords

Vouching Verification, Valuation, Audit Memorandum, Audit Certificate

Discussion

6.2.1 Vouching

The term 'vouching' is derived from the word 'vouch,' which means to confirm, verify, authenticate, or establish the truth of a transaction. In the field of auditing, vouching is one of the most important and fundamental procedures carried out by an auditor. It refers to the systematic examination of the documentary evidence, known as vouchers, that supports the transactions recorded in the books of accounts. These vouchers provide proof that the transactions have actually taken place and have been recorded correctly. The auditor carefully compares the accounting entries with the relevant supporting documents to determine whether the transactions are genuine, accurate, and properly authorised. Since every financial transaction affects the financial statements, proper vouching plays a crucial role in ensuring the reliability of the accounting records.

The primary purpose of vouching is to verify the authenticity of every transaction entered in the books of accounts. During this process, the auditor examines whether the transaction actually occurred and whether it relates to the normal business activities of the organisation. The auditor also checks that the transaction has been duly approved by the appropriate authority, is supported by valid documentary evidence such as invoices, receipts, bills, agreements, bank challans, or payment vouchers, and has been correctly recorded in the appropriate books of accounts. In addition, the auditor verifies that the amount, date, nature of the transaction, and accounting classification are accurate and consistent with the supporting documents.

Vouching is much more than simply checking the existence of vouchers. It is a comprehensive examination that enables the auditor to assess the accuracy, authenticity, legality, and completeness of accounting transactions. Through effective vouching,

the auditor can detect various errors such as incorrect calculations, wrong postings, omissions, duplicate entries, and incorrect classification of transactions. It also helps in identifying fraudulent practices, including fictitious purchases, forged invoices, unauthorised payments, duplicate claims, and misappropriation of cash or other assets. Consequently, vouching acts as an important safeguard against financial irregularities and strengthens the internal control system of an organisation.

6.2.1.1. Definition

According to L. R. Dicksee, "Vouching is the examination of documentary evidence supporting the transactions recorded in the books of accounts with the object of establishing their accuracy and authenticity."

This definition clearly indicates that vouching aims at verifying every accounting transaction with documentary proof.

6.2.1.2. Importance of Vouching

Vouching is regarded as the most important procedure in auditing because every accounting transaction recorded in the books of accounts must be supported by reliable documentary evidence. It enables the auditor to verify the genuineness, accuracy, and legality of financial transactions before accepting them as valid. A thorough vouching process helps the auditor form an independent opinion on the reliability of the accounting records and the truthfulness of the financial statements. The importance of vouching can be understood from the following points.

1. Backbone of Auditing

Vouching is often described as the backbone of auditing because it forms the foundation of the entire audit process. Every accounting entry is verified with the help of supporting documents, ensuring that the financial records are based on genuine and authentic transactions. If the vouchers are carefully examined and found to be valid, the auditor can rely on the books of accounts while expressing an opinion on the financial statements.

2. Ensures Authenticity of Transactions

One of the primary objectives of vouching is to establish that every transaction recorded in the books of accounts has actually taken place. The auditor verifies the supporting documents to confirm that the transaction is genuine, properly authorised, and related to the normal business activities of the organisation. This process prevents the recording of fictitious, fabricated, or unauthorised transactions and improves the credibility of the accounting records.

3. Detects Errors

Vouching plays an important role in identifying errors that may occur during the recording of financial transactions. By comparing accounting entries with the supporting vouchers, the auditor can detect wrong postings, incorrect calculations, duplicate

entries, omissions, and errors in classification. The timely detection and correction of such errors improve the accuracy and reliability of the financial statements.

4. Detects Fraud

An effective vouching process assists the auditor in identifying fraudulent transactions and financial irregularities. Careful examination of vouchers may reveal fictitious purchases, forged invoices, fake payments, duplicate claims, and the misappropriation of cash or other assets. Early detection of fraud protects the organisation from financial losses and strengthens the effectiveness of its internal control system.

5. Prevents Misappropriation of Funds

Regular vouching acts as a preventive measure against the misuse or misappropriation of the organisation's funds. Employees are less likely to commit fraud or make unauthorised payments when they know that every transaction will be scrutinised by the auditor. Therefore, vouching promotes financial discipline, accountability, and transparency in the management of organisational resources.

6. Ensures Compliance with Laws and Regulations

Vouching helps the auditor verify whether financial transactions have been carried out in accordance with the applicable legal and statutory provisions. The auditor examines whether the transactions comply with the Co-operative Societies Act, relevant Rules, Bye-laws, Government regulations, and applicable Accounting Standards. Such verification ensures legal compliance, reduces the risk of penalties and disputes, and promotes sound financial administration.

7. Improves the Reliability of Financial Statements

Financial statements are reliable only when they are prepared from accurate and properly verified accounting records. Through systematic vouching, the auditor confirms that the transactions recorded in the books are genuine, complete, and correctly classified under the appropriate heads of accounts. As a result, users of financial statements can place greater confidence in the information presented by the organisation.

8. Protects the Interests of Stakeholders

Various stakeholders such as members, shareholders, creditors, banks, government authorities, investors, and management depend on audited financial statements for making financial and business decisions. Proper vouching ensures that the financial information presented to these stakeholders is accurate, transparent, and supported by valid documentary evidence. Consequently, it protects their interests, enhances public confidence, and strengthens the reputation and credibility of the organisation.

6.2.1.3. Scope of Vouching

The scope of vouching is very wide and extends to the verification of every financial transaction recorded in the books of accounts. It is not confined to merely checking the existence of vouchers but also involves examining the authenticity, accuracy, legality, and completeness of accounting entries. Every transaction recorded in the books must

be supported by valid documentary evidence, and it is the responsibility of the auditor to ensure that such evidence is genuine, properly authorised, and sufficient. Through this process, the auditor obtains reliable audit evidence regarding the correctness of the accounting records and the financial statements.

While carrying out vouching, the auditor examines a variety of documents that support financial transactions. These documents include cash receipts, cash payment vouchers, purchase invoices, sales invoices, bills receivable, bills payable, receipt books, bank challans, pay-in slips, cheques, deposit receipts, fixed asset documents, loan agreements, contracts, government approvals, insurance receipts, and other supporting correspondence. The auditor compares these documents with the entries recorded in the books of accounts to verify whether the transactions have actually occurred and have been recorded correctly. This comparison helps establish the authenticity and completeness of the accounting records.

The scope of vouching also includes verifying whether the transactions have been properly authorised and comply with the applicable legal and statutory requirements. The auditor checks whether the amount, date, nature of the transaction, and accounting classification agree with the information contained in the supporting documents. In the case of co-operative societies, the auditor also verifies compliance with the Co-operative Societies Act, Rules, Bye-laws, Government regulations, and applicable Accounting Standards. Such verification ensures that the financial records are maintained in accordance with legal and professional requirements.

6.2.1.4. Objectives of Vouching

The primary objective of vouching is to verify the authenticity, accuracy, and reliability of the financial transactions recorded in the books of accounts. The main objectives of vouching are explained below:

1. To Verify Authenticity

One of the foremost objectives of vouching is to establish that every accounting transaction recorded in the books is genuine and has actually taken place. The auditor examines supporting documents such as invoices, receipts, vouchers, and agreements to confirm the authenticity of each transaction. This helps prevent the recording of fictitious, fabricated, or unauthorised transactions and ensures that only genuine business transactions are included in the financial records.

2. To Verify Accuracy

Vouching aims to ensure that every transaction has been recorded accurately in the books of accounts. The auditor verifies whether the amount, date, description, and other particulars mentioned in the accounting records agree with the supporting documents. This process helps identify mistakes such as incorrect calculations, wrong postings, duplicate entries, or errors in recording, thereby improving the accuracy of the financial statements.

3. To Confirm Proper Authorisation

Every financial transaction should be approved by the appropriate authority before it is recorded in the books of accounts. During vouching, the auditor verifies whether the necessary approvals, signatures, or sanctions have been obtained for each transaction. Proper authorisation ensures that transactions are carried out in accordance with the organisation's policies and reduces the possibility of unauthorised or fraudulent activities.

4. To Ensure Proper Recording

Another important objective of vouching is to verify that transactions have been correctly entered in the appropriate books of accounts. The auditor checks whether each transaction has been recorded under the correct accounting head and in the proper accounting period. Correct recording ensures that the financial statements accurately reflect the financial position and operating results of the organisation.

5. To Detect Errors

Vouching helps the auditor identify various types of accounting errors that may occur during the recording process. These errors may include omissions, wrong postings, incorrect calculations, duplicate entries, or incorrect classification of transactions. Detecting such errors at an early stage enables the organisation to make necessary corrections before the financial statements are finalised.

6. To Detect Frauds

An important objective of vouching is to detect fraudulent transactions and financial irregularities. By carefully examining vouchers and supporting documents, the auditor can identify fictitious purchases, forged invoices, fictitious payments, duplicate claims, and misappropriation of cash or assets. Early detection of fraud helps protect the organisation from financial losses and strengthens its system of internal control.

7. To Ensure Legal Compliance

The auditor must ensure that all financial transactions comply with the applicable legal and statutory provisions. Vouching verifies whether the transactions are carried out in accordance with the Co-operative Societies Act, relevant Rules, Bye-laws, applicable Accounting Standards, and Government regulations. Compliance with these provisions ensures that the organisation operates within the legal framework and minimises the risk of penalties, disputes, or legal complications.

8. To Safeguard Assets

Vouching contributes to the protection of the organisation's assets by ensuring that all receipts and payments are genuine and properly accounted for. The verification of vouchers helps prevent the misappropriation or misuse of cash, inventory, fixed assets, and other valuable resources. This objective strengthens financial discipline and promotes accountability among employees and management.

6.2.1.5. Vouchers

A voucher is documentary evidence that supports an accounting transaction and serves as proof that the transaction has actually taken place. It is one of the most important documents used in the accounting and auditing process because it provides the basis for recording transactions in the books of accounts. Every financial transaction, whether it relates to receipts, payments, purchases, sales, or other business activities, should be supported by an appropriate voucher. During the audit, the auditor examines these vouchers to verify the authenticity, accuracy, and legality of the transactions recorded in the accounting records. Thus, vouchers constitute the primary source of audit evidence and play a vital role in establishing the reliability of financial statements.

Vouchers may be prepared either internally by the organisation or obtained from external parties. Common examples of vouchers include cash memos, receipts, invoices, bills, debit notes, credit notes, salary sheets, wage registers, bank challans, pay-in slips, bank advice, cheque counterfoils, payment vouchers, purchase orders, delivery challans, loan agreements, Fixed Deposit Receipts (FDRs), and insurance receipts. Each voucher contains important details such as the date of the transaction, name of the party, amount involved, nature of the transaction, and authorisation by the competent authority. These details enable the auditor to compare the voucher with the corresponding accounting entry and determine whether the transaction has been correctly recorded.

The auditor carefully examines every voucher to ensure that it is genuine, complete, properly authorised, and free from alterations or tampering. The auditor also verifies whether the voucher relates to the business of the organisation and whether the transaction has been recorded under the appropriate accounting head. If any voucher is missing, incomplete, or appears suspicious, the auditor seeks additional evidence or clarification before accepting the transaction. Therefore, without proper vouchers, the auditor cannot regard an accounting entry as genuine or reliable. Proper maintenance and preservation of vouchers not only facilitate an effective audit but also strengthen the internal control system, promote transparency, and ensure accountability in financial management. Hence, vouchers are regarded as the backbone of accounting records and an indispensable source of evidence in the auditing process.

6.2.1.6. Vouching of Receipts and Payments

The cash book or day book records all cash receipts and cash payments made by an organisation. During the audit, the auditor should verify every receipt and payment recorded in these books with the help of appropriate documentary evidence. The main purpose of vouching receipts and payments is to ensure that all transactions are genuine, properly authorised, correctly recorded, and supported by valid vouchers. The auditor also verifies whether the transactions comply with the provisions of the Co-operative Societies Act, Rules, Bye-laws, and other applicable legal requirements.

The auditor compares the entries in the cash book with vouchers, receipts, invoices, bank records, supporting registers, and other relevant documents. This comparison helps detect errors, omissions, duplicate entries, and fraudulent transactions. Proper vouching of receipts and payments enhances the reliability of the accounting records.



and strengthens the internal control system of the organisation.

Vouching is broadly classified into two categories: Vouching of Receipts and Vouching of Payments. This classification helps the auditor verify all cash inflows and cash outflows of an organisation in a systematic manner. By examining receipts and payments separately, the auditor can ensure that every financial transaction is genuine, properly authorised, accurately recorded, and supported by valid documentary evidence.

Vouching of Receipts deals with the verification of all amounts received by the organisation. It includes the examination of transactions such as cash receipts, bills receivable, sales receipts, and proceeds from the sale of assets. The auditor verifies these receipts with the help of receipt books, invoices, cash books, bank records, and other supporting documents to ensure that all income has been completely accounted for and that no receipt has been omitted or misappropriated.

Vouching of Payments relates to the verification of all payments made by the organisation. It includes the examination of cash payments, payment vouchers, bank payments, capital payments, and revenue payments. The auditor checks whether the payments are genuine, properly authorised, supported by valid vouchers, and correctly recorded in the books of accounts. This process helps detect unauthorised payments, duplicate payments, fictitious expenses, and other financial irregularities.

Thus, the classification of vouching into receipts and payments enables the auditor to examine every financial transaction in a comprehensive and organised manner. It ensures the accuracy and reliability of the accounting records, strengthens internal control, and enhances the credibility of the financial statements.

6.2.1.7. Vouching of Receipts

The primary objective of vouching receipts is to ensure that every amount received by the organisation has been completely, accurately, and promptly recorded in the books of accounts. Since cash receipts are more susceptible to suppression, concealment, and misappropriation than cash payments, the auditor should exercise greater care while verifying receipt transactions. The auditor examines the supporting documents to confirm that all receipts have been properly accounted for and deposited into the bank wherever necessary. The following are the major items verified while vouching receipts.

1. Opening Balance of Cash

The opening balance of cash is the amount of cash available at the beginning of the accounting period. The auditor should verify that the opening balance agrees with the closing cash balance shown in the previous year's audited financial statements. Any discrepancy between the opening and closing balances should be carefully investigated before proceeding with the audit. Verification of the opening balance ensures the continuity and accuracy of the accounting records.

2. Cash Sales

Cash sales constitute an important source of revenue for many organisations and therefore require careful verification. The auditor should examine cash sale bills,

duplicate copies of invoices, the cash book, and the sales register to ensure that all cash sales have been properly recorded. It should also be verified that the cash collected has been deposited into the bank without unnecessary delay. Any cancelled or altered cash sale bill should be supported by proper authorisation and explanation.

3. Cash Received from Debtors

Cash received from debtors represents collections made against credit sales. The auditor should verify the receipts issued to customers, the cash book, debtors' ledger, and bank records to ensure that all collections have been properly accounted for. Any discounts allowed to debtors should be duly authorised and correctly recorded in the books of accounts. Where necessary, the auditor may obtain direct confirmation from debtors to verify the correctness of the outstanding balances.

4. Loans Received

Loans received provide an important source of finance for an organisation and should be carefully verified. The auditor should examine loan sanction orders, loan agreements, resolutions of the managing committee, bank statements, and loan registers to confirm that the borrowings are genuine and properly authorised. The auditor should also verify whether the loans have been obtained in accordance with the provisions of the Co-operative Societies Act, Rules, and Bye-laws. It should further be ensured that the borrowing is within the approved borrowing limits of the organisation.

5. Deposits

Deposits received from members or customers constitute a significant liability of the organisation and require careful examination. The auditor should verify deposit application forms, deposit receipts, counterfoils, bank pay-in slips, and deposit registers to ensure that all deposits have been correctly recorded. It should also be confirmed that interest on deposits has been calculated accurately and that proper Know Your Customer (KYC) procedures have been followed before accepting deposits. The closing balance of deposits should agree with the deposit register and the financial statements.

6. Loan Repayments

Loan repayments made by members should be verified to ensure that they have been properly received and accounted for. The auditor should examine the loan ledger, cash book, receipt counterfoils, passbooks, and bank records to confirm that repayments have been correctly adjusted towards principal and interest. Any overdue instalments or arrears should be identified and brought to the notice of the management. Proper verification of loan repayments helps ensure the accuracy of loan accounts and strengthens credit management.

7. Interest and Dividend Received

Income earned from investments, such as interest on fixed deposits and dividends on shares, should be carefully verified. The auditor should examine investment registers, Fixed Deposit Receipts (FDRs), dividend warrants, bank statements, and credit advice received from financial institutions. It should be ensured that the income has been



correctly calculated, actually received, and properly recorded in the books of accounts. Any accrued interest or dividend receivable at the end of the accounting period should also be accounted for correctly.

8. Sale of Fixed Assets

The auditor should verify whether the sale of fixed assets has been carried out with the approval of the competent authority. Relevant documents such as the sale agreement, valuation report, managing committee resolution, fixed asset register, cash book, and bank records should be examined. The auditor should ensure that the sale proceeds have been correctly recorded and that any profit or loss on the sale has been properly calculated. It should also be verified that the asset has been removed from the fixed asset register after the sale.

9. Share Capital and Entrance Fees

Amounts received towards share capital and entrance fees should be verified with reference to the membership register, share register, receipt books, cash book, and bank records. The auditor should ensure that the amounts collected are in accordance with the provisions of the Bye-laws and that share certificates have been issued to eligible members. Entrance fees should also be collected at the prescribed rates and properly accounted for in the books. Proper verification of these receipts ensures the accuracy of members' capital accounts.

10. Miscellaneous Receipts

Miscellaneous receipts include income from sources other than the organisation's normal business activities, such as commission, rent, penalties, sale of scrap, recovery of expenses, or other incidental income. The auditor should examine the supporting vouchers, agreements, receipts, and bank records relating to such transactions.

6.2.1.8. Vouching of Payments

Vouching of payments is the process of examining all payment transactions with the help of supporting vouchers and documents. Its purpose is to ensure that every payment is genuine, properly authorised, correctly recorded in the books of accounts, and made for the business of the society. The auditor should also verify that each payment complies with the provisions of the Co-operative Societies Act, Rules, and the society's bye-laws.

Major Payments to be Vouched

1. Cash Purchases

Cash purchases are purchases of goods for which immediate payment is made in cash. The auditor should verify the cash memo, purchase invoice, goods inward register, stock register, and cash book entries. He should ensure that the goods were actually received, the purchase was properly authorised, and the payment was genuine.

2. Payment of Wages

Payment of wages refers to the remuneration paid to workers for the work performed by them. The auditor should examine the wage register, attendance register, muster

roll, wage sheets, and payment receipts. He should ensure that wages are paid only to genuine workers, correctly calculated, and properly authorised.

3. Payment of Salaries

Salary payments are made to employees for the services rendered by them. The auditor should verify the salary register, attendance records, appointment orders, salary slips, and payment records. He should ensure that salaries are correctly calculated, approved by the competent authority, and properly recorded in the accounts.

4. Repayment of Deposits

Repayment of deposits means returning the amount deposited by members or customers on maturity or withdrawal. The auditor should verify the deposit ledger, deposit receipts, repayment vouchers, and authorisation for repayment. He should ensure that the payment is made only to the rightful depositor and is correctly entered in the books of accounts.

5. Payments to Creditors

Payments to creditors are made to settle outstanding amounts due for goods or services purchased on credit. The auditor should verify suppliers' invoices, creditors' ledger accounts, receipts, and payment vouchers. He should ensure that the payment is genuine, correctly recorded, and that no duplicate payment has been made.

6. Bills Payable

Bills payable are written promises to pay a specified amount on a future date. The auditor should verify the bills payable register, accepted bills, payment receipts, and bank records. He should ensure that the bills are paid on the due date and properly accounted for in the books.

7. Miscellaneous Expenses

Miscellaneous expenses include small and routine business expenses that do not come under any specific expense head. The auditor should examine the supporting bills, vouchers, receipts, and approval for each payment. He should ensure that every expense is genuine, necessary for the business, and correctly recorded in the accounts.

8. Preliminary Expenses

Preliminary expenses are expenses incurred before the commencement of business or during the formation of the organisation. They include registration fees, legal charges, and printing expenses related to the formation of the organisation. The auditor should verify all supporting documents and ensure that these expenses are properly accounted for in accordance with the applicable accounting standards.

6.2.2. Verification

Verification is the process by which the auditor confirms the existence, ownership, possession, valuation, and proper disclosure of the assets and liabilities appearing in



the financial statements. It is carried out at the end of the accounting period to ensure that the items shown in the Balance Sheet are genuine and actually exist. Verification provides the auditor with sufficient and appropriate audit evidence regarding the financial position of the organisation.

According to Spicer and Pegler,

"Verification of assets implies an enquiry into the value, ownership, title, existence and possession of the assets and the presence of any charge on the assets."

6.2.2.1. Objectives of Verification

The main objectives of verification are:

- To confirm the existence of assets and liabilities.
- To verify legal ownership and title of assets.
- To ensure that assets and liabilities are properly valued.
- To detect errors, frauds, and window dressing.
- To verify that assets are free from any charge or encumbrance unless disclosed.
- To ensure that the Balance Sheet presents a true and fair view of the financial position.

6.2.2.2. Importance of Verification

Verification increases the reliability of financial statements by ensuring that all assets and liabilities shown in the Balance Sheet are genuine and properly valued. It enables the auditor to detect fictitious assets, omitted liabilities, and fraudulent manipulation of accounts. Proper verification also protects the interests of shareholders, creditors, and other stakeholders by ensuring transparency and accountability in financial reporting.

General Principles of Verification

While verifying assets and liabilities, the auditor should follow certain general principles:

- Physically inspect assets wherever possible.
- Examine title deeds and ownership documents.
- Verify purchase invoices and supporting records.
- Obtain confirmations from third parties whenever necessary.
- Ensure proper valuation according to accounting standards.
- Verify whether any charge, mortgage, or lien exists on the asset.
- Ensure adequate disclosure in the financial statements.

6.2.3. Valuation

Valuation refers to the process of determining the appropriate monetary value of assets and liabilities for presentation in the financial statements. The objective of

valuation is to ensure that neither assets nor liabilities are overstated or understated. Correct valuation is essential because it directly affects the profit or loss and the financial position of the organisation.

Unlike verification, valuation is generally the responsibility of the management, while the auditor examines whether the valuation has been made according to the applicable accounting standards and accepted accounting principles.

6.2.3.1. Objectives of Valuation

The objectives of valuation are:

- To determine the correct value of assets and liabilities.
- To ensure proper calculation of depreciation and amortisation.
- To prevent overvaluation or undervaluation.
- To ensure compliance with accounting standards.
- To present a true and fair view of the financial position.

6.2.3.2 Methods of Valuation

The commonly used methods of valuation include:

1. Historical Cost Method

Assets are valued at the original purchase price, including all expenses incurred to bring them into use. This method is widely used for fixed assets.

2. Market Value Method

Assets are valued at their current market price. This method is generally applied to marketable securities and certain financial investments.

3. Replacement Cost Method

Assets are valued at the amount required to replace them at current prices. This method is useful for insurance and replacement planning.

4. Net Realisable Value (NRV)

Assets are valued at the estimated selling price less the costs necessary to complete and sell them. This method is commonly used for inventory valuation.

Table 6.2.1. Difference between Verification and Valuation

Basis	Verification	Valuation
Meaning	Confirms existence, ownership, and authenticity of assets and liabilities.	Determines the correct monetary value of assets and liabilities.
Objective	To establish that assets and liabilities actually exist.	To determine the correct value to be shown in the financial statements.

Responsibility	The auditor is primarily responsible for verification.	Management values the assets; the auditor examines their correctness.
Scope	Includes physical inspection, ownership, title, and valuation.	Deals only with determining the value of assets and liabilities.
Purpose	Prevents fictitious assets and omitted liabilities.	Prevents overvaluation and undervaluation.

6.2.4. Audit Report

An Audit Report is the formal written report issued by the auditor after completing the audit of the financial statements. It contains the auditor's independent opinion regarding whether the financial statements present a true and fair view of the financial position and financial performance of the organisation. The audit report is the final outcome of the auditing process and serves as an important communication between the auditor and the users of financial statements.

6.2.4.1. Objectives of Audit Report

The objectives of an audit report are:

- To communicate the auditor's opinion.
- To enhance the credibility of financial statements.
- To inform stakeholders about significant audit findings.
- To provide assurance regarding the reliability of financial statements.
- To comply with statutory and professional requirements.

6.2.4.2. Contents of an Audit Report

A standard audit report generally contains the following components:

- Title
- Addressee
- Auditor's Opinion
- Basis for Opinion
- Management's Responsibility for the Financial Statements
- Auditor's Responsibility
- Other Reporting Responsibilities (where applicable)
- Signature of the Auditor
- Date of the Report

- Place of Signature

6.2.4.3. Types of Audit Reports

1. Unmodified (Clean) Report

A clean report is issued when the auditor concludes that the financial statements present a true and fair view and are free from material misstatements.

2. Qualified Report

A qualified report is issued when the auditor identifies material misstatements or limitations in audit evidence that are not pervasive. Except for the specific matter mentioned, the financial statements are considered fairly presented.

3. Adverse Report

An adverse report is issued when material misstatements are both material and pervasive, resulting in financial statements that do not present a true and fair view.

4. Disclaimer of Opinion

A disclaimer of opinion is issued when the auditor is unable to obtain sufficient and appropriate audit evidence and therefore cannot express an opinion on the financial statements.

6.2.5. Audit of Final Accounts and Balance Sheet

The preparation of final accounts is the final stage of the accounting process and the starting point for expressing an auditor's opinion on the financial statements. Final accounts consist primarily of the Trading Account, Profit and Loss Account, and the Balance Sheet, which together present the financial performance and financial position of an organisation. The primary objective of auditing these statements is to ensure that they have been prepared in accordance with accepted accounting principles, statutory requirements, and the applicable accounting standards, and that they present a true and fair view of the affairs of the organisation. The auditor examines the books of accounts, supporting documents, vouchers, and other records to verify the correctness of the financial information presented in the final accounts.

Final accounts are the financial statements prepared at the end of an accounting period to ascertain the profit or loss earned by an organisation and its financial position on a particular date. They summarise the financial transactions recorded during the accounting period and provide useful information to management, shareholders, creditors, government authorities, and other stakeholders. In the case of co-operative societies, final accounts are generally prepared in accordance with the provisions of the Co-operative Societies Act, Rules, Bye-laws, and applicable Accounting Standards.

The final accounts generally include:

- Trading Account



- Profit and Loss Account
- Balance Sheet
- Notes to Accounts
- Schedules forming part of the financial statements

6.2.5.1. Audit of Final Accounts

The audit of final accounts is the systematic examination of the financial statements prepared by an organisation to determine whether they present a true and fair view of its financial performance and financial position. The auditor verifies the correctness of the figures appearing in the Trading Account, Profit and Loss Account, and Balance Sheet by examining the accounting records and supporting evidence. The audit also ensures that the financial statements comply with statutory provisions, accounting standards, and generally accepted accounting principles.

6.2.5.2. Objectives of Auditing Final Accounts

The major objectives of auditing final accounts are:

1. To Verify the Accuracy of Financial Statements

The auditor ensures that the figures appearing in the final accounts are mathematically correct and agree with the books of accounts. Proper verification of balances helps eliminate errors and omissions. Accurate financial statements provide reliable information for decision-making.

2. To Ensure Compliance with Accounting Standards

The auditor verifies whether the financial statements have been prepared in accordance with the applicable Accounting Standards and accepted accounting principles. Compliance ensures consistency, comparability, and transparency in financial reporting. It also improves the credibility of the financial statements.

3. To Detect Errors and Fraud

An important objective of the audit is to identify material errors, omissions, and fraudulent practices that may affect the financial statements. The auditor carefully examines transactions and supporting evidence to detect irregularities. Early detection helps protect the interests of stakeholders.

4. To Verify Proper Disclosure

The auditor verifies whether all significant accounting policies, contingent liabilities, commitments, and other material information have been properly disclosed. Adequate disclosure enables users to understand the financial statements correctly. It also ensures compliance with legal and professional requirements.

5. To Express an Independent Opinion

The ultimate objective of auditing final accounts is to enable the auditor to express

an independent opinion regarding whether the financial statements present a true and fair view of the financial position and financial performance of the organisation. This opinion enhances the confidence of users in the financial statements.

6.2.5.3. Audit of Trading Account

The Trading Account is prepared to determine the gross profit or gross loss earned during the accounting period. While auditing the Trading Account, the auditor verifies both the debit and credit items to ensure that they are correctly recorded.

The auditor verifies:

- Opening stock with previous year's audited accounts.
- Purchases with purchase invoices, goods inward register, and purchase book.
- Purchase returns with debit notes and purchase return register.
- Direct expenses such as wages, carriage inward, freight, customs duty, and factory expenses with supporting vouchers.
- Sales with sales invoices and sales register.
- Sales returns with credit notes.
- Closing stock through physical verification reports and stock valuation statements.

The auditor also ensures that the closing stock has been correctly valued in accordance with the applicable accounting standards because incorrect valuation directly affects the gross profit.

6.2.5.4. Audit of Profit and Loss Account

The Profit and Loss Account is prepared to ascertain the net profit or net loss of the organisation during the accounting period.

The auditor verifies all income and expenditure items appearing in the Profit and Loss Account. Particular attention is given to:

- Salaries and wages
- Rent
- Electricity and water charges
- Printing and stationery
- Travelling expenses
- Repairs and maintenance
- Insurance premium
- Interest paid
- Commission received
- Interest income

- Dividend income
- Bad debts
- Depreciation
- Provision for doubtful debts
- Income tax provision

The auditor ensures that all expenses relate to the current accounting period and have been properly authorised. Similarly, all income earned during the year should be fully accounted for and correctly classified.

6.2.5.5. Audit of Balance Sheet

The Balance Sheet presents the financial position of an organisation on a particular date by showing its assets, liabilities, and capital.

The auditor carefully verifies every item appearing in the Balance Sheet to ensure that:

- the asset or liability actually exists;
- it belongs to the organisation;
- it has been correctly valued;
- it has been properly disclosed; and
- it complies with legal requirements.

6.2.5.6. Audit of Assets

While auditing assets, the auditor verifies:

- **Cash in Hand**

Cash should be physically counted on the balance sheet date wherever possible. The cash balance should agree with the cash book. Any shortage or excess should be investigated immediately.

- **Cash at Bank**

Bank balances are verified with passbooks, bank statements, and bank confirmation certificates. The auditor also examines the Bank Reconciliation Statement for outstanding differences.

- **Investments**

Investments should be verified with investment certificates, Fixed Deposit Receipts (FDRs), share certificates, and bank records. Income earned from investments should also be verified.

- **Debtors**

The auditor verifies debtors through ledger accounts and confirmation from customers wherever necessary. Provision for doubtful debts should be examined carefully.

- **Inventory**

Inventory should be physically verified and valued according to the applicable accounting standards. Slow-moving, obsolete, or damaged stock should be properly valued.

- **Fixed Assets**

Land, buildings, machinery, furniture, vehicles, and equipment should be verified with title deeds, invoices, and the fixed asset register. The auditor should also ensure that depreciation has been correctly provided.

6.2.5.7 Audit of Liabilities

The auditor verifies whether all liabilities have been completely recorded and properly disclosed.

Major liabilities include:

- Creditors
- Bank loans
- Deposits
- Outstanding expenses
- Bills payable
- Statutory liabilities
- Provisions
- Contingent liabilities

Confirmation from creditors and banks may be obtained wherever necessary. The auditor also ensures that no liability has been intentionally omitted from the Balance Sheet.

6.2.5.8. Verification of Capital and Reserves

The auditor verifies the capital accounts with the share register, membership register, and resolutions of the competent authority. Reserves and surplus should be examined to ensure that transfers have been made in accordance with statutory provisions and organisational policies. In co-operative societies, statutory reserves should be verified with the relevant provisions of the Co-operative Societies Act and Rules.

While auditing the final accounts and Balance Sheet, the auditor should ensure that:

- All accounting entries are supported by documentary evidence.
- Assets and liabilities are properly verified and valued.
- Income and expenditure are correctly classified.
- Necessary provisions and reserves have been created.
- Depreciation has been correctly calculated.

- Contingent liabilities have been disclosed.
- Notes to accounts adequately explain significant matters.
- Accounting policies are consistently followed.
- Financial statements comply with statutory requirements and Accounting Standards.

6.2.5.9. Auditing of Reserves and Provisions

Reserves and provisions are important elements of financial statements that ensure the proper presentation of an organisation's financial position and profitability. During the audit, the auditor verifies whether reserves and provisions have been created, maintained, and disclosed in accordance with accounting standards, statutory requirements, and the organisation's policies. Proper auditing of reserves and provisions prevents the overstatement or understatement of profits and enhances the reliability of financial statements.

- **Reserves**

A reserve is an amount appropriated out of the profits of an organisation to strengthen its financial position or to meet future contingencies. It is created only after determining the net profit and does not represent a liability. Reserves improve the financial stability of an organisation and provide funds for future expansion, emergencies, or statutory requirements. Common examples include General Reserve, Capital Reserve, Statutory Reserve, and Reserve Fund.

- **Provisions**

A provision is an amount set aside to meet a known liability or an anticipated loss, although the exact amount or timing may not be certain. Unlike reserves, provisions are charged against profits before arriving at the net profit. Provisions ensure that expected expenses and losses are recognised in the appropriate accounting period. Examples include Provision for Bad and Doubtful Debts, Provision for Depreciation, Provision for Taxation, and Provision for Employee Benefits.

- **Objectives of Auditing Reserves and Provisions**

The auditor examines reserves and provisions to ensure that they have been properly created and recorded. The main objectives are to verify their adequacy, accuracy, legality, and proper disclosure in the financial statements. The auditor also ensures that reserves are not used to manipulate profits and that provisions are sufficient to cover expected liabilities and losses. Proper auditing helps maintain transparency and compliance with accounting principles.

- **Audit of Reserves**

While auditing reserves, the auditor verifies whether they have been created out of genuine profits and authorised by the competent authority. The auditor examines Board or Managing Committee resolutions, statutory requirements, and relevant ledger accounts to confirm that transfers to reserves have been correctly made. It is also verified that statutory reserves required under the law, such as those in co-operative societies,

have been maintained. The auditor ensures that reserves are correctly classified and disclosed in the Balance Sheet.

- **Audit of Provisions**

The auditor carefully examines the basis on which provisions have been calculated. Supporting documents, previous years' records, management estimates, and accounting policies are reviewed to determine whether the provisions are reasonable and adequate. The auditor also ensures that provisions are consistently calculated from year to year and comply with the applicable Accounting Standards. Any excess or insufficient provision should be identified and appropriately reported.

- **Duties of the Auditor**

The auditor has several responsibilities while auditing reserves and provisions. The auditor should verify that all reserves and provisions are properly authorised, correctly calculated, and supported by sufficient documentary evidence. The auditor should ensure compliance with legal requirements, accounting standards, and organisational policies. Any material understatement, overstatement, or improper disclosure should be brought to the attention of management and appropriately reflected in the audit report if necessary.

6.2.5.10. Misappropriation and Embezzlement of Frauds

Fraud is one of the major concerns in auditing because it can lead to significant financial losses and damage the reputation of an organisation. Two common forms of fraud encountered during an audit are misappropriation and embezzlement. Both involve the dishonest use of an organisation's assets or funds for personal benefit. The auditor plays an important role in detecting indicators of such frauds by examining accounting records, internal controls, and supporting documents. Although the primary responsibility for preventing fraud rests with management, the auditor must exercise professional scepticism and perform appropriate audit procedures to identify material misstatements caused by fraud.

Misappropriation refers to the dishonest or unauthorised use, theft, or diversion of an organisation's assets, cash, inventory, or other resources for personal gain. It may be committed by employees, officers, or other persons who have access to the organisation's assets. Misappropriation generally involves the misuse of resources that belong to the organisation without the owner's consent.

Examples of misappropriation include:

- Theft of cash from the cash box.
- Unauthorised use of company vehicles or equipment.
- Stealing inventory from the warehouse.
- Misuse of office supplies or other organisational property.
- Diverting customer payments for personal use.

6.2.5.11 Meaning of Embezzlement

Embezzlement is a specific type of fraud in which a person who has been legally entrusted with money or property dishonestly converts it for personal use. Unlike ordinary theft, the offender initially has lawful possession of the assets but later misuses them for personal benefit. Embezzlement usually occurs when employees or officials handling cash or financial transactions abuse the trust placed in them.

Examples of embezzlement include:

- A cashier retaining cash collections instead of depositing them.
- An accountant transferring organisational funds to a personal bank account.
- A finance officer creating fictitious payments and receiving the money.
- Manipulating payroll records to receive unauthorised salary payments.

6.2.5.12. Difference between Misappropriation and Embezzlement

Although both are fraudulent activities, there are important differences between them. Misappropriation refers to the unauthorised use or theft of any organisational asset, whereas embezzlement specifically involves the dishonest conversion of assets by a person who was legally entrusted with their custody. Misappropriation may involve cash, inventory, or other assets, while embezzlement commonly relates to funds or property under the control of employees or officers. Understanding this distinction helps the auditor identify the nature of the fraud and recommend suitable corrective measures.

6.2.5.13. Common Methods of Misappropriation and Embezzlement

Fraudsters may adopt different methods to conceal their dishonest activities. Some of the common methods include:

- Theft of cash before it is recorded in the books.
- Manipulation of cash receipts and payment records.
- Preparation of fictitious payment vouchers.
- Creation of fake suppliers or fictitious employees.
- Forgery of signatures on cheques or payment instructions.
- Alteration of invoices and supporting documents.
- Overstatement of expenses and understatement of income.
- Removal or theft of inventory and fixed assets.
- Misuse of electronic fund transfer facilities.

6.2.6. Audit Report

An audit report is the final outcome of the audit process. It is a formal written document issued by the auditor expressing an independent opinion on whether the financial statements present a true and fair view of the financial position and financial

performance of an organisation. Before an audit report is issued, it must be carefully reviewed, approved, and signed by the authorised auditor. The approval and issue of the audit report are important steps that ensure the report is accurate, complete, and in compliance with statutory and professional requirements.

Before issuing the audit report, the auditor should ensure that the report has been properly reviewed and approved. The approval process confirms that all audit procedures have been completed and that the conclusions reached are supported by sufficient audit evidence.

The major steps involved in the approval of an audit report are:

1. Completion of Audit Procedures

The auditor should confirm that all planned audit procedures have been completed. Necessary audit evidence should be collected and properly documented. Any significant issues identified during the audit should be resolved before finalising the report.

2. Review of Working Papers

The auditor should review the audit working papers to ensure that they adequately support the findings and conclusions. The documentation should clearly show the nature of the audit work performed and the evidence obtained. Proper review improves the quality and reliability of the audit.

3. Verification of Financial Statements

The final financial statements should be carefully examined to ensure that all material items have been correctly presented and disclosed. The auditor should verify that assets, liabilities, income, and expenses have been properly recorded in accordance with applicable accounting standards and legal requirements.

4. Consideration of Audit Findings

The auditor should evaluate all observations, errors, internal control weaknesses, and instances of non-compliance identified during the audit. Material matters should be discussed with management and, where necessary, appropriate corrections should be made before issuing the report.

5. Formation of Audit Opinion

Based on the audit evidence obtained, the auditor forms an independent opinion regarding the financial statements. Depending on the circumstances, the opinion may be unmodified (clean), qualified, adverse, or a disclaimer of opinion. The opinion should fairly reflect the audit findings.

6. Approval by the Authorised Auditor

After completing the review, the authorised auditor approves the audit report. The approval signifies that the report has been prepared in accordance with professional standards and that the auditor accepts responsibility for the opinion expressed.



6.2.6.1. Audit Memorandum in Co-operative Societies

An Audit Memorandum is a detailed document prepared by the auditor after completing the audit of a co-operative society. It contains the auditor's observations, audit objections, irregularities, deficiencies, and recommendations for improving the financial and administrative functioning of the society. It is issued to the managing committee of the society to enable it to rectify the defects noticed during the audit.

Unlike the Audit Report, which expresses the auditor's opinion on the financial statements, the Audit Memorandum provides detailed comments on the findings of the audit and the corrective actions required.

6.2.6.2. Objectives of Audit Memorandum

- To communicate the findings of the audit to the management.
- To point out accounting errors and financial irregularities.
- To identify violations of the Co-operative Societies Act, Rules, and Bye-laws.
- To recommend corrective measures for improving financial management.
- To strengthen internal control and accountability.
- To prevent fraud, misappropriation, and financial losses.
- To ensure compliance with statutory and regulatory requirements.

6.2.6.3. Contents of Audit Memorandum

An Audit Memorandum generally contains the following:

1. Name and registration number of the co-operative society.
2. Financial year covered by the audit.
3. Details of books and records examined.
4. Audit observations and objections.
5. Defects in accounting and maintenance of records.
6. Cases of fraud, misappropriation, or embezzlement, if any.
7. Non-compliance with the Co-operative Societies Act, Rules, and Bye-laws.
8. Weaknesses in internal control and management.
9. Recommendations for corrective action.
10. Time limit for rectification of audit objections.
11. Signature, designation, date, and seal of the auditor.

6.2.6.4. Approval of audit memorandum and Issue of Audit certificate

After completing the audit of a co-operative society, the auditor prepares the Audit Memorandum containing the audit findings, observations, objections, and recommendations. The Audit Memorandum is submitted to the competent audit authority for scrutiny and approval.

Depending on the nature and category of the co-operative society, the Audit Memorandum is submitted to the Assistant Director of Co-operative Audit (Taluk), Joint Director of Co-operative Audit (District), or the Director of Co-operative Audit (State). The concerned authority examines and verifies the Audit Memorandum to ensure that the audit has been conducted in accordance with the provisions of the Co-operative Societies Act, Rules, and relevant auditing standards.

After satisfactory verification and approval of the Audit Memorandum, the competent authority issues the Audit Certificate. The Audit Certificate serves as official confirmation that the statutory audit of the co-operative society has been completed and that the audit findings have been duly examined and approved by the prescribed audit authority.

6.2.6.5. Audit Certificate

An Audit Certificate is an official document issued by the competent Co-operative Audit Authority following the completion and approval of the statutory audit of a co-operative society. It certifies that the accounts of the society have been audited in accordance with the provisions of the Co-operative Societies Act, Rules, Bye-laws, and other applicable regulations. The certificate serves as formal evidence that the statutory audit has been completed and that the financial records of the society have been examined by the audit department.

After completing the audit, the auditor prepares an Audit Memorandum containing the audit findings, observations, objections, and recommendations. The Audit Memorandum is submitted to the competent authority, such as the Assistant Director of Co-operative Audit (Taluk), District Director of Co-operative Audit, or State Director of Co-operative Audit, depending on the category and nature of the co-operative society. The authority scrutinises and verifies the Audit Memorandum to ensure that the audit has been conducted properly and in compliance with the relevant legal provisions. After satisfactory verification, the Audit Certificate is issued.

The Audit Certificate generally contains the name and registration number of the co-operative society, the financial year covered by the audit, the date of completion of the audit, the audit classification or audit rating (where applicable), and the signature, designation, and official seal of the competent audit authority.

The Audit Certificate is an important statutory document. It provides assurance to members, creditors, financial institutions, government authorities, and other stakeholders that the accounts of the society have been independently audited. It enhances the credibility of the financial statements and promotes transparency, accountability, and financial discipline in the management of the society. The certificate is also required for



statutory compliance, submission to the Registrar of Co-operative Societies, obtaining loans, government assistance, and other regulatory purposes.

Thus, the Audit Certificate is the final outcome of the statutory audit process and serves as official confirmation that the audit has been completed and approved by the competent Co-operative Audit Authority.

Recap

- ◇ Vouching verifies the authenticity of accounting transactions.
- ◇ Vouchers provide documentary evidence for financial transactions.
- ◇ Verification confirms the existence and ownership of assets and liabilities.
- ◇ Valuation determines the correct monetary value of assets and liabilities.
- ◇ Final accounts include the Trading Account, Profit and Loss Account, and Balance Sheet.
- ◇ Reserves are created from profits to strengthen the financial position.
- ◇ Misappropriation involves unauthorised use of assets or funds.
- ◇ Embezzlement is the fraudulent conversion of entrusted property.
- ◇ The Audit Certificate confirms the completion of the statutory audit.

Objective Questions

1. Which account shows the financial position of a business?
2. Which document supports an accounting transaction?
3. What is the purpose of auditing final accounts?
4. What is misappropriation?
5. What is embezzlement?
6. Who prepares the Audit Report?
7. Which audit document confirms the audit is completed?

Answers

1. Balance Sheet.
2. Voucher.
3. To ensure accuracy and fairness.
4. Unauthorised use of another's property or funds
5. Fraudulent conversion of entrusted funds or property.
6. Auditor.
7. Audit Certificate.

Self-Assessment Questions

1. Distinguish between verification and valuation.
2. Describe the verification of liabilities.
3. Distinguish between reserves and provisions.
4. Explain the audit of reserves and provisions.
5. Differentiate between misappropriation and embezzlement.
6. Describe the contents of an Audit Report.
7. Explain the importance of audit reports in financial reporting.

Assignments

1. Examine the Balance Sheet of a co-operative society and classify all assets and liabilities into appropriate categories.
2. Analyse the financial statements of a co-operative society and identify all reserves and provisions created during the financial year. State their purpose.
3. Prepare a comparative report distinguishing between misappropriation



and embezzlement, highlighting their meaning, causes, characteristics, examples, and methods of detection.

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Suggested Reading

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MODEL QUESTION PAPER SETS





SREENARAYANAGURU OPEN UNIVERSITY
MODEL QUESTION PAPER
SET - 01

QP CODE:

Reg. No:

Name:

SIXTH SEMESTER BACHELOR OF COMMERCE
(B.COM) DEGREE EXAMINATION
DISCIPLINE SPECIFIC ELECTIVE - B21CM14DE
CO-OPERATIVE ACCOUNTING

(CBCS - UG)

2022-23 - Admission Onwards

Time: 3 Hours

Max Marks: 70

Section A

(Answer any 10, each carries 1 mark)

(10x1=10)

1. Define Co-operative Accounting
2. What is Book Profit?
3. What do you mean by Journal Proper?
4. What do you mean by rectification of errors?
5. What is Credit Co-operative Society?
6. What do you mean by Bank Reconciliation Statement?
7. What are fluid resources?
8. Which fund is created for the welfare of members and society?
9. What is the primary objective of a Non-Credit Co-operative Society?
10. What is Audit Certificate?
11. What do you mean by Valuation?
12. What is Voucher?



13. What is meant by patronage bonus?
14. What do you mean by Bylaws?
15. What is the Misappropriation and Embezzlement ?

Section B

(Answer any 5, each carries 2 marks)

(5x2=10)

16. List any two advantages of computerised accounting in cooperatives.
17. Mention any two differences between Co-operative audit and administrative audit.
18. What do you mean by Primary Agricultural Credit Societies?
19. Distinguish between reserves and provisions
20. State any two differences between verification and valuation.
21. List any two objectives of vouching.
22. What is Double -entry system?
23. State any two objectives of Audit Report.
24. What is Audit Report?
25. What do you mean by Co-operative Auditing?

Section C

(Answer any 4, each carries 5 marks)

(4x5=20)

26. Explain the limitations of co-operative accounting.
27. Discuss the meaning and features of Books of Original Entry
28. What are the distinct accounting peculiarities of special type co-operative societies?
29. Discuss the advantages of Co-operative Auditing.
30. Elucidate the features of accounting principles in co-operatives.
31. Differentiate between Co-operative Audit and General Audit.
32. Prepare Journal for the following data



03-07-2025: The cooperative society received ₹3,50,000 from members as share capital through the bank.

06-07-2025: Purchased office furniture for ₹45,000 by cheque.

10-07-2025: Received interest on loans from members in cash ₹9,200.

15-07-2025: Paid electricity charges by cheque ₹5,200.

20-07-2025: Purchased office supplies for cash ₹2,800.

25-07-2025: Received service charges from members in cash ₹7,200.

31-07-2025: Paid audit fees by cheque ₹11,500.

33. Prepare the Purchase Day Book of XYZ Cooperative Society from the following transactions for the month of May 2025.

May 03: Purchased goods from M/s Sunrise Traders on credit worth ₹28,000.

May 07: Purchased goods from M/s Kerala Suppliers on credit worth ₹21,500.

May 11: Purchased office equipment from M/s Modern Office Solutions for ₹15,000 on credit.

May 16: Purchased goods from M/s Green Agencies on credit worth ₹36,500.

May 23: Purchased goods from M/s Sunrise Traders on credit worth ₹17,500.

May 29: Purchased goods for cash worth ₹9,500.

Section D

(Answer any 2, each carries 15 marks)

(2x15=30)

34. Elaborate the major sources of funds available to co-operative societies?
35. Elucidate the different types of different types of books and registers maintained by Co-operatives
36. Explain the vouching of receipts and payments.
37. The following particulars are extracted from the books of Malabar Farmers Co-operative Society Ltd. for the year ended 31st March, 2025. Prepare the Trading Account for the year ended 31st March, 2025.

Particulars	₹
Opening Stock	32,000
Purchases	3,75,000
Purchase Returns	12,000

Carriage Inward	7,500
Wages	18,000
Sales	5,25,000
Sales Returns	15,000
Octroi Duty	5,500
Closing Stock	48,000

SGOU



SREENARAYANAGURU OPEN UNIVERSITY
MODEL QUESTION PAPER
SET - 02

QP CODE:

Reg. No:

Name:

SIXTH SEMESTER BACHELOR OF COMMERCE
(B.COM) DEGREE EXAMINATION
DISCIPLINE SPECIFIC ELECTIVE - B21CM14DE
CO-OPERATIVE ACCOUNTING
(CBCS - UG)
2022-23 - Admission Onwards

Time: 3 Hours

Max Marks: 70

Section A

(Answer any 10, each carries 1 mark)

(10x1=10)

1. Define Divisible Profit and explain how it is determined.
2. What is General Ledger?
3. What do you mean by Co-operative Accounting?
4. What are Non-Credit Co-operative Societies?
5. What do you mean by Audit Memorandum?
6. What do you mean by Verification?
7. What is Audit Certificate?
8. Define Vouching.
9. What is the guiding principle of co-operative societies?
10. What is single entry system?
11. What is the main objective of co-operative societies?



12. What is the main purpose of maintaining reserve funds in co-operatives?
13. What do you mean by Audit of Final Accounts?
14. Which Act governs co-operative societies in Kerala?
15. What is the book of original entry called?

Section B

(Answer any 5, each carries 2 marks)

(5x2=10)

16. List any two differences between General Ledger and Subsidiary Ledger.
17. Which are the different types of cash book?
18. List any two objectives of Co-operative Accounting
19. Mention any two objectives of verification.
20. State any two features of Valuation.
21. What are the special features of Co-operative Accounting?
22. Differentiate between Book Profit and Divisible Profit
23. State any two differences between complete omission and Partial omission
24. Describe any four contents of an Audit Report.
25. Mention any two differences between Errors of Principle and Clerical Errors.

Section C

(Answer any 4, each carries 5 marks)

(4x5=20)

26. Explain the importance of co-operative accounting.
27. Discuss the scope of accounting principles in co-operative societies.
28. Explain the significance of Co-operative Auditing.
29. Discuss the concept of computerised accounting in co-operative societies.
30. Differentiate between Co-operative Audit and Financial Audit.
31. Discuss the distinctive accounting features of dairy co-operative societies.
32. Prepare the Sales Day Book of Nova Cooperative Society from the following transactions for the month of July 2025.



July 02: Sold goods on credit to M/s Royal Stores for ₹32,500.

July 07: Sold goods on credit to M/s Metro Mart for ₹19,000.

July 12: Sold an old office printer to Mr. Arun on credit for ₹9,500.

July 17: Sold goods on credit to M/s Star Traders for ₹41,000.

July 23: Sold goods for cash worth ₹12,500.

July 28: Sold goods on credit to M/s Royal Stores for ₹16,000.

33. Prepare a Bank Reconciliation Statement from the following information as on 30.06.2025:

Balance as per Cash Book on 30.06.2025 – ₹24,800.

A cheque for ₹7,650 deposited into the bank but not yet credited in the Pass Book.

A customer directly paid ₹8,200 into the bank account.

₹250 was debited in the Pass Book as bank charges.

A cheque for ₹3,400 issued to a creditor but not yet presented to the bank for payment. ₹2,100 was credited in the Pass Book as interest.

Section D

(Answer any 2, each carries 15 marks)

(2x15=30)

34. Explain the Statutory compliances and Duties of Cooperative Societies.
35. Elucidate the meaning, objectives and features of Credit Co-operative Societies.
36. Discuss the Rights, Duties and Responsibilities of a Co-operative Auditor.
37. Prepare a Three Column Cash Book of Greenfield Co-operative Society from the following transactions for the month of September 2025.

Sept. 01: Cash in hand ₹42,000; Bank balance ₹85,000.

Sept. 04: Received cash from Mr. Suresh ₹11,400 and allowed him a discount of ₹600.

Sept. 08: Paid to M/s National Suppliers by cheque ₹18,200 and received a discount of ₹800.

Sept. 12: Deposited cash into bank ₹15,000.

Sept. 17: Withdrew cash from bank for office use ₹7,500.

Sept. 21: Received commission by cheque ₹5,500.

Sept. 27: Paid office rent in cash ₹4,200.

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