

*CHAPTER-IV*

---

- v -

ORGANISATION AND INFORMATION SYSTEM FOR FINANCE FUNCTION:

A study of organisation and the information system for the financial transactions has been made in this chapter. Accounting is the language of recording involves recording of transactions in set of Books in a proper manner. An enquiry into-

- (a) The method adopted for recording transactions.
- (b) The organisation and working of accounts department and
- (c) The various forms, statement etc. used for reporting the accounts transactions carried out are of great help in analysing the reliability

and effectiveness of the accounting reports presented to the top management and the use of such reports by the top managements.

Accounts system:

It is the set practice of recording day to day transactions in the books of accounts so as to show correctly and clearly the financial position of the factory. In other words, it is the job of the accountant to record the multitude of factory's transactions from original documents like vouchers, statements, receipts etc. and also their accumulation in books of original entry like the Cash Book and the Journal and also the Ledgers.

But it was seen that day-to-day transactions were not recorded daily in the books of accounts by co-operative sugar factory. It is not good for financial reports which are to be made to the Managing Director or Chairman of the co-operative sugar factory. It is seen that accounts of some co-operative sