CHAPTER 3

FINANCIAL ACCOUNTING PRACTICES IN SELECTED COOPERATIVES

Introduction

Cooperatives are socio-economic organizations. They are founded on the principles of equity and equality. Their decisive aim is to effect social advancement through economic improvement. The success or failure of a cooperative is, therefore, adjudged by its economic performance and its social thrust on the community it serves. The economic performance of the cooperative has to be studied, measured and reported to the members, financing banks, higher level institutions and to the state government. This, in fact, is a statutory requirement and has to be done every year without failure and omission.

The economic performance or efficiency of the cooperatives can be ascertained and understood by recording, classifying and summarizing the business transactions in a significant and systematic manner. The system designed to perform all these tasks is accounting. Measurement of the economic performance is not the only end of accounting. It has to provide accurate and timely information to facilitate decision-making. In fact, the role of accounting information in decision-making becomes crucial, critical and all-important as cooperative organizations become increasingly complex, hierarchical and decentralized. In other words, the demand for management accounting in cooperatives has been gradually increasing. Installation of MAS presupposes the existence of sound financial accounting system as it provides accurate and valuable quantitative data for decision-making. The foundation is financial accounting system. Hence, a thorough understanding of the existing system of financial accounting is essential for examining the management accounting and
control practices in cooperatives. This chapter makes an attempt to analyse the existing financial accounting system with emphasis on its practices and problems in the selected cooperatives.

Cooperative Accounting

Accounting in cooperatives is referred to as cooperative accounting. It is an indigenous accounting system. It has emerged as a distinct system, especially in the Indian sub-continent. O.R.Krishnasamy, after examining the system and its practices, defined it as, "an indigenous system of account-keeping based on the concept that each transaction involves either receipt or payment of money". It is neither double entry nor single entry system of account-keeping. It is an adaptation of the receipts and payments system of account-keeping as prevalent in non-trading concerns. The system assumes that: (i) transactions involve either receipt or payment of money; and (ii) credit transactions eventually turn into cash transactions. The rule for recording the transactions are: (i) all cash benefits received, or assumed to have been received, are entered on the receipts side; and (ii) all cash payments made or assumed to have been made are entered on the payments side.

Evolution of Cooperative Account-Keeping

Cooperative account-keeping system as a system of accounting was not known to the academic world until O.R.Krishnasamy brought to light the practices of such a system in cooperatives through his book on Cooperative Account-Keeping in 1961. The literature available on cooperative accounting, especially the works of Predik, H. and Sugden (1913), Alfred Wood (1924), Jacques, J. and A. Davis, (1960) and Jacques, J. and T. Young primarily deal with double

2 Ibid.
3 Predik H and Sugden, Cooperative Societies Accounts, Egmore: Gee & Co Ltd. 1913.
6 Jacques, J. and Young, T., Cooperative Books Keeping II- Intermediate, Manchester London: Cooperative Union.
entry book-keeping system as applied to cooperatives. A cursory glance at the literature on accounting system as practiced by cooperatives in various countries prove that only Indian cooperatives seem to have adopted what came to be labelled as cooperative account-keeping system. Studies on cooperative accounting in India are scarce. The works of Krishnasamy (1961), Manikavasagam (1989)\textsuperscript{7} and Samiuddin, et al., (1989)\textsuperscript{8} are noteworthy. They have just recorded the prevailing accounting practices in cooperatives. Their efforts have also highlighted the unique features of the cooperative accounting system. However, these authors could not trace the origin of this system with certainty and with evidence. The process of accounting in cooperatives suggests that it might have been devised by a knowledgeable accountant taking into account the enterprise and social aspects of cooperatives. The unique features of the cooperatives (at the time of birth of the cooperative movement in India) like cash trading, small size, limited volume of transactions, seasonality of business, poor socio-economic background of members and indigenous knowledge of accounting might have prompted the cooperatives and officials to find and adopt a simple and indigenous system of account keeping. The first conference of Registrars of Cooperatives, held as early as in 1906, supports this theory, for it came out with a resolution stating that cooperatives should prepare and submit the receipts and payments statement, profit and loss account and the balance sheet.\textsuperscript{9} The preparation of receipts and payments statement necessitated the maintenance of day book as the book of original entry and the preparation of profit and loss account and the balance sheet resulted in the adoption of certain modern double entry principles. Hence, a unique system of accounting blending the features of receipts and payments system of accounting and double entry system, emerged and came to be adopted in Indian cooperatives.


\textsuperscript{8}Samiuddin, et. al., Cooperative Accounting and Auditing, Bombay: Himalaya Publishing House, 1989.

Purpose of Accounting in Cooperatives

Like any other business organization, cooperatives need to maintain accounts for: (i) ascertaining the results of the transactions undertaken by it; (ii) understanding its financial performance; and, (iii) providing accounting based information to the management for facilitating decision-making process. Besides the above, cooperatives need to have a strong accounting system for many other reasons. They may be briefly stated. First, cooperatives are owned by members, managed by the elected representatives and controlled by the state government. They are also supervised by the financing and the functional federations. This makes the cooperatives accountable and answerable to too many. Secondly, an important objective of cooperative business is to render services to its member-users at a reasonable cost with a profit margin. A part of the profit needs to be distributed as patronage dividend to its members. This requires the cooperatives to account for the members' business with them.

Thirdly, the cooperatives have to report to various authorities outside the cooperatives. For example, a cooperative sugar mill has to send financial, technical and other statements to the financing institutions, federations at the state and national level and government at frequent intervals. Financing institutions may wish to know the financial condition of mills. Government may require information for taxation, framing policy, planning cooperative activity and so on. Federations may need information to understand the performance of its affiliated units. The purpose of cooperative accounting is, therefore, very broad and it serves as an important source of information to a variety of stake holders.

Cooperative Accounting vis-a-vis other systems of Accounting

Although cooperative accounting as a process is well in tune with the universally accepted definition of accounting, it varies from the modern system of account keeping in certain respects. Krishnasamy, who made a pioneering attempt to study the cooperative account keeping system, described it as "an improved System of Receipts and Payments Accounting"\(^\text{10}\). However, a

Table 3.1

<table>
<thead>
<tr>
<th>Stage</th>
<th>Double entry System</th>
<th>Receipts and Payments System</th>
<th>Cooperative accounting System</th>
</tr>
</thead>
<tbody>
<tr>
<td>I Stage</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Books of original entry</td>
<td>Journal &amp; Subsidiary books</td>
<td>Cash Book</td>
<td>Day Book as the only book of original entry or a set of day books</td>
</tr>
<tr>
<td>2. Basis of entry</td>
<td>Accrual</td>
<td>Actual or cash</td>
<td>Accrual</td>
</tr>
<tr>
<td>3. Nature of the transactions entered</td>
<td>Both cash and credit transactions</td>
<td>Cash transactions alone</td>
<td>Both cash and credit transactions.</td>
</tr>
<tr>
<td>II Stage</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Books of final entry</td>
<td>General Ledger and Personal ledger</td>
<td>General Ledger</td>
<td>General Ledger and a list of special ledgers</td>
</tr>
<tr>
<td>2. Summary Statement</td>
<td>Trial Balance</td>
<td>Receipts and Payments Account</td>
<td>Receipts and Payments Statement</td>
</tr>
<tr>
<td>III Stage</td>
<td></td>
<td></td>
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</tbody>
</table>
comparison of cooperative accounting with receipts and payments system and also with double entry system, brings out clear-cut and definite dissimilarities between the three systems of account keeping (See table 3.1). They may be briefly explained.

The first dissimilarity is with reference to maintenance of subsidiary books and transactions. The cooperatives maintain day book as the only book of original entry. Depending on the volume of transactions certain cooperatives may maintain sub-day books. But the receipts and payments totals of the sub-day books are incorporated in the main day book every day. Both cash and credit transactions are recorded in the day book itself. Under double entry system of accounting different subsidiary books are maintained. Cash transactions alone are recorded in the cash book. Other transactions are entered in the appropriate subsidiary books. Each book is independent. In the case of receipts and payments system of accounting cash book is the only book of original entry. Cash transactions alone are entered in the cash book.

The second dissimilarity arises in the process of posting and summarization. Postings under cooperative accounting are made in the general ledger which is the only book of final entry. There are also subsidiary ledgers known as special ledgers in which details of major classes of accounts such as share capital, deposits, borrowings, members' loans are recorded.

Maintenance of special registers and ledgers in cooperatives to record the business transactions of individual members helps cross-checking the transactions posted in the general ledger. It also helps to find out and rectify errors, if any, committed in recording of transactions.

In double entry book keeping, accounts are opened in various ledgers such as debtors ledger, creditors ledger, private ledger and general ledger. This general ledger is different from the general ledger of cooperatives. While the latter contains all accounts, the former is an impersonal ledger and contains properties and nominal accounts. In the case of receipts and payments system of account keeping the general ledger alone is maintained to post all transactions.
The third dissimilarity is seen in the preparation of financial statements. Under cooperative account keeping system, trading and profit and loss account are prepared using opening balance sheet and receipts and payments statement. In the case of double entry system, trading and profit and loss accounts are prepared based on trial balance. In the case of receipts and payments system of account keeping, income and expenditure account is prepared using opening balance sheet and receipts and payments statement.

Accounting Process in the Selected Cooperatives

The cooperative account keeping system is an indigenous system. "It is simple to understand and easy to adopt. It is based on the principle that each transaction involves either receipt of money or payment of money". As such, the system adopts a cash book called day book as the only book of original entry and a general ledger as the book of final entry. In addition to the general ledger, the system also uses a number of subsidiary ledgers normally called special ledgers for the purpose of recording personal transactions. These special ledgers in no way provide any information for the construction of the financial statements. However, the maintenance of special ledgers helps the cooperatives to check the arithmetical accuracy of the entries in the day book and the postings in the general ledger and the special ledgers. The accounting process in the selected cooperatives may be briefly stated.

a. Entry

All the receipts and payments are recorded in the day book at their origin, irrespective of whether they are cash or credit transactions.

Receipts are entered on the receipts side and payments are entered on the payments side. Credit transactions are also recorded as cash transactions on the logic that all credit transactions resolve themselves into cash transactions at a later date. However, in the case of credit transactions, two entries are made for each transaction. For instance, a transaction which involves credit purchase is

\[11\text{Ibid., p.397.}\]
assumed to mean receipt of a definite sum of money from the supplier and purchase of goods for cash. In this case an entry is made on the receipts side of the day book for the assumed receipt of the definite sum and another entry for the purchase of goods on the payments side. Thus, all credit and cheque transactions are split into two and are entered on both sides of the day book.

The day book, as the name suggests, is closed every day. Cooperatives may, depending upon the number and volume of transactions in a day, maintain any of the following day books.

(i) Simple day book having cash columns only.

(ii) Day book with cash, adjustment and total columns: All cash transactions are entered in the cash column and all credit and bank transactions which do not normally involve actual receipt or payment of money are entered in the adjustment column.

(iii) Day book with bank, adjustment and total columns: This book is used in cooperatives where transactions are carried out through bank accounts and no cash is transacted in the normal course of business. Credit transactions alone are entered in the adjustment column.

In cooperatives where transactions are numerous, two day books are maintained one for odd days and another for even days. This arrangement is made in order to complete the entry of transactions without delay.

The cooperatives under study, however, present a different picture. For instance, the cooperative wholesale unit maintains columnar main day book. It also maintains sub-day books for sales, credit sales, bank, employees advance, income, operational expenses etc. Their totals are incorporated in the columnar main day book. Postings are made from the entries made in the main day book. Thus, the sub-day books are not independent.

In the case of the spinning, sugar and daily units different day books like cash book, purchase day book, sales day book, bank day book and journal are maintained. Each book is independent. The entries made in the different day
books are straight away posted to the general ledger. Maintenance of different independent day books by the three manufacturing units indicates the adoption of subsidiary books system as found in double entry system of book keeping. However the formate of day books in cooperatives is distinctly different from that of the double entry system. All day books in cooperatives have invariably two sides viz., receipts and payments sides.

Figure 3.1

Operation of Cooperative Account Keeping System
b. Posting

Transactions, as entered in the day books, are posted in the general ledger accounts as well as special ledgers concerned. While posting, the receipts are posted on the receipts side and the payments on the payments side of the concerned accounts in the ledger. Special ledger balances are verified and cross-checked with the accounts concerned in the general ledger at a fixed interval in order to make sure that entries are posted in both the books and there was no error of any sort in the posting of accounts. The ledger accounts are periodically totalled to arrive at the progressive total for constructing the monthly statement of receipts and payments. Based on the monthly statement of receipts and payments a consolidated statement of receipts and payments is prepared at the end of the year. This consolidated statement is the summary of all the transactions during the accounting year (See Fig.3,1).

Regarding posting of transactions in the selected cooperatives, every transaction entered in the day book is posted twice in the ledger, once in the general ledger and again in the special ledger. This involves more clerical labour and the employees of the cooperatives feel that it is a mere repetition of posting which results in waste of time and energy. However opinion differs.

The auditors from the government department feel that: (i) it is a statutory requirement as it fulfils the social and business aspects of cooperatives. The additional book keeping arises on account of the dual nature of the cooperatives; and, (ii) maintenance of both special ledgers and the general ledger accounts facilitates cross-checking and reconciliation of accounts.

In the case of general ledger accounts, the accounts are opened afresh every year and therefore the amount represents only the current year balance in the account. The cumulative effect of transactions related to a particular period cannot be ascertained from the current year" books of accounts and it needs further calculations with the previous year balance sheet and adjustment items. This is especially so in the case of assets and liabilities.
c. Summarization of Transactions

Receipts and Payments Statement, prepared in the cooperatives under study, is almost a statement equivalent to trial balance. It serves as a basis for the preparation of final accounts and the balance sheet. Receipts and Payments Statement alone is not adequate for the preparation of final accounts and the balance sheet. Preparation of final accounts requires the opening balance sheet as the receipts and payments statement includes only the current year receipts and payments and does not include opening balances of different accounts.

The preparation of financial statements is a cumbersome work as the cooperatives need to prepare a working sheet by consulting the opening balance sheet, list of adjustment items and the current year receipts and payments statement. Referring to the opening balance sheet is essential as the receipts and payments statement reflects only the current year receipts and payments.

The selected cooperatives normally prepares two working statements for constructing financial statements, one for ascertaining the actual value of assets and liabilities at the end of the year and the other for arriving at the actual expenses and incomes under each head of the items included in the final accounts.

The formula adopted to arrive at the assets in the balance sheet is:

<table>
<thead>
<tr>
<th>Opening Balance</th>
<th>(+)</th>
<th>Payments</th>
<th>(-)</th>
<th>Receipts</th>
</tr>
</thead>
<tbody>
<tr>
<td>(As per the previous year Balance Sheet)</td>
<td>(As per the current Receipts and Payments Statement)</td>
<td>(As per the current Receipts and Payments Statement)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The actual liability at the end of the year is ascertained using the following formula:

Opening Balance (+) Receipts (-) Payments = Actual liability at the end of the year
The profit and loss account is prepared with reference to previous years' balance sheet, current year's statement of receipts and payments and list of outstanding assets and liabilities as at the end of the period.

Regarding income, the amount relating to the period is arrived at as shown hereunder.

Amount received during (+) Amount accrued as (-) Amount Accrued as the year (as per the at the end of the at the end of the Statement of Receipts " period. previous period, and Payments) (as found in the opening Balance Sheet)

The amount of each expense item relating to the period is arrived at as shown hereunder.

Amount Paid during (+) amount due as (-) amount due as at the end the year (as per the at the end of the previous period Statement of Receipts period. (As found in the and Payments) opening Balance Sheet)

All the financial statements are prepared in formats prescribed by the directorate of cooperative audit and given in the audit manual. These statements are also subjected to audit by auditors of the directorate of cooperative audit.

Accounting Organization

Organization implies some ordering of work roles whereby the authority and the resources for making decisions and performing tasks are distributed among defined positions within the organization. There are two strategies for organizational control. To the extent that activities are specialised, standardised and formalised, decision-making authority and tasks can be controlled by decentralization and structuring of activities. This decentralized but structured approach comprises one strategy for organizational control.
An alternative strategy for control is to centralize decision-making authority at higher levels within the organization. Maintaining control by centralizing decision-making reduces the need for organization, systems, procedures and specialist personnel to operate administrative systems. The choice between decentralization with structuring and centralization is limited to some extent by internal and external conditions faced by the organization.\(^{12}\)

The accounting organization in the selected cooperative units provides a mixed picture. The organization in the dairy unit is well structured and standardised. The section is headed by a qualified Chartered Accountant. The tasks of each person working in the accounting section of the unit is neatly defined and laid down. Each one knows what is expected of him. This is mainly because of the adoption of uniform accounting system as stipulated by the NDDB-the funding agency for the daily units. The other extreme is the case of wholesale units, where attempts were made to restructure the accounting system which was in a total mess. The Registrar of Cooperatives—the controlling authority of all the wholesale units in the state—suggested three different formal organizational arrangements for the accounting section in order to bring about "order and discipline" in financial accounting (See case 1). The wholesale units in Tamil Nadu were asked to choose any one of the three arrangements, depending on their volume of business and financial soundness. It was urged that the tendency to depend on departmental personnel to write the accounts should be gradually reduced and the employees of the stores should be motivated and encouraged to write the accounts. The wholesale unit under study has, in the name of reorganization, merely given new designation to the existing personnel without proper orientation and training in accounting. So the wholesale unit is yet to establish an accounting organization in the real sense.

In the case of spinning and sugar units, over a period of time a structure has been evolved for accounting, in tune with the changing environment and requirements. However, the structure is yet to be perfected, in spite of qualified personnel looking after the accounting section.

An important reason for not creating a well-structured accounting organization in many of the cooperatives under study is the highly centralized decision-making process. Decision-making, even in important day-to-day activities, does not lie within the organization. Decisions mostly flow from the top. As a result, the units concerned have not given due attention to establishing the structure.

**Organization manual**

Organization manual is an important device which defines the organizational set-up. It is essential in any form of organization for proper allocation of duties and responsibilities among the different staff of the various departments in the organization. It also gives an idea about the possible relationship between different sections and staff within the section. The organization manual, with a section on accounting, provides ample scope for demarcating the duties and responsibilities of the members of the staff in the accounting section. The use of the manual is observable in the dairy unit and the wholesale unit. Both these units have adopted the accounting system designed by NDDB and NCCF respectively. These systems were designed in such a way that they meet the specific requirements of the respective organizations. But, in practice, while the daily unit has adopted it in letter and spirit, the wholesale unit could not do so for want of trained manpower. Low level of accounting knowledge and inadequacy of training in the maintenance of accounts also contributed to the failure on the part of the wholesale unit. The other two units, namely the spinning and the sugar units do not have manual at all. The duties and responsibilities of the accounting personnel are defined and established by convention and experience. Work allotment can be changed, for very short spans of time, through office orders. The rule seems to link work to the persons and not to the designation.

