SECTION B

CASE STUDIES
CASE1

DINDIGUL DISTRICT CENTRAL COOPERATIVE

WHOLESALE STORES LIMITED

Introduction

The Dindigul District Cooperative Wholesale Stores (Stores) a distributive society, established in the year 1964, is one of the 29 wholesale Stores working in Tamil Nadu. The Wholesale Stores has been performing two-fold functions viz., i) Purchasing articles of domestic consumption in bulk and selling them to the public at a reasonable price; and, ii) acting as an agent of the State Government to procure, stock and supply essential commodities through the Fair Price Shops and other retail outlets. The jurisdiction of the Stores extends over the whole of the district. With a membership of around 20,000 it serves the nook and corner of the district through its 21 branches, three self-service centres, one supermarket and 50 Fair Price Shops located in rural and urban centres. The Board of Management was superseded in 1976 under the Special Officer Appointment Act of the State Government, and since then, the affairs of the Stores have been managed by a special officer deputed by the State Government. The special officer so appointed by the Government has all the powers that the Board enjoys under the democratic set-up.

Accounting System: Erstwhile Procedure

Cooperative accounting system, otherwise known as Receipts and Payments System of Account Keeping, was followed. The duties and responsibilities of the personnel in the accounting section were not clearly specified. The accounts personnel, besides maintaining accounts, had to look after the purchase, sales, business development and so on. The responsibility of writing the Day Book-
Fig. C1.1

Organisational Structure of the Cooperative Wholesale Stores Ltd.

Organisational Structure

Special Officer

Secretary

Managers

Business

Purchase Superintendent

Assistants

Salesman

Sales Assistants

Accounts and Administration

Establishment Supdts.

Liability Supdt

PDS Supdt

Accounts Supdt

Assistants

Assistants

Assistants

Junior Assistants

Junior Assistants

Junior Assistants

Junior Assistants
Fig. C1.2

Organisational Structure of Accounts Department of the Wholesale Stores

Manager (Accounts and Administration)

Accounts Supdt.

A/c Clerk

A/c Clerk

A/c Clerk

A/c Clerk

A/c Clerk

A/c Clerk

A/c Clerk

Audit

Supdt.

Banking Transactions and Bank Reconciliation

Supply Purchase

Operations

Credit Sale

Societies Accounts

Other than Society Accounts

Sales and Sales Clarification

Sundry Creditors Day Book

Non-Operative expenses

Institution Accounts

PDS

Government Institutions

Preparation of cheques

Suppliers Personal Register

Employees Accounts

Monthly Statement Preparation

Other Accounts
the only book of original entry—was entrusted entirely to an individual accountant. This resulted in non-completion of account books in time, leading to inordinate delay in finalisation of accounts and thereby of audit of the accounts. Thus, the Stores failed to organise itself properly and the way in which the system was practised made the accounting system least useful in matters of decision-making.

The accountant and accounting assistants by themselves, found it very difficult to prepare the financial statements. The final accounts and the balance sheet were, therefore, prepared by the department auditors. This resulted in delay of finalising the accounts and completion of final audit. As a result, right information could not be passed on to the management and to other authorities at the appropriate time. Therefore, the decision-making authorities had to rely more on individual and intuitive measures/judgements in taking business decisions.

In the absence of properly organised accounting system, the Stores on many occasions, lost opportunities of using an important source of information called internal accounting, which led to: (i) loss of control over cash and inventories in the godown and its branches; (ii) mounting time-barred stock and stock deficit; (iii) delay in finalisation of accounts and completion of audit; (iv) continuous loss; and, (v) loss of image and goodwill among the members and the non-member customers.

Advent of Management Accounting System

Management Accounting System (MAS), as advised by the Consultancy and Promotional Cell (CPC) of the National Cooperative Consumers Federation (NCCF), was introduced in the year 1984 with the following objectives:¹

i) overcoming the inadequacies in the existing accounting system;
ii) providing necessary internal check and controls;
iii) ensuring uniformity by standardizing books, forms and procedures;

iv) setting out in clear terms the exact method of operation; and
v) providing adequate management information for planning and control.

Thus the MAS introduced in Stores aimed at effecting task control as well as internal control, besides bringing in uniformity in the accounting system.

The current status of financial accounting

Management Accounting System (MAS) has been introduced in order to overcome the defects, drawbacks and inadequacies in the existing system and making the financial accounting simple, clear, easy to handle, refer and interpret. The major purpose of MAS is to equip the executives of the Stores with the necessary information to perform the decision-making most effectively and to assess the performance of the Stores.

The first step towards the adoption MAS is the adoption of a standard plan of accounts, under which accounts are grouped and codified. Codification is based on three digits. The first digit stands for Main Group; the second one stands for Main Head; and the last one for Particular Head. This would help the Stores to ensure systematic preparation and presentation of accounts. The Consultancy and Promotion Cell of National Consumers Cooperative Federation has given the plan of action taking into account the possibilities of computerisation of accounting system in consumer cooperatives in future.

Secondly, the Stores has developed and introduced an improved form of primary records like cash and credit sales summary which facilitates classification of sales by commodity group and tax-category-wise. Salesmen's Daily Statement, which is a summary of daily cash transactions, and stock liability balance of sales staff have also been introduced as part of the MAS.

Salesmen's Daily Statement is prepared in duplicate. The original copy of the Daily Statement, along with sales summaries, bills and supporting documents for receipts and payments of cash, is furnished daily by salesmen. Based on this statement, the cashier accepts remittance and acknowledges receipt of cash. The cashier makes an endorsement of the amount received in the original copy of the
Daily Statement, enters the amount in the scroll and then passes on the Daily Statements to the accounts section for making entry in the Day Book. In the accounts section, sales summaries are scrutinized and tabulated commodity group-wise before entering them in the Day Book. In the case of purchases, purchase invoices/bills received are entered in the Invoice Control Register. The Stores-in-charge who receives the invoice and the goods has to compare and verify the invoice with the copy of the purchase order with him, note the variations, if any, verify the stocks received and certify the correctness of stock in the Control Form. Stock Control Form is prepared in duplicate, one copy for the godown and the other for the accounts section. The Purchase Department fills up the Stock Control Form initially to enable the Godown Keeper to certify and enter the particulars of stock received with its sales price. The account section receives the Stock Control Form with the purchase invoice and a copy of the purchase order. These are checked before making entries in the Purchase Book.

It must be noted that sales summaries and Salesmen's Daily Statement are submitted every day. Hence entries are made without delay. On the contrary, submission of Stock Control Form, with the purchase invoice and order by purchase department takes 10 to 15 days and, consequently entries cannot be made in the Purchase Book in time.

Thirdly, sub-day books for sales, bank, sundry creditors other than societies, societies' credit sales, employees' advance, stock shortage recoverable, income, operational expenses, non-operational expenses, suppliers etc. are maintained. Their totals are incorporated in the Day Book.

Fourthly, Columnar Day Book is introduced. Accounts which have frequent transactions have separate columns in the Day Book, such as sales, bank, customers, income, suppliers, trade charges, and expenditure. A common column is provided for other accounts which have infrequent entries. The columnar division of the day book is to classify and group transactions and to summarize them at the end of the month for monthly posting in the General Ledger. Columns are also provided for noting account code number to facilitate summarising and posting in the ledger accounts. Totals of the concerned column in the Day Book
are posted monthly in the General Ledger. The sub day books carry detailed classification of accounts. Based on the Ledger totals, Receipts and Disbursement Statement is prepared every month.

Fifthly, the accounts section has been reorganized. Duties, functions and responsibilities are specified. This has been done on the instructions of the Registrar of Cooperative Societies. Citing want of organisation in the accounts section as the main cause for delay in finalization of accounts and audit, the Registrar suggested three categories of organisational structure for the accounts division of wholesale stores in Tamil Nadu (see Fig. C1.3). The Stores in Tamil Nadu were asked to choose any one of the three, depending on their volume of business. The Registrar also suggested that the tendency to depend upon the 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 with enthusiasm. Based on the suggestions the Stores has reorganized its accounting division.

**Figure C1.3**

Organizational Structure of Accounting Divisions in Cooperative Stores as suggested by the Registrar of Cooperatives

<table>
<thead>
<tr>
<th>Option 1</th>
<th>Option 2</th>
<th>Option 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Officer</td>
<td>Accounts Officer</td>
<td>Chief Accounts Officer</td>
</tr>
<tr>
<td>Accountant</td>
<td>Assistant Accounts Officer</td>
<td>Accounts Officer</td>
</tr>
<tr>
<td>Assistant Accountant</td>
<td>Assistant Accountant</td>
<td>Assistant Accounts Officer</td>
</tr>
<tr>
<td>Supporting Accounting Personnel</td>
<td>Assistant Accountants</td>
<td>Accountants</td>
</tr>
<tr>
<td></td>
<td>Supporting Accounting Personnel</td>
<td>Supporting Accounting Personnel</td>
</tr>
</tbody>
</table>

*Source: Circular No. 117800/87 dated 11.12. ’87 of Registrar of Cooperative Societies, Tamil Nadu.*
Sixthly, the Stores follow an action programme for speedy and effective completion of accounts. The action programme fixed deadlines for completion of various accounts like purchase, sales, cash, imprest, stock liability control account, operational and non-operational expenses account, statement of receipts and disbursements, valuation of stock, final account, and the balance sheet. As per the action programme accounts should be finalized by the end of April every year. Reorganisation of financial accounting system has brought in several advantages. They are:

* Integration of physical and financial accounting and thereby better control over the functions of the Stores.
* Complete control is established over cash receipts and payments.
* Final accounts can be completed on time.
* Dependence on departmental personnel to write the accounts is reduced to a certain extent.
* Information could be provided easily and quickly.
* Confusion in understanding the accounting information is avoided.
* Branch-wise accounts could be obtained.
* Classification of sales helps a great deal in inventory control and purchase planning. Credit sales are controlled. Receivables are easily collected. Bad debts are avoided.

In a nutshell, it could be stated that the induction of new books has brought clarity to the accounting system and that it has also facilitated optimum utilisation of the available human resources.

However, there are still certain loopholes which need to be plugged. No doubt, the Stores has succeeded in controlling stock at its branches; but it is yet to ensure control of stock at the godown, from where the goods are lifted to the branches. In the godown, it is understood, stocks are controlled on unit basis and in the branches the stock is controlled on liability basis. In the godown, though it is insisted upon under the MAS, the stocks are not controlled on liability basis since the godown keeper's work load increases considerably in the event of maintaining both unit and liability system of stock control. Godown keepers are
to be charged with all purchases at resale price in the purchase book. Monthly total of goods purchased at resale price is to be debited to the godown keepers stock liability account. This has not been practised for the reason that since the goods are unloaded at any time of day or night and, several godown keepers have to work in shifts, since a single godown-keeper cannot be present all the time to receive the goods, and in the circumstances liability cannot be fixed on one godown-keeper. Further, goods, especially the controlled goods, are directly sent to the retail outlets and only the invoices are sent to the godown-keeper. Under such circumstances the godown-Keeper has to assume that goods have been unloaded at tire godown and then delivered to the retail outlets. This system prevents the implementation of stock liability control account effectively.

Despite the measures taken by the Registrar and by the NCCF in designing the MAS, the Stores has been unable to introduce the system properly and has not produced the desired result because of the faulty approach followed in the implementation of the system. The system designed should have been introduced with reorganisation of duties and responsibilities based on responsibility centre accounting. But the Stores found it very difficult to so reorganise because of the existing arrangements relating to buying, selling, storage and decision-making practices. Decisions were made at the top level, based on the advice of the Registrar of Cooperatives. Information from accounting sources was hardly found useful by the staff for internal management. It was found useful only to the Special Officer and to the Registrar of Cooperatives.

Secondly, the system is comprehensible only to people with high intellectual calibre. The personnel in the accounting section do not have adequate exposure even to the simple principles of management accounting, and hence they lack interest in the system. Moreover, the system has been thrust upon the Stores all of a sudden without being accompanied by modern equipment like computers, adequate training and orientation to personnel and clear-cut demarcation of duties and responsibilities of the personnel in the Stores. Had it been introduced in a phased manner along with the above-said factors, the Stores would have put it in practice and made use of it in the day-to-day operations of the organisation.
Budgeting

Budgeting is in vogue in the Stores. But the system presents a unique feature. Two budgets—sales budget and administrative budget—are prepared and used. Sales budget which specifies the target that the Stores aims to achieve, by and large, is framed on the basis of the directives of the State Government and the Registrar of Cooperatives. The procedures followed in building the sales budget suggest the distinct character of the budgeting process in the Stores. The Registrar of Cooperative Societies based on the sales volume and the performance of the Cooperative Wholesale Stores in the previous year, fixes the target for the budget year. For this purpose the Wholesale Stores in the State are classified into three categories viz., (i) Stores which performed well; (ii) Stores which recorded poor performance; and, (iii) Stores with moderate performance. Stores with better performance are assigned a higher sales target of 20 to 30 percent more than the previous year's sales. Stores with poor performance are assigned a lesser target than the previous year's turnover and the last category of Stores are given a target of 10 percent increment over the previous year.

The target for sales thus fixed is for the whole year. It is normally assumed that 60 percent of the sales is from the sale of controlled commodities (which the Stores have to undertake as part of the agency service to the state government). The Stores upon receiving the target fixed by the state government prepares a major commodity-wise sales budget, especially for the forty percent of the total targeted sale which the Stores have to cover from the sale of non-controlled commodities.

The Administrative Budget is primarily income and expenditure budget. Here again an incremental approach is followed. The estimates are made by applying the rule plus 10 or minus 10 per cent.

The Master Budget prepared by the Stores is reviewed by the Additional Registrar (Consumer Activities) who reports to the Registrar of Cooperatives. The Additional Registrar after receiving the budget from the Stores makes a thorough review of the various items included in the budget with reference to the
Figure C1.4
Budgeting Process in the Wholesale Stores

Past performance

<table>
<thead>
<tr>
<th>Sales Target fixed by the Registrar of Cooperatives</th>
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</table>

Expenditure Budget

<table>
<thead>
<tr>
<th>Sales Budget</th>
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<table>
<thead>
<tr>
<th>Branchwise Sales budget</th>
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</table>

<table>
<thead>
<tr>
<th>Monthly sales budget</th>
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</table>

Master Budget
in the form of
Projected Income and Expenditure Statement
instructions given to the stores and the particular wholesale store’s past performance, before approving and passing it for implementation, by the society.

With regard to review of performance, the performance is reviewed at two levels. The Special Officer of the Stores convenes a meeting of the heads of different sections like purchase, sales, accounts and administration and sales personnel to review the performance of branch-wise sales every month. Branch-wise actual sales are compared against the target. The deviations are noted. Causes for variance are analysed. Control measures are suggested based on the reasons and causes for variance. Sales performance alone is reviewed in such monthly meetings.

The second review is at a state-level meeting convened by the Registrar of Cooperative Societies every month for all the Cooperative Wholesale Stores in Tamil Nadu. This meeting is attended by the Registrar of Cooperative Societies, Additional Registrar (Consumer Activities), Special Officers of the Tamil Nadu Cooperative Consumers Federation and of the Tamil Nadu Cooperative Union and Special Officers of all District Cooperative Wholesale Stores in Tamil Nadu. Review or evaluation of the performance of the Stores against the targets fixed is mainly based on the data furnished by the wholesale Stores.

* Commodity-wise credit and cash sales are evaluated against the previous month’s actual sales and the targeted sales for the month under review. So are the purchases.

* Commodity-wise and year-wise stock position, and time-barred and damaged stock are examined.

* Details of sundry debtors like bills pending for more than ten years, over five years but below ten years, below five years but above one year, and below one year are reviewed.

* Stock deficits are classified as dead and heirless, under arbitration, under execution petition, conditional attachment etc., and are analysed.
Efficiency ratios like Gross Profit to sales, Net profit to sales, Establishment expenses to sales, Other expenses to sales, Sundry debtors to sales, time-barred and damaged stock to sales, Stock deficit to sales, sundry creditors to average purchase per month are also analysed in the review meeting.

Thus all the important variables which play a significant role in the business growth of the organization are reviewed, examined and analyzed. However, a close look at the minutes of the review meeting reveals that the budgets of all the 29 Cooperative Wholesale Stores are reviewed in a day. As a result it could only be done in a superficial manner and not on an in-depth fashion.

To sum up, the following are the major characteristic features of the budgetary control process in the Stores.

* Budgets are targets fixed by the Registrar of Cooperatives. They are prepared on the instructions of the Registrar based on the past performance of the Stores.
* There are only two budgets viz., sales and administrative budgets.
* Personnel working in the different sections of the Stores are not involved in the preparation of the budget.
* The budget review and budgetary control are not effective in the Stores.

**Costing**

Costing is not given much importance in the Stores. One of the important areas where costing could be used is pricing. As the Stores has adopted the active price policy under which a fixed percentage of margin is added to the cost price, costing has not been given much importance even in the fixation of price of commodities. However, in determining the administrative and establishment expenses, costing and cost control measures are adhered to. This is practiced because of the provision (or standard fixed) that the administrative cost should not exceed two percent of the total sales. No such norm is fixed for other costs.
Of course, the administrative budget, to a certain extent, helps control cost. In the absence of established cost control methods the Stores uses the budgets for cost control.

The monthly review meetings indirectly help in controlling costs because, in such meetings, the position of debtors, receivables, stock deficit, time-baned stock and inventory are analyzed. Such review, sometimes, may possibly help in reducing the cost of excessive inventory, debtors etc.

Internal Audit

The Stores has internal audit. Earlier, the internal audit section of the Stores was headed by a Cooperative Sub-Registrar, a departmental official. Now a Superintendent of the Stores heads the wing. He is assisted by two clerks. The internal audit section performs two tasks: (i) checking bills, and, (ii) checking liabilities. The audit is efficient to the extent of detecting omission in calculation of sales price. It also helps completion of external audit in time.

The external audit is statutory. There is a separate external audit wing in the Stores headed by a Cooperative Sub-Registrar assisted by two Senior Inspectors of Cooperatives. They audit the accounts of the Stores almost as a daily routine. The external audit, done by department personnel, is largely confined to the examination of financial accounts and the purpose is to ascertain the accuracy of recorded financial facts. A review of the audit reports for the years 1992 to 1994 indicates that the auditors examine the performance of the Stores against certain commonly accepted efficiency standards of evaluation. To quote a few remarks of the external auditors:

"The staff cost worked out 1.40 percent of sales. This is less than the standard norm of 2 percent. The Stores may examine the possibilities of curtailing the operating and non-operating expenses or it may concentrate on increasing the sales".

"The percentage of Gross Profit to sales works out to 3.45 percent only. The sale of controlled goods and grocery contribute a major share. The profit
margin on these sales are less. Further, there is an abnormal increase in the trade charges. All these are responsible for low percentage of Gross Profit. The Stores may take effective steps to promote the sale of non-controlled goods and to reduce the trade charges to earn a higher gross margins’.

This is a good beginning. However, such observations are made only in the final audit report, and it could only be used in the planning process, not in the control process. Further, such observations are repeated year after year. No new observations are found and this shows the routine, mechanical and ritualistic nature of the audit and its reports. It also reveals that such reports are not given proper attention by the authorities.

**Reporting**

Reporting forms, as developed by the Consultancy and Promotional Cell (CPC) of the National Cooperative Consumers Federation (NCCF), New Delhi, are circulated among the wholesale Stores. The reports that are to be prepared by the Stores are:

* Sales Report (daily and monthly);
* Commodity group-wise Performance Report (monthly);
* Branch-wise Operation Reports (monthly);
* Stock Turnover Report;
* Report on sales per man-day/per sq.feet;
* Report on price variation;
* Report on damaged, slow-moving and obsolete stocks;
* Financial Reports.

These reports are prepared and sent to the Registrar of Cooperative Societies and to the CPC of NCCF, New Delhi. That is, they are mainly used for external reporting. They are neither for operational planning nor for day-to-day operational control.

Apart from the reports cited above, the Stores has to prepare a report on performance of the self-service centres. It is prepared regularly and sent to the
CPC of the NCCF for it has extended financial help to start the self-service centres. Here again, the report largely serves an external purpose.

Thus, by and large the reporting is poor and seems to be done only to complete an official desk and shelf formality. The main reason for this is that, except one accountant, who is in charge of management accounting, many of the personnel do not understand the importance of reports in decision-making. Yet another reason is that the board or administration or whoever is in charge of management, has not been given the power to take decisions. As a result, they do not realise the need for proper reporting in the Stores.

**Certain Hurdles**

Almost fifteen years have elapsed since the introduction of Management Accounting System in the Stores. MAS is still at the nascent stage. No doubt it has greatly helped in bringing some order to financial accounts which were once at sixes and sevens. Accounts are now planned and codified. Time schedule is fixed for finalization of accounts. However, MAS is yet to take firm roots in the area of budgeting and budgetary control, costing, internal audit and reporting. This is corroborated by the observations of the Cooperative Sub-Registrar who has been reviewing the functioning of MAS in all the Cooperative Wholesale Stores. To quote a few of his observations on the functioning of MAS in the selected Stores.

* The Stores has not prepared and submitted budget.
* Monthly operational reports are not prepared.
* Internal audit is not effective in the area of purchase, sales and personal accounts.
* Periodical review may be conducted to monitor arrears and to maintain the accounts up-to-date, which will facilitate effective control and efficient management of the business affairs.

All these clearly indicate that MAS is yet to take off in the Stores. The reasons for tardy, imperfect and incomplete adoption of MAS are many. Prominent among them are given below:
* Many a member of the staff at higher level in the Stores still feels that restructuring of financial Accounting is MAS. Many of them are yet to understand the scope of MAS.

* Only three staff members are trained in MAS. Of the three only one seems serious about MAS.

* MAS is not considered part of the total system. Many staff members still believe that the system is to serve external purpose and that it is largely concerned with the Accounts Department. Staff are not to be blamed because the system came from above without the ground being prepared.

* Inadequate staff strength.

* Poor salary and inadequate incentive are cited as the factors tending to make initiative a still-born proposition. Staff morale is low. Hence they do not want to take any extra effort.

* Frequent transfers of Special Officers. The interest of the Special Officers too varies. Some are interested in improving the business; some are keen to tone up the administration; some attach importance to financial accounting; some just meddle with the day-to-day affairs and some are satisfied with maintaining the status-quo. No Special Officer seems to have given serious thought to integrating account, business and administration.

* Special Officers do not have orientation in the MAS. They don't understand the objective and purpose of the system.

* The staff of the Stores largely go by what the Special officers say. The Special Officers obey the orders of the Registrar of Cooperative Societies. In this chain what is ultimately done comes to bear little relevance to immediate realities.

* In the final analysis members gel totally isolated as they do not know what is happening in the Stores. A complete apathy seems to have permeated the scene.
CASE 2

THE SALEM DISTRICT COOPERATIVE SPINNING MILLS LTD.

Introduction

The Salem District Cooperative Spinning Mills Ltd (Mill) is one of the 18 Cooperative Spinning Mills operating in Tamil Nadu. The Mill was registered in the year 1964 under the Tamil Nadu Cooperative Societies Act of 1932. The primary objective of the Mill is to produce yarn from cotton and synthetic fibre and to supply quality yarn at reasonable prices to the member weaver societies. The initial installed capacity of the Mill was 25,000 spindles. The capacity was enhanced by establishing unit B with 25,000 spindles. The Mill has been working well since its inception. Till 1990, it earned profit and could provide dividend to its members. Impressed by the performance of the Mill, the All India Federation of Cooperative Spinning Mills (AIFCOSPIN) awarded the best performance award to the Mill for the year 1986. The Mill retained the award consecutively for three years. After 1990 the Mill could not perform well and incurred loss due to unfavourable market trend and escalating costs. The main reasons are:

i) Escalation of wages and provision of oilier benefits to employees have led to increased cost of production;

ii) Out-dated and labour-intensive production technology;

iii) Escalating maintenance cost; and,

iv) Unpredictable market trend in cotton and yarn price in the market.

However, the Mill was able to keep the loss at a minimum with the active patronage of the member societies and the State Government.
The Management

The management of the Mill, as per bye-laws, rests with the Board of Directors. But, in practice, the Special Officer, designated as administrator, looks after the administration of the Mill. The Administrator, functioning in the place of the Board of Directors, takes day-to-day operational decisions (See Fig. C2.1).

Accounting System

The Mill, as per the statutory requirements, adopts Cooperative Account Keeping System. Under this system, a set of account books are maintained to record different types of transactions like cash and credit sales, cash and credit purchase, bank and other adjustment transactions. The entries from books of original entry are posted to the general ledger accounts as well as different special ledgers. Based on the General Ledger totals, Receipts and Payments Statement is prepared every month and the monthly statements are consolidated at the end of the year. Final consolidated statement is used for preparing the final accounts and the balance sheet (See fig.C2.2).

As regards the organisational arrangement of the accounting section, the maintenance of different books of original entry, viz., day books, is entrusted to the accounts assistants. The Mill has specified the duties and responsibilities of each and every member of the staff in the accounting section (see fig.C2:3). The jobs have been prescribed through office orders circulated within the Mill. There is also a system of job rotation. The head clerk and the top management have the discretion to allot additional work to the accounts assistants as and when such a situation arises.

The description of jobs facilitates the integration of physical and financial accounting to some extent, especially in the case of purchase of raw material and sale of yarn. The responsibility of procurement of cotton and Mill stores and the maintenance of purchase day book are entrusted to the purchase assistant. The sale of yarn and waste cotton (saleable) and the maintenance of sales day book are the responsibility of the sales assistant. Both purchase assistant and sales assistant report directly to the head clerk.
Fig. C2.1
Organizational Structure of the Spinning Mills

ADMINISTRATOR

Administrator Office

Administrative Officer

Head Clerk

Accountant

Cashier

Sales Asst.

Purchase Asst.

Establishment Asst.

Communication Asst.

Typist

Attendants

Drivers and Peons

Operatives

Factoy

Factory Manager

Ele. Engineer

Electrician

Motor Attenders

Civil Engineer

Civil Attenders

Head time Keeper

Store Keeper

Shift Assistant

Reeling Clerk

Operatives

Asst. Factory Manager

Supervisors

Fitters and Maitriess

Wrokers
Fig. C2.2

System of Accounting in Cooperative Spinning Mills

Cash Transactions
  - Cash Day Book

Bank Transactions
  - Bank Day Book

Sale of Yarn on Consignment
  - Sales Day Book

Purchase of Cotton on Credit
  - Purchase Day Book

Other Transactions
  - Petty Expenses & Adjustment Transactions
    - Journal

General Ledger

Special Ledgers

Receipts & Payments Statements and Trial Balance

Comparison of Special Ledger Balance with General Ledger Balances

Manufacturing Trading and Profit & Loss Account

Balance Sheet
Organisational Set-up of the Accounting Section in the Cooperative Spinning Mills

Administrator (M.D)

Administrative Office (A.O)

Head Clerk

Accountant

Purchase Assistant
- Purchase Day Book

Sales Assistant
- Sales Day Book

Day Book Assistant
- Cash Day Book
- Bank Day Book

Ledger Assistant
- General Ledger
- Special Ledger
- Bank Day Book

Audit Assistant
- Assisting the Coop Auditor in the Audit work

Costing Assistant
- Preparation of Daily Fortnightly and Monthly Cost Statement
The maintenance of other day books and journal is the duty of accounts assistants in the section. They report to the accountant and the accountant, in turn, reports to the head clerk. The preparation of financial statements is the responsibility of the Accountant. The work related to tax calculations and depreciation plans is the responsibility of the head clerk, who is the head of both the accounts and the administrative sections of the Mill. He directly reports to the Administrative Officer and the Administrator.

The Mill has computerized the accounts (1989-90). Recording of transactions in the books of the original entry, posting of entries from the day books to the books of final entry like general ledger, personal ledgers are computerised. Receipts and Charges Statement and Trial Balance are prepared using computers. Payroll calculations are also computerized. However, the preparation of financial statements is still done manually.

Computerization of accounting process has reduced the work load of the staff. As the computer provides access and helps retrieval of data in whatever format one needs, the staff feel relieved of the frequent burden of presenting the data in different formats to different organisations. It also facilitates the preparation of Trial Balance in addition to the receipts and payments statement, which helps in preparing the financial statements without consulting the previous year’s balance sheet. However, computerization does not provide scope for internal check. Under the manual system, the mistakes and errors committed at one place were corrected by others then and there. But, with computerization, any mistake or error committed in recording the transaction could be detected only when the financial statements are sent for verification to the accounts assistants concerned.

**Budgeting**

Budgeting, the most popular planning and control tool, is being adopted in the Mill. The Mill has vast scope for employing a variety of budgets, like production budget, sales budget, overhead budgets and cash budget in its day-to-day functioning.
In practice, the only operational budget prepared by the Mill is projected income and expenditure statement. The statement includes all the important items like expected sales, cost of production, profit, administrative and other overheads etc (See Table C2.1). The statement is prepared based on the Mill's performance in the preceding nine months from the date of framing of the budget. Generally the actual figures of the previous year are adopted as the budgeted figures for the budgeting year. In some cases like wages, salaries and administrative expenses, five percent of the previous year's actual expenditure on such items is added to the current year budget figures to provide for the expected increment in these expenses. The electricity and fuel expenses are estimated taking into consideration the expected price hike based on past experience. The approach is as follows:

i) Annual budget is prepared by adding five to ten percent for item based on the actual performance in the previous year. The other factors considered are the price trend and the spin plan of the Mill.

ii) The annual budget is broken down into monthly budget dividing the annual budget by the number of working days in a month.

Table C2.1
Proforma Budget

<table>
<thead>
<tr>
<th>Actual performance previous year particulars</th>
<th>Proposed Budget</th>
<th>Month wise break-up based on number of working days</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Apr. May.......... Mar</td>
</tr>
<tr>
<td>1.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The preparation of the budget is the sole responsibility of the acco. There is no budget committee in the Mill nor a budget manual giving gui
and details for preparation of budgets. The accountant predominantly uses his own experience to judge the rate of increase or decrease of each and every item in the budget. Information regarding the price of cotton yam and Mill stores is projected using the past trend. Thus, to a limited extent, the Mill uses forecasted data in the preparation of budget. The information for preparing the budget is mostly provided by the accounts assistant in-charge of costing and by other accounts assistants.

The Mill prepares capital budget too. The Mill prepared such a one at the time of its expansion in the year 1983 on the advice of the State Government and the financing bank. The Mill had to do so because the financing bank and the State were the major funding sources for the expansion. Recently the Mill has prepared a modernization budget and submitted it to the IDBI for funding on the advice of the State Government (The Department of Textiles and Handlooms).

The budget is to be presented before the General Body for approval. The budget, as approved by the General Body is sent to the Directorate of Handlooms and Textiles, the highest authority in the industry at the state level, for official sanction. But, in practice, the budget is submitted for sanction without the approval of the General Body.

Budget, as a control device, has not gained importance in the spinning Mill, although the actual performance is measured and compared against the budgeted figures. Citing the drawback in the system, the Department of Handlooms and Textiles has issued circulars advising the Mill to use budget as a control devise. The circular states, "hitherto the spinning mills have been preparing budgets only as a routine exercise and not as a tool of planning and control. Since budget provide a comprehensive plan to the business, specifying strategies and policies to achieve the objectives, the administrators of all the mills are requested to prepare budget in their own format according to the need of the Mill. The budget should be a tool of control process encompassing standard costing and variance analysis. The budget should also provide a framework for evaluating the performance of the management of the Mill. However, in order to have uniformity for review of performances of all the mills a format for preparation
of budget is proposed”. However, the instructions are not fully adhered to. The variance analysis is made only to see whether the performance is in conformity with the action plan and to see whether the budget is strictly adhered to. Such a performance analysis is made once in a month in the Mill and the results are sent to the Directorate of Handlooms and Textiles for review, which is conducted every month. The budget is fixed in nature. Mid-term corrections are not made even under extraordinary situations. However, the Mill makes note of the variances and these are considered while preparing the budget for the ensuing year.

Internal Auditing

The accounts of the Mill are subjected to both internal and external audit. The departmental audit is the final audit undertaken on concurrent basis. It involves thorough checking of documents relating to sales, purchase of cotton and Mill stores and auditing of financial statements. The final audit is undertaken by a cooperative audit officer and he is assisted by the accounts assistant (Audit) in the Mill.

The internal audit work is undertaken by an officer nominated by the Directorate of Handlooms and Textiles. He looks after the duties of checking the receipts and payments and all other accounts. He has the right to advice the management in matters of violation of government rules and regulations. His role, as an internal auditor, is mostly confined to pre-audit of transactions. He mainly concentrates on those items which are not in conformity with the rules and regulations or the bye-laws of the cooperatives. The office order issued specifying the duties and responsibilities of the internal auditor corroborates this:

i) Checking of cash book, bank day book and the journal with reference to voucher files;

ii) Checking of all subsidiary ledgers;

iii) Checking of General Ledger postings;
iv) Pre-auditing of wages bill (cent percent checking) with reference to wage registers maintained by the departments;
v) Maintaining a register for the defects rectified by him.

The Internal Auditor, being a department official, directly reports to the administrator bypassing the accountant, who is, for all practical purposes financial controller in the Mill. Internal audit is practised largely as a statutory requirement. It is more or less a routine check. It is not used as control devise.

The major advantage is that the internal audit helps the completion of final audit in time as the transactions are thoroughly verified and checked by the internal auditor. The department auditor needs to check only those transactions which are very important.

Costing

An elaborate system of costing is followed in the Mill. The Mill has adopted standard costing system using unit cost method.

Costing assumes greater importance in the case of the spinning Mill, since major chunk of the information is drawn from the costing records. The Mill was given an option of using either the cost system devised by the South Indian Textile Research Association (SITRA) or the one recommended by the All India Federation of Cooperative Spinning Mill (AIFCOSP1N). The Mill has chosen to adopt the costing method recommended by the SITRA as it also provides the standard norms (See Table C2.2) against which the performance can be measured.
<table>
<thead>
<tr>
<th>SNo.</th>
<th>Details</th>
<th>Percentage</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Clean cotton cost</td>
<td></td>
<td>57.0</td>
</tr>
<tr>
<td>2.</td>
<td>Conversion cost</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(a) Wages and Salaries</td>
<td>15.0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(b) Power</td>
<td>9.0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(c) Packing Materials</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(d) Stores</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(e) Modernisation</td>
<td>3.0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(f) Interest on CC</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(g) Interest on term loans</td>
<td>3.0</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(h) Depreciation</td>
<td></td>
<td>3.0</td>
</tr>
<tr>
<td></td>
<td>(i) Other overheads</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(Repairs, Insurance selling expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Miscellaneous and contingencies bonus,</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>gratuity and Additional taxes)</td>
<td>6.0</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Total Cost (1+2)</td>
<td></td>
<td>39.0</td>
</tr>
<tr>
<td>4.</td>
<td>Net Profit</td>
<td></td>
<td>96.0</td>
</tr>
</tbody>
</table>

There is no provision in the Cooperative Societies Act for maintenance of cost accounting records by the cooperative spinning mills. As a result, the Mill has not maintained separate cost accounting books. Moreover, the costing system followed currently does not warrant the maintenance of separate books. The installation of computers has greatly helped in obtaining cost related data as it facilitates the conversion of data into any required form.

An examination of different formats used to compile costing information and financial performance reports reveals that the Mill is able to identify, ascertain and allocate the cost components to different stages of production. Cost determination and apportionment are also done using scientific methods such as machine hours, man hours, number of shifts worked, etc.
The various costing work-sheets used by the Mill include:

Cotton Mixing Statement: It shows the variety of cotton used for mixing, the quantity issued and the rate of the variety used for mixing. This statement helps to ascertain the value of the mixing for a month. It also has a column for percentage of various varieties of cotton used in the total mix. This statement is useful in the preparation of the cost of production statement.

Production Balancing Statement: This statement provides particulars about the opening and closing stock of materials in each stage of production. It has two sections. The first section covers the production stages mixing through spinning and the second section covers the reeling and packing activities and stock in these sections. This information is used in the valuation of stock for the preparation of financial statements.

Waste Extraction Percentage, Waste Multiplier and Expected Final Production Statement: This statement includes particulars relating to saleable, usable and invisible wastage and losses in quantity and percentage at each stage of the production. It helps to estimate the expected final production of yarn at each stage of production. Thus, the statement is prepared to ascertain the count-wise yarn realisation every month.

Waste Value Recovery Statement: Quantity of waste generated at different processing stages, the value of the waste and the value of waste per Kg of yarn at different production stages are shown in the statement. These help to determine the cost of mixing and from which the cost of raw material.

Raw Material Cost Statement: Mixing cost per Kg of cotton, cotton (mixing) quantity required for spinning a Kg of yarn, the mixing cost per Kg of yarn, waste recovery value per Kg of yarn, raw material cost per Kg of yarn and raw material cost per bundle are obtained count-wise every month. This helps the Mill to have a clear idea about the cost of each count of yarn produced.

Monthly Summary Statement of Operational Statistics: This statement indicates the operational statistics in terms of machine hours run per shift for
each stage of production process. This operational statistics forms the basis for calculation of power charges and depreciation.

Wage Allocation Statement: The statement is prepared to allocate wages to different stages of production in order to understand the labour cost involved at the different stages of processing. Cost is allocated based on the number of man-hours used at different stages.

Stores Expenses Allocation Statement: The value of stores and spares used by different departments is indicated in the statement. The details are further used in the calculation of cost of production.

Power Charges Allocation Statement: This is prepared to obtain the cost of power consumed by different departments in the Mill. This statement gives particulars regarding horse power installed, total horse power shifts worked and the power charges for the Mill as a whole.

Depreciation Charges Allocation Statement: Based on the machine hours worked, depreciation charges are allocated to machines in different departments.

Manufacturing Expenses Statement: This is a summary working sheet of wages allocation, stores allocation, power charges allocation and depreciation charges statements. This statement shows proportion of different costs per unit (Kg of yarn) and unit costs and manufacturing cost.

Factory Overhead Expenses Statement: This working sheet includes factory overhead items other than processing machinery depreciation, such as salary to factory staff, wages for service department, vehicle maintenance, employees provident fund contribution, insurance, machinery maintenance, depreciation on machinery in the service department and depreciation of factory building and godown. The miscellaneous factory expenses like compulsory bonus, Labour welfare expenses, selling expenses, provision for gratuity and Employees State Insurance are also taken into account in the calculation of factory overhead expenses. Here again unit cost is calculated for each and every item of expense and also total factory overhead expenses for the factory as a whole.
Administrative and General Overhead Expenses Statement: Items of expenditure like salary of office staff, depreciation of office building furniture, etc., maintenance of building and furniture, audit fees, travelling and sitting fee to directors, charges related to conveyance and entertainment, postage and telephone, advertisement, printing and stationery, travelling allowance to staff, meeting expenses, administrative charges for employees' provident fund, rent, rates and taxes and additional tax on sales tax are included under administrative and general overhead expenses. Through this statement, the total and unit cost of yarn is also arrived at by the Mill for use in the decision-making process.

Monthly Interest Statement: A separate statement showing the total interest as cost incurred on borrowing from different sources and interest charges per Kg of yarn produced is prepared by the Mill every month.

Cost sheets given above are work statements and a monthly summary statement normally called Cost Sheet (Summary) is prepared at the end of every month.

The Summary Cost Sheet provides details regarding

i) Raw material cost (Clean cotton cost) per kg.

ii) Conversion or manufacturing cost consisting of wages, salaries, stores, packing materials, power, depreciation, factory overheads, administrative overheads, interest etc.

iii) Total cost per kg.

iv) Average selling price of yarn per kg.

v) Net profit/loss per kg of yarn.

The summary statement prepared every month covers details for hank and cone winding of yarn of different counts.

In addition to this monthly statement, the Mill prepares daily cost statement which indicates in a nutshell the productivity and profitability of the Mill in general and the profitability of counts in particular. The information in this statement is used by the managing director/administrator for making operational decisions like type of count to be produced and when it is to be produced, etc.
Cost statements given above are prepared and reported every week and a consolidated statement is sent very month to the Directorate of Handlooms and Textiles. The Director, after receipt of cost reports from different cooperative spinning Mills, convenes a review meeting every month where performance of the spinning Mills is reviewed with reference to the budgeted performance and the industry average. Based on the review the Director directs the Mills to initiate action to control the overhead costs and to ensure that the actual expenses are on par with the budgeted expenses.

Thus, costing is the major source of information for planning and controlling activities of the Mill. Cost information is used for accepting the orders for supply of yarn; for valuing the stock of inventory; for deciding the mixing used for production of a particular count (production planning); and, for evaluating the performance of the Mill in comparison with the budgeted figures.

However, if costing has to be used in the cost reduction process or as a cost control mechanism, the Mill needs to recast the cost data in a different form so that the cost of each process is ascertained. This is possible only if different items of cost involved in the process costing are broken up. Therefore, a system of costing based on the different overheads involved in the process needs to be designed and used for costing to be effective in the planning and control activities of the Mill. Although the Mill could have done this, it did not do it because many of the decisions are taken by the Directorate of Handlooms and Textiles and cost reporting is merely external in nature.

Reporting

Reporting in the Mill, to a large extent, is external in nature. The Mill sends reports to the State government, the Directorate of Handlooms and Textiles, All India Cooperative Spinning Mill Federation Ltd., South India Textile Research Association and the financing bank, which are external to the organisation.

The periodicity of reporting to different agencies indicates that the Director of Handlooms and Textiles receives reports quite often (See table C2.3).
Table C2.3
Nature and periodicity of reports by the cooperative spinning Mill

<table>
<thead>
<tr>
<th>The Agency</th>
<th>Nature</th>
<th>Periodicity</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Director of Handlooms and Textiles</td>
<td>External!</td>
<td>Weekly</td>
</tr>
<tr>
<td>All India Cooperative Spinning Mills Federation</td>
<td>External</td>
<td>Annual</td>
</tr>
<tr>
<td>The State Government</td>
<td>External</td>
<td>Occasional</td>
</tr>
<tr>
<td>The South India Textile Research Association</td>
<td>External</td>
<td>- do -</td>
</tr>
<tr>
<td>The Financing Bank</td>
<td>External</td>
<td>Daily</td>
</tr>
<tr>
<td>The Administrator</td>
<td>Internal</td>
<td>Weekly</td>
</tr>
</tbody>
</table>

A look at the nature of reports shows that they are prepared using the accounting figures, particularly cost details (See Table C2.4)

Table C2.4
Various reports sent to the Director of Handlooms and Textiles

<table>
<thead>
<tr>
<th>Report</th>
<th>Date of Submission</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance Sheet &amp; Financial Statements</td>
<td>12th of the Succeeding month</td>
</tr>
<tr>
<td>Production Particulars</td>
<td>5th of the Succeeding month</td>
</tr>
<tr>
<td>Cotton Consumption and allied particulars</td>
<td>- do -</td>
</tr>
<tr>
<td>Yarn sales and allied particulars</td>
<td>- do -</td>
</tr>
<tr>
<td>Waste, closing stock, costing, etc., particulars</td>
<td>10th of the succeeding month</td>
</tr>
<tr>
<td>Stores consumption, stock details, etc.</td>
<td>8th of succeeding month</td>
</tr>
<tr>
<td>Personal ledger, balances, etc.</td>
<td>10th of the succeeding month</td>
</tr>
</tbody>
</table>

Source: Office order of the Mill 127/87 dated 17/11/87.
In the process of information generation, details regarding various items of cost are gathered from the different sections of the organisation. The cost information is gathered from the Departments shown in Table C2.5.

Table C2.5
Sources of cost information

<table>
<thead>
<tr>
<th>Cost item</th>
<th>Section</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labour</td>
<td>Labour Section</td>
</tr>
<tr>
<td></td>
<td>Time office</td>
</tr>
<tr>
<td>Cotton/ Raw material</td>
<td>Cotton Section</td>
</tr>
<tr>
<td>Mill Stores / overheads</td>
<td>Stores Section</td>
</tr>
<tr>
<td>Depreciation</td>
<td>Accounts Section</td>
</tr>
<tr>
<td>Power and fuel</td>
<td>Power House</td>
</tr>
<tr>
<td>Interest</td>
<td>Accounts Section</td>
</tr>
<tr>
<td>Factory overhead</td>
<td>Administrative Section</td>
</tr>
<tr>
<td>Office overhead</td>
<td>Administrative Section</td>
</tr>
<tr>
<td>Selling rate &amp; prices</td>
<td>Sales Section</td>
</tr>
<tr>
<td>Bank / collection details</td>
<td>Bank (once in a day)</td>
</tr>
</tbody>
</table>

It must also be stated here that the reporting normally takes the form of financial statements in the Mill. This is so because the Mill is instructed by the Statute to prepare

i) Income and Expenditure Account
ii) Receipts and Charges Statement
iii) Manufacturing / Trading Account
iv) Profit and Loss Account
v) Balance Sheet and
vi) Other statements as required by the Registrar and the State Government.

All these statements which form part of the annual report provide a substantial quantity of information to all those who have a stake in the functioning of the Mill.
CASE 3

THE NATIONAL COOPERATIVE SUGAR MILLS LTD

The National Cooperative Sugar Mills Ltd., (Mill) registered as a Cooperative Society under the Tamil Nadu Cooperative Societies Act of (1932) in 1961, commenced its commercial production in 1966. The installed crushing capacity of the Mill was 1000 TCD. The capacity of the Mill since then has been expanded twice (from 1000 TCD to 1500 TCD in the year 1977 and to 2500 TCD in the year 1989) and the current crushing capacity of the Mill is 2500 TCD. The area of operation of the Mill at present extends over portions of Madurai, Dindigul and Pasumpon Muthuramalingam Districts of Tamil Nadu.

The primary objective of the Mill has been manufacturing of white sugar from sugar cane and the sale of sugar and its bye-products to the best advantage of the member growers and undertaking or assisting in the establishment of industries based on sugar bye-products.

The membership of the Mill is of two classes, viz., producer members and non-producer members. Producer membership is open to individuals and cooperative institutions who are growers of sugar cane within the area of operation of the Mill. Non-producer membership is open to Government and cooperative societies other than sugar cane producers in the areas under the jurisdiction of the Mill.

The management of the Mill, as per its bye-laws, vests in the Board consisting of 15 members of whom eight are nominated directors, six elected from among the growers, and one appointed by the State government. But in practice, the Special Officer appointed by the government looks after the day-to-day affairs of the Mill.
Financial Accounting

All cooperative sugar Mills in the state follow the cooperative accounting system. But, the personnel working in the accounting section of the Mill claim that it is not so. They argue that it is a double-entry system with certain special ledgers and records maintained as per the requirements of the Cooperative Societies Act. Their argument is not correct as the accounting system in the Mill has two important features. They are: (i) the Mill maintains day book as the only book of original entry; and, (ii) the Mill prepares statement of Receipts and Payments which forms the basis for construction of final accounts and balance sheet. Inclusion of these two features implies what the Mill follows is nothing but cooperative account keeping system. The Mill, in addition to the regular books of accounts and registers, maintains certain special registers to record the business dealings of individual members which, in the opinion of the personnel of the accounting section, has caused increase in the work load and has led to maintenance of too many books. The Mill maintains a total of 111 registers and books for recording the various activities of the different sections in the Mill.

The Chief Accountant—a chartered accountant—is the head of the accounts section. He is assisted by section heads designated as accountants. The sections in the accounting division are: books, payroll, cane, stores, cash, shares, costing and computer. The section heads report directly to the chief accountant. They, in turn, are assisted by accounts assistants, (see Fig. C3.1) The number of assistants in a particular section depends on the work load in the section. The accountants and the accounts assistants are not professionally qualified. Exception to this are the costing assistant and the accountant (Books). The accounting section by and large is well organised. However, the duties and responsibilities of the personnel in the accounting section are not clearly laid down. The Mill is yet to have an organizational manual specifying details of duties and responsibilities of the staff in the accounting section.

An important feature of accounting in the Mill is the accounting of overheads it follows. Till 1992-93, details regarding the physical receipts and issue of
Fig. C3.1
Organisational Structure of the Accounting Section in the Sugar Mill

Special Officer

Chief Accountant

Accountant

Banks

Pay Roll

Cane

Stores

Cash

Shares

Computers

Costing

Assistants

Assistants

Assistants

Assistants

Assistants

Assistants
materials were maintained by the stores section while the accounting part of it was taken care of by the accounting section. Separation of physical accounting and financial accounting helped the Mill to detect and prevent errors and frauds. But, after 1992-93, the entire responsibility of recording the financial transactions related to overheads as well as physical maintenance of stocks in the stores has been entrusted to the staff in the stores section, leading to the integration of the physical and financial accounting. Though such an integration facilitates proper maintenance and replenishment of stock in the stores, it does not help in cross checking the records. Errors of commission and omission generally remain undetected until audit is undertaken.

Yet another feature of the accounting system is development of grouping and codification of accounting transactions in 1970-71. The accounting personnel in the department are well versed in the group codes of the transactions. The grouping almost covers all transactions and makes the accounting system very systematic. This facilitates quick retrieval of information in any form at any time without much difficulty.

The existence of grouping and codification of major heads of transactions in the Mill has helped a great deal in computerizing financial accounting. However, only a part of financial accounting has already been computerized because the computers in the Mill are not on-line systems but batch-processing ones. As a result, financial accounting is partly computerized and partly manually maintained.

**Budgeting**

Budget is designed and used as a planning tool by the Mill. Budgets are prepared in March. The administrative officer and the chief accountant are responsible for the preparation of the budgets. The cost accountant who reports to the chief accountant directly assists him the preparation of different budgets.

The budgets, as prepared by the Mill include: (i) production budget; (ii) administrative budget; (iii) sales budget; (iv) special budgets for special items of revenue nature; and, (v) capital expenditure budget and master budget.
The budgets are prepared based on certain fundamental assumptions. They include:

(i) state advised cane price linked to recovery percentage is assumed as the actual cane price;
(ii) the selling price advised by the Commissioner of Sugar is the actual selling price;
(iii) the recovery percentage is assessed based on the variety of cane in the operational area and the climatic condition prevailing in the area; and,
(iv) The age of the Mill is taken into consideration in the estimation of the expenses on the repairs and maintenance.

The budgets are prepared by the Mill in accordance with the guidelines issued by the Commissioner of Sugar who is the controlling authority of the sugar Mills in the State irrespective of the ownership status. The Mills are required to prepare the budgets keeping in view the provisions in the budget manual and the previous year's budget.

The budgets are prepared with reference to the budgets of the previous two years. Normally, the average of the previous years' figures would be the estimate under the current year's budget. The estimated (budgeted) figures are exhibited along with the previous years actual figures.

The master budget not only includes the estimate for the whole year but also provides month-wise estimate, which facilitates comparison of actual performance against the budgeted performance.

The instructions given to the Mill in this regard are quite comprehensive and cover how each and every item should be estimated. For example, while preparing the monthly cost of production statement for sugar, the instruction reads that off-season expenditure estimates should be apportioned among the months pertaining to the crushing season, and for working out the monthly quantum of sale of sugar, the percentage of release to production during the month in the previous year should be taken into account.
The preparation of budget thus, indicates that the Mill seems to follow incremental approach in budgeting and it is based on past performance. Flexibility, to a certain extent, is ensured in budgeting. For instance, while preparing the production budget, crushing is worked out both for 22 hours a day and 24 hours a day allowing two hours a day for stoppage of crushing for obvious reasons.

Accounting and costing information are used in preparing the various budgets. The budgets so prepared are sent to the Tamil Nadu Cooperative Sugar Federation (TASCO) and to the Commissioner of Sugar for approval. They are reviewed with reference to the previous year actual performance of the Mill by the Chief Accounts Officer of the TASCO. He then makes his remarks and recommendations, if any. The Commissioner of Sugar then approves the budget for implementation.

Budgets are also used as control tools. The estimates are compared against the actual performance every month. The deviations are reviewed at the Mill as well as at the office of the Commissioner of Sugar. Collective measures are taken then and there. It can, therefore, be stated that budgets are used as planning and control tool in the Mill.

**Costing**

Costing is indispensable for manufacturing organizations like sugar factories. Costing can be used to know the cost of production and its components and to control the cost. It can also be used in making pricing decisions. The Mill has to reduce the cost for it has to earn adequate surplus to satisfy the claim of the members and cane-suppliers and to meet the further capital expenditure requirements. Cost reduction can also help the sugar Mill to sell at an advantageous competitive price in the national and international markets.

Costing practices are prevalent in the Mill. For the purpose of cost calculation and ascertainment there is an accounts assistant (costing) who directly reports to the Chief Accounts Officer.

As separate cost records are not maintained by the Mill, costing relies more on the financial accounting records for culling out the cost figures. Although
the importance of costing is realized by the Mill and the federations at the state and national levels, no concrete steps have been taken in the Mill to introduce separate cost records for purposes of costing. Unlike in the case of public and private sector sugar mills, which, as per the Companies Act (Sec. 233 B), have to maintain separate cost records, the Cooperative Societies Act does not have any provision in this regard. Therefore, the sugar Mill under study does not have separate cost records.

A cost sheet (See Table 3.1) prepared by the Mill shows that the Mill adopts absorption costing or traditional costing and arrives at the unit cost of production. Under the absorption costing cost of production is arrived at using the formula as given under.

\[
\text{Cost of production} = \text{Material cost} + \text{Conversion cost} + \text{overheads} - \text{Value of bye-products.}
\]

Material cost includes items like cane price, purchase tax, cane cess and cane development funds. The conversion costs consists of expenses on fuel, oil and lubricants, power and water, chemicals and consumables, packing materials etc.

Overhead expenses include wages and salaries, Repairs and maintenance, administrative overheads, selling and distribution overheads, interest on borrowings and depreciation on machinery etc.

Costing system along with inventory control techniques like two-bin system is used to control inventory and to regulate the purchase of stores. A cost sheet consisting of details regarding raw material cost, conversion cost and material and administrative overheads serves to find out the actual cost of production of sugar, molasses and other bye-products. Such statements are prepared every month and compared with the cost of production budget which is also available in a similar format with monthly break-up details. Such an exercise helps the Mill to effect cost control measures especially control of costs involved in the stores/material overheads. The Mill is required to initiate control measures only when the actual cost exceeds 10 percent of the estimated cost.
### Table 3.1
Proforma Cost of Production Statement

<table>
<thead>
<tr>
<th>Previous years</th>
<th>Budget year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Particulars</td>
</tr>
<tr>
<td>Year 1</td>
<td></td>
</tr>
<tr>
<td>Total Cost</td>
<td></td>
</tr>
<tr>
<td>Unit Cost</td>
<td></td>
</tr>
<tr>
<td>Year 2</td>
<td></td>
</tr>
<tr>
<td>Total Cost</td>
<td></td>
</tr>
<tr>
<td>Unit Cost</td>
<td></td>
</tr>
</tbody>
</table>

- Cane crushed in metric tonnes
- Recovery percentage
- Sugar production in Qtnls.

**Material cost**
- Cane price
- Purchase Tax
- Cane cess
- Cane Development Expenses
  - Total

**Conversion cost**
- Fuel, oil & lubricant
- Power & water charges
- Chemical & consumables
- Packing materials
  - Total

**Overheads**
- Wages & salaries
- Repairs & maintenance
- Administration and overheads
- Selling & distribution overheads
- Interest
- Depreciation
  - Total

**Total Cost**
- Less: By products
  - Miscellaneous income
- Cost of production
Internal Audit

Effective financial control depends on the efficiency in the adoption of internal control measures and mechanisms. Internal control, in turn, will be effective only when there is a mechanism to watch over the performance of internal control devices. Internal audit is one such tool which has an overriding role of other control devices in operation in business concerns. Internal audit measures assume importance in the Mill in the context of vast and continuous increase in the income, expenditure, borrowing, investments etc. The Mill practices internal audit. The internal audit is carried out by a qualified chartered accountant whose service is hired on contract basis.

During the beginning of 80s the internal audit was carried out by Cooperative Sub Registrars. The Cooperative Sub Registrars, although belonging to the government service, performed their duties as though they were employees of the sugar Mill concerned. Later, in the late 80s, chartered accountants were appointed as internal auditors on full time basis. As both the chief accountant and the internal auditor were qualified chartered accountants, it became a problem for them to adjust with each other in matters of reporting. The idea was therefore withdrawn and from the year 1992 onwards the services of the internal auditor have been availed on contract basis. The appointment is made on year-to-year basis.

The scope of internal audit includes: (i) audit of primary books and records such as cane purchases, stores and chemical purchases, packing materials, sales book and other records; (ii) physical verification of cash, fixed deposits, stock of inventory and overheads and verification of statements like bank reconciliation statement, cane division returns, statement relating to provident fund, income tax and other taxes and other such reports and statements.
Suggested area of coverage by Internal Audit

<table>
<thead>
<tr>
<th>1. Audit of Primary Books and Records</th>
<th>Suggested extent of verification</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cane purchases</strong></td>
<td></td>
</tr>
<tr>
<td>a) Verification of ground sheet with</td>
<td></td>
</tr>
<tr>
<td>reference to the budget tokens</td>
<td></td>
</tr>
<tr>
<td>(i) with reference to total of no.</td>
<td>100%</td>
</tr>
<tr>
<td>(ii) On other aspects</td>
<td>One week in a month</td>
</tr>
<tr>
<td>b) Verification of cane payment</td>
<td>100%</td>
</tr>
<tr>
<td>vouchers with bank debits</td>
<td></td>
</tr>
<tr>
<td>c) Personal ledger accounts of ryots</td>
<td>100%</td>
</tr>
<tr>
<td>cane cutting labour charges and</td>
<td></td>
</tr>
<tr>
<td>cane transport</td>
<td></td>
</tr>
<tr>
<td>d) Verification of daily manufacturing report with reference to overall cane crushed and total of ground sheets</td>
<td>100%</td>
</tr>
<tr>
<td>e) Verification of the journal entries for cane purchases and related deductions</td>
<td>100%</td>
</tr>
<tr>
<td>2. Stores and chemicals purchases</td>
<td></td>
</tr>
<tr>
<td>a) Audit of purchases</td>
<td>100%</td>
</tr>
<tr>
<td>b) Audit of issues in stores</td>
<td></td>
</tr>
<tr>
<td>A items</td>
<td>100%</td>
</tr>
<tr>
<td>B items</td>
<td>50%</td>
</tr>
<tr>
<td>C items</td>
<td>25%</td>
</tr>
<tr>
<td>c) Inter unit transactions</td>
<td>100%</td>
</tr>
<tr>
<td>3. Packing Materials</td>
<td></td>
</tr>
<tr>
<td>a) Audit of Purchases</td>
<td></td>
</tr>
<tr>
<td>b) Audit of consumption vis-a-vis</td>
<td></td>
</tr>
<tr>
<td>Sugar bagged</td>
<td></td>
</tr>
<tr>
<td>c) Audit of transaction relating to</td>
<td>100%</td>
</tr>
<tr>
<td>damaged gunnies</td>
<td></td>
</tr>
</tbody>
</table>
4. Audit of traded goods

   a) Verification of the purchases and sales with reference to indents 100%
   b) The stock of fertilizer and pesticides at divisional office and diesel at Mill site at once in an accounting year

5. Cash Book and Bank Book

   a) Audit of payment vouchers
      Above 10,000 100%
      5000-10,000 50%
      Below 5000 25%
   b) Journal vouching 100%

6. Sales

   a) Sugar sales 100%
   b) Molasses & Baggases 100%
   c) Reconciliation of sales quantity and also production quantity with excise records on a monthly basis 100%
   d) Personal ledger accounts 100%

7. Audit of Subsidiary Register and Books

   Debtors ledger - Executive Managing Director & Special Officer ledger.
   Creditors ledger 100%

II Physical Verification

(1) Cash - Surprise verification Atleast once during the course of audit
(2) Fixed Deposits (Mill fund & Sugar cane Development Fund) Atleast once during the course of audit
(3) Verification of Stock
   a) Sugar
   b) Molasses
   c) Stores and Packing materials Atleast once during the course of audit
d) Stationery and medicine

Random verification of all A items and all other items at least once in the course of audit.

(4) Fixed Assets of all A items and all other items at least once in the course of audit.

Random verification

III Verification of Statements

1. Bank Reconciliation Statement 100%

2. Cane diversion

To check the payments received from other Mill, payments made to growers

To check the management charges to be received or paid

3. Provident Fund payment with the total wages payable Gross Pay (monthly) 100%

4. Recovery and remittance of Employees Provident Fund &,
Income Tax 100%

5. Recoveries towards rent, private call charges, private trips vehicles 100%

6. Non moving items of stores and spaces 100%

7. Purchase tax, sales tax and additional purchase & sales tax 100%

8. Demand Collection Balance statement for working out interest Quarterly
9. Sanction of loans by Mill and recoveries thereof

10. Fuel efficiency of vehicles verification to cover the consumption of purchases and stock

11. Capitalization of assets,

12. Cane Management Report
   (i) Age of cane
   (ii) Lead time between cut and crush

13. Civil Bills with reference to M.Books, Issue of stores fore capitalization purposes

14. Disbursal of undisbursed cash

15. Review of long pending balances in creditors ledger/debtors ledger
   ( More than 12 months)

The internal auditor, once appointed by the Mill, has all the rights and responsibilities which the cooperative statutory auditors have under Section 80 and rule 102 of the Tamil Nadu Cooperative Societies Act of 1986 and Rules 1989. The responsibilities of the internal auditor include:

* Study of accounting procedures prescribed for the Mill with a view to ensuring that they are correct, adequate and free from any defects or lacuna;
* Watch over the implementation of the prescribed procedures and the orders issued from time to time;
* Scrutiny check of payments;
* Investigation of important arrears in account and other connected records;
* Periodical review of all accounts records;
* Pursuance/Settlement of objections issued by statutory Audit;
* Check of accounts in detail;
* Verification of payments;
* Scrutiny of sanctioning and purchase procedures;
* Checking of procedures in regard to disposal of assets;
* Check of pay fixation statements;
* Reconciliation work;
* Check of accounts of receipts; and
* Check of adequacy of procedures prescribed.

The internal auditor's duties and responsibilities can, however, be changed from time to time by the Executive Managing Director after consulting him.

In accordance with the scope of internal audit and the duties and responsibilities of internal auditor, the internal auditor carries out his work through his assistants and undertakes a random check as and when he finds it essential to ensure the quality of the work. The internal auditor has been able to comply with the reporting needs and period of reporting without fail. However, it is doubtful whether he would have suggested any modification or improvements in the accounting books and records in a formal manner though reports.

The statutory auditor can offer his views in the form of schedule of defects to the management in certain areas affecting the working of the organization. The internal auditor can also pass on information to the management so as to assist the management in the decision-making process. But, in practice, neither of them is involved in the decision-making process directly because the Special Officer, being a government-deputed officer, rarely makes use of the views of the auditors.
Management Reporting

Management Reporting is an important activity of accounting in manufacturing and processing institutions like sugar factories. The management needs information on different aspects in order to decide the various factors costs involved in the production process. Being a cooperative, the Mill has to report to the members, the state government, the financing bank, the Commissioner of Sugar and the state and national level federations. Reporting is normally in the form of annual report to the General Body and to other institutional members. The federations and State government are also informed through reports in the prescribed formats.

Reporting to the management within and outside the unit like Commissioner of Sugar is a regular feature in the Mill under study. However, for the purpose of reporting, standard prescribed formats are used as the cooperative sugar Mills are working under the direct control of the Commissioner of Sugar and decisions affecting the working of the Mill are taken based on these reports. As a result, uniformity in reporting is insisted on by the Commissioner of Sugar.

The responsibility of preparation and submission of MIS reports are entrusted to the accounts assistant (costing) who reports directly to the Chief Accounts Officer in the Mill. The accounts maintained manually are used for culling out information to be supplied in the form of MIS report. Computers are used for MIS reporting purposes. The Mill is not able to generate such reports because, the computer system is not an online system. It adopts a batch processing system. Thus, although the major part of the data is from the accounting section, still the MIS reporting does not merge with the accounting section. This could be understood because many of the members of staff in the accounting section believed that the MIS is mainly designed to send the required information to the Commissioner of Sugar periodically. Its usefulness as an internal source of information is yet to be understood.
The Mill prepares and sends reports to the departmental heads. The purpose is to help them to monitor the performance and to reduce the overall cost of production. The fortnightly and monthly reports, which are mostly the consolidation of daily reports are prepared and circulated among the leads of various sections in the Mill.

MIS in the Mill aims at generating reports which could be of relevance for reviewing the performance of the Mill in a given period of time ranging from a day to a month. The MIS report gives details on operational and financial performance of the Mill. The reports may be briefly explained.

**Cane Particulars Statement:** A monthly statement provides particulars regarding the area registered for the season, area harvested, cane cut for seed, diversion of cane for jaggery, and quantum of cane crushed etc., for the month. This statement also shows the achievement against the target in each of the above respects and also its overall performance up to reporting month (See Table C3.2).

<table>
<thead>
<tr>
<th>SI. No.</th>
<th>Particulars</th>
<th>During the month</th>
<th>Up to the month</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Budget</td>
<td>Actual</td>
</tr>
<tr>
<td>1.</td>
<td>Area registered for the season</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Area harvested</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>5.</td>
<td></td>
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</tr>
</tbody>
</table>

The information and data required for preparation of this statement are collected from cane department, factory, and the Accounting Department.

Operational Efficiency Report: Operational efficiency statement is a monthly statement which gives details regarding the quantum of cane crushed,
rate of crushing, sugar production (in quantity), crushing down timing, reasons for stoppage, and capacity utilization etc. This statement is also prepared in a format which resembles the previous one. The main purpose of this statement is to give information for monitoring and corrective action.

Financial Performance Statement: A monthly statement is prepared to compare the actual performance with the budgeted performance with regard to inventory both in quantity and value. The statement also gives details on the stores, spares and consumables used during the month as against the budget in a comparative format. The data required for this statement is collected from the stores section.

**Profitability Performance Statement:** A monthly statements prepared to give information on profitability and financial performance of the Mill. The income statement and the balance sheet are used in the analysis and generation of information. Profitability performance is also presented in a comparative frame (comparison of budgeted figures with actual) both for the month under reporting and for the period which ends at the end of the reporting month.

**Unit cost of production and realization statement:** A cost statement is prepared and presented to the authorities every month. This statement gives a fair idea about the profit or loss per quintal of sugar produced. Such profit or loss per quintal is calculated using the marginal costing technique which takes into account the net sales, variable cost and fixed cost of production. This statement is also prepared using the accounting information available from the accounting section and the sales price fixed both for free and levy sugar by the government department.

**Cost of Production Statement:** A monthly cost of production statement giving break up of material costs, conversion cost overheads and value of bye-products is also prepared by the Mill. This statement shows the performance of the Mill, with regard to cost of production, during the reporting month and the progressive performance up to the month under reporting. As this statement gives details of budgeted costs and the actual costs the variance could be assessed.
This helps the authorities to gauge the reasons for such deviation and also for initiating corrective action.

In addition to these reports stated above the Mill prepares the following reports every month and sends the same to the Commissioner of Sugar.

(i) Closing stock position of sugar and molasses,
(ii) Funds position statement,
(iii) Inter Mill borrowing /lending details,
(iv) Sugar production, stock and releases statement, and
(v) Short term solvency report showing current assets, current liabilities position and the working capital position of the Sugar Mill as at the end of the month.

At the Office of the Commissioner of Sugar, the reports received from various Sugar Mills are analyzed thoroughly and the performance of each mill with respect to factors mentioned above is compared with other Mills in order to ascertain the reasons for failure to achieve the targets etc. Necessary instructions are issued to the sugar mills based on the review of the MIS reports. Thus the Mill generates adequate number of reports with necessary details for assisting in the decision-making process. However, as the Mill does not enjoy autonomy the MIS reports in the opinion of the section heads, have little relevance for them in their day-to-day operations.

Conclusion

The Mill follows Cooperative Account Keeping System. With the existing system, the Mill, with the help of the computers is able generate all necessary costing and financial information to assist in the framing of revenue budgets, production budget etc. The Mill uses the budget and cost of production statement for the purposes of controlling the operational expenses and to monitor the production process to the maximum extent possible.
CASE 4

THE SALEM DISTRICT MILK PRODUCERS
COOPERATIVE UNION LTD.

Introduction

The Salem District Milk Producers Cooperative Union Ltd., (Union) an intermediate milk processing organization, was established in July 1978. The area of operation of the Union extends to the whole of the Salem district. The major objective of the Union is to carry out activities conducive to the economic betterment of agricultural tenants and labourers by organizing effectively the production, processing and marketing of milk and milk products through an established organizational network of primary milk producers societies.

The major activities of the Union are: i) procurement, processing and distribution of milk and milk products; ii) provision of artificial insemination facilities; hi) provision of assistance in product development; iv) provision of assistance in calf rearing schemes for farmers through its affiliated member societies; and, v) provision of testing equipment, stationery and all other items needed for the efficient functioning of the member milk producers' societies at the grassroots level.

Financial accounting

Decisions should be based on reliable information. In business undertakings books of accounts are the immediate and primary source of information for decision-making. An accounting system that provides information to the management whenever it needs it, is a pre-condition for taking right decisions at the right time. Therefore, it is essential that the organizations like cooperative dairy unions have a properly organized financial accounting system.
The Union adopts cooperative account keeping system. Receipts and Payments are taken as the basis for making entries and subsequent postings. Based on the total of general ledger accounts, statement of Receipts and Payments is prepared every month and monthly statements are consolidated at the end of the accounting year. This consolidated statement and the previous year balance sheet form the basis for the preparation of final accounts and the position statement.

Since 1987-88 the Union has been following uniform accounting system as evolved by the National Daily Development Board. Uniform accounting system refers to common and accepted standards of terms, procedures and practices with reference to financial accounting followed by the firms coming under the control of a holding company or corporation.* The system has been introduced in cooperative dairy units because the NDDB, the financing institution, found it suitable to bring uniformity in the accounting system followed by dairy units in the country. Under this system accounts are planned, grouped, codified, and computerized for bringing all sorts of transactions under proper heads of accounts.

The dairy units, depending upon the availability of manpower and financial soundness, can adopt a manual, or a fully computerized or a mixed system of accounting. In the initial stage (1978) the Union adopted a mixed system under which it prepared accounts manually and through computers. The entire financial accounting system was computerized. At the same time the books of accounts were maintained and the financial statements were prepared manually. The Union had to rely on both mechanical and manual systems for the following reasons: (i) lack of trained manpower; (ii) limited coverage of the system; and, (iii) infrastructure of the system being built on batch processing basis. The Union has recently introduced on-line systems and completely computerized the financial accounting system. This helps the Union in generating up-to-date information at

any time with precision. The staff are of the opinion that the present system of account keeping, helps maintenance of up-to-date accounts and also provides required data for taking decisions on time.

Appropriate forms, records and registers are developed and maintained by different divisions of the Union. For instance, the marketing division maintains four standard books. They are: Milk Return I, II and III and Stock Register for Head Office use. The sale of milk and milk products by the agents as well as the Union's own depots and through institutions without commission etc., are recorded both in quantity and value. Milk Return-I is prepared every month. Milk Return-II, a monthly statement, is used for recording the details of funds transferred by the agents to the head office. Milk Return-III is kept to record the details regarding the balances outstanding as at the end of the each month with the agents. All these statements are submitted by the agents and by the institutions to the milk marketing officer every month. These facilitate recording of unit-wise and agent-wise sale of milk, collection of sale proceeds, the amount outstanding with the agents and monitoring the collection of funds from the clients concerned without any problem. Details of milk procurement from member societies are maintained at the team office established on important milk routes for effective procurement of milk from the affiliated societies. Team offices send a consolidated summary of procurement to the head office. Other sections like procurement and input section, stores section and transport section also maintain various records and provide consolidated statements to the finance section at the head office. The finance section, in turn, prepares the accounts for the organization as a whole.

The system has, however, certain limitations. Firstly, there are some problems in maintaining the consignment account. There is an agreement between the Union and the consignee regarding the product price. The consignee has to sell the product at the market price. The market price varies from place to place and from time to time. The consignee has to send the details of the price, the quantity sold and the balance (stock) to the consignor. But, invariably, the consignees send such details at irregular intervals. Hence the Union cannot prepare a separate account for consignment made. Secondly, in the processing
Fig. C4.1
Organizational Set-up of the Cooperative Milk Producers Union

Managing Director

Manager (Finance)
section, log book and job cards are to be maintained by the technical assistants. These records are the primary evidence for making entries in the stock register kept in the processing section. Log books and job cards are not properly maintained, and, as a result, the stock is either over valued or under valued. Finally, many of the subsidiary books are yet to be computerized.

The accounting section of the Union, as part of the organizational restructure under uniform accounting system, is well structured with responsibly centres. It is manned by qualified personnel (see Fig.C4.1).

**Budget**

Each division in the Union has to prepare its own programme budgets, mostly in terms of quantity or units. Three major divisions in the Union are: (i) Procurement and Input; (ii) Processing; and, (iii) Marketing. The Marketing Division prepares programme budgets taking into consideration the past performance, the target fixed by the Commissioner of Milk and programme budgets of procurement and processing divisions. While preparing the sales budget, the norms for sale of milk and milk products are duly considered. The norms are: (i) 50 percent of the procured milk should be sent to the Federation; (ii) 33 percent should be available for local distribution; and, (iii) the remaining milk is meant for conversion into milk products.

The procurement budget is again based on past performance. The processing budget is based on the procurement budget. Thus, the budgets are prepared in different sections in terms of quantity or units and are sent to the finance section. The finance section converts all the quantitative values into monetary terms and, therefrom, a master budget consisting of projected final accounts and balance sheet is prepared. An important feature of budgeting in the Union is that all section heads are involved in shaping the budget. Milk procurement, processing capacity, sources and inflow of funds are the important factors considered in the preparation of the budget. The budget so prepared is sent to the Managing Director for approval. After his approval it is communicated to different divisions.
Fig. C4.2
Framework of Budgeting in Milk Union

Govt. Fixed Target

Past Performance

Programme Budget
Marketing Division

Capacity of the Plant
Past Performance

Processing Programme

Procurement Programme

→ Master Budget

Past Performance
Budgetary control is a recent phenomenon and it has been introduced only after the installation of MIS. Budget review meetings are conducted every month wherein the Managing Director, the managers and deputy managers of various divisions participate. The extent to which the planned level of activity is attained, not attained or exceeded is reported at the review meeting by means of internal performance reports. Performance reports are prepared by each responsibility centre and are sent to MIS section for consolidation. MIS section consolidates such reports and presents a summary report to the review committee. For example the procurement and input division prepares its performance reports in the prescribed format wherein we can notice: (i) reporting by responsibility centre; (ii) comparison of actual results with budgeted goals and the variations; (iii) previous month's planned goals, actual and variations. The variation column calls attention to the exceptional items.

The minutes of the review meeting is communicated to different sections. The staff working in different divisions and sections, by and large, feel that budget and budgetary control help in several ways. They are:

(i) assignment of responsibility for each division of the Union.

(ii) compelling management team at different levels to participate in the establishment of goals and plans.

(iii) ensuring the habit of timely, careful and adequate consideration of all the relevant factors before reaching important decisions.

(iv) forcing a periodic self analysis of the function of the Union.

(v) monitoring the progress of the Union with reference to established objectives.

Despite several advantages, the budget does suffer from a limitation. Attempts are normally made to revise the budget on reviews. Budget review meetings are convened mainly to apprise past performance. It can therefore be concluded that budgets are mere programmes and plans and they need to be adopted as effective control tools.
Costing

Costing is particularly important in a cooperative like the Milk Producers' Union where the management has no role either in determining the procurement price of the milk or in fixing the sale price of the milk and milk products. In either case, the price is fixed by the government and the product pricing committee of the Tamil Nadu Cooperative Milk Producers' Federation. Hence, control of the cost in manufacturing, economy in procurement and sale of milk assume much significance.

Currently, there is an exclusive section in the Union to deal with costing and MIS. It is also entrusted with the task of preparing the overall budget of the Union. In addition to the above it also undertakes: (i) calculation of cost of various processes and activities; and, (ii) conversion of quantitative budgets prepared by the individual sections into financial budget.

Costs in the Union are classified into fixed and variable costs. Information on cost incurred is given by costing section every month. This is compared against the predetermined cost. The variance is worked out and the reasons for variance are analyzed. Such an analysis is undertaken every month at the budget review meeting.

The personnel working in the cost section claim that product-wise and process-wise costing is done. This would have helped them to prepare product-wise and process-wise profit and loss account. But such statements could not be found in the Union. The segregation of cost into fixed and variable should have resulted in the preparation of flexible budget. But the Union has prepared only fixed budget. These two instances show that costing is not as effective as claimed by the personnel.

Internal Audit

Internal audit and pre-audit were introduced in November 1991. The scope of the internal audit includes:*  

*Circular No.8609/Estt. 1/86 dated 21.10.91.
* Checking adherence to the systems and procedures designed by the management.

* Preparing a cost centre wise/section wise profit and loss statement in Aseptic Packaging System, Federation accounts, Chilling Centres, Procurement and Input Wings, Transport, Quality Circles, Computers etc.

* Reviewing the financial system and procedures presently followed and comment on the adequacy of Internal control and internal checks, commensurate with the organizational objectives and activities.

* Ensuring the rectification of the defects pointed out by the External Auditor/Statutory Auditor.

* Reviewing the exercise of powers by the Unit Chiefs within their delegated jurisdiction.

* Verifying whether the circulars, guidelines issued by the Tamil Nadu Cooperative Milk Producers' Union Ltd., Commissioner for Milk Production and Dairy Development on various matters have been complied with.

* Verifying inflow and outflow of funds effected through expenditure and income transactions.

The scope of the Pre-Audit includes:

* Pre Audit of cash and bank vouchers before disbursement.

* Pre Audit of purchase orders of all materials before the purchase orders are forwarded to the parties.

* Pre Audit of all facts, statements, figures to be sent to outside agencies viz., State Government, Central Government, local authorities, departments and to the Federation.
Thus the scope of internal audit not only includes examination of accounts but also the examination of the monetary strength of the Union. Internal audit in the Union is directed towards economical utilization of material and funds. It is also used to counteract deviation of plan, wastage, irrational expenditure and fraud.

As regards the organizational arrangements, the internal auditor is required to directly report to the Managing Director. The internal auditor, in line with the scope of the internal audit, undertakes various activities and reports to the Managing Director every month with a copy marked to the deputy manager (accounts). The report of the internal auditor contains details regarding the performance of the different departments in the Union, team offices and chilling centres, etc. In addition to the monthly report, the internal auditor has also been asked to prepare cost statements such as cost of production statement, section-wise costing trading and profit and loss accounts every month. The verification of stock in different departments is also an important responsibility of the internal auditor. The auditor has also to report to the Managing Director about the status of the stock every month.

Thus, the monthly report of the internal auditor covers the following areas:

* Head quarters accounts relating to administration, marketing, purchase and civil aspects.
* Details about production at dairy complex.
* Aseptic Packaging System, stores, transport at Dairy Complex.
* Chilling Centres.
* Team Offices.
* Milk marketing offices.
* Training Centre, Cooperative Development Cell, Calf Rearing Scheme.
* Operation Flood accounts and claims.

The internal auditor, through his reports, sometimes suggests to the Managing Director certain improvements or modification even in the maintenance of books of accounts. For example the purchase of store items was accounted
for on the basis of purchase day book maintained by the account section up to 31st March 1996. Subsequently, the above system has been modified and now the accounting has to be done on cash basis. This caused problems in finalization of accounts on merchandise basis for income tax purposes. The internal auditor, therefore, suggested that the earlier system of maintaining the purchase day book has to be revived. The management accepted the suggestion and revived it.

The external audit is conducted by a team of departmental personnel (State government) consisting of a cooperative sub-registrar assisted by four senior inspectors of cooperatives. External audit has been concurrent in nature. This helps to complete the final audit in time. It also enables the auditors to suggest measures to improve the book keeping and accounting system.

The area of statutory audit is confined to the checking and verification of books of accounts and final accounts, noting defects in the maintenance of books of accounts, irregularities found in the purchase, sale prices etc., and stock verification in the different sections of the Union. The statutory auditor also reports to the Managing Director and marks a copy to the Commissioner of Milk.

A salient feature of the external auditing system in the Union is that it gives orientation to the staff of the Union in book-keeping, accounting and auditing. This, in the opinion of the staff, is of much use: (i) in complying with rules and regulations; and, (ii) in completing the accounts in time. As a result, a cordial relationship emerges between the statutory auditors and the accounting staff. This also leads to mutual cooperation between them, which helps in finalization of accounts and conduct of final audit in time. The external audit is almost financial audit, whereas the internal audit is method and management audit.

Management Reporting System

Along with the uniform accounting system, the NDDB has designed a reporting system and provided a package with different formats in which various performance reports can be prepared and reported to the authorities concerned.
The major activities of the reporting system are: (i) the performance review of the Union; (ii) reporting the results of the performance appraisal to the Managing Director, managers and deputy managers; and, (iii) reporting periodically to the funding agencies. However, after the introduction of the online systems, the MIS section has been able to provide required information also to the section heads who have access to mainframe in the Union. Thus, there has been a gradual and consistent change in the reporting system in the organization, which has largely helped in improving the quality of the system.

Conclusion

To sum up, the Union has a well established organizational infrastructure with clear demarcation of duties and responsibilities in the form of responsibility centres. Internal audit arrangements and budgetary control mechanisms are also well laid down and adequately followed. Computerization of accounting and online information system are the important facilities which help the milk Union to perform its functions in a smooth manner despite problems in other respects.