**Accounting Policy**

Accounting policy refers to the policy of the enterprise in using specific accounting principles and the methods in the preparation and presentation of financial statements. Practice of principles and methods may vary from
organization to organization depending upon the purpose and circumstance in which the enterprises operate. However, there must be uniformity and consistency in practice and adoption by enterprises operating in an industry. If situations warrant, the principles and methods may be modified and changed. But the modifications and changes need to be disclosed for facilitating the interpretation of financial statements in the right perspective by the users. The accounting policy statements in black and white, if kept as part of the accounting manual, can help bring permanency and consistency in adopting such principles and methods. There are specific areas like valuation of inventory, calculation of depreciation, distribution of surplus, where cooperatives could apply specific principles and methods. But, in practice, the selected cooperative units do not have any accounting policy in writing with regard to adoption of specific principles and methods in the calculation of depreciation and valuation of closing stock and other assets. The principles and methods adopted are mainly based on convention and the instructions received from the Registrar of Cooperatives and the commercial tax authorities.

**Recent Trends in Financial Accounting in Cooperatives**

A. *Integration of Physical and Financial accounting:* Integration of financial and physical accounting would help in physical and financial control in cooperatives. When the organization has decentralized its decision-making and controlling powers, the integration helps to exercise full control over the responsibility centres by comparing of financial and physical records. The integration has been effected in the daily and the wholesale units as part of the financial accounting restructure measures. In the sugar unit integration has been effected only in the stores section. In the cooperative spinning unit, integration could be noticed only in the purchase and sales.

However, such integration, except in the dairy unit, where the responsibility centre accounting system is followed, has been regarded negatively as increasing the workload. Further, in the absence of adequate authority and autonomy, integration may not result in better control of inventory nor facilitate internal check.
B. Grouping and codification of accounts: The cooperative units under study have already taken steps to bring clarity to their accounting transactions through grouping and codification of their various transactions under proper heads. In the case of the sugar unit, grouping and codification of accounts was made during the seventies. In the other units, this has been done as part of either computerization process or introduction of modern MASs.

C. Computerization of Accounting: In an era of information and communication revolution, technological devices are available at relatively lower cost than ever before. The computer is a wonderful device. Computers have pervaded almost all activities of mankind. They are increasingly preferred as they provide concise and accurate results in an astonishingly lesser time. Accounting is also computerized. Computers are widely used in the accounting field for the following reasons:

(i) It is capable of entering a transaction simultaneously in many records.

(ii) If adequate provisions and networks are made, it facilitates inter and intra departmental sharing of accounting information.

(iii) It helps generation of accounting information swiftly.

(iv) It is capable of providing information in required formats.

Efforts have been taken by the cooperatives to computerize the accounting system in recent years. The wholesale and dairy units use the accounting packages designed and developed by the NCCF and NDDB respectively. The cooperative sugar unit and the spinning unit have developed accounting packages with the help of consultants available in the local area.

Conclusion

The cooperatives follow an indigenous system of book keeping. It is a full-fledged system based on the premise that transactions involve either receipt of money or payment of money. The cooperatives, over a period of time, have adopted certain changes in the accounting books and procedures in tune with
their growing size and volume of business. Yet they are found to have retained their basic principles. Cooperatives do have certain problems and difficulties in following the cooperative accounting system. They include: (i) too many books of final entry; (ii) want of well defined organization; (iii) lack of organizational/accounting manual; and, (iv) lack of clear-cut accounting policy. Inspite of these lacunae, the cooperatives chosen for the study strive hard to streamline their accounting system for better dissemination of information in different directions, especially in the area of decision-making. The steps initiated towards this direction includes integration of physical and financial accounting, grouping and codification of transactions and accounts, and computerization of accounting. These steps will facilitate strengthening the MAS in the selected cooperatives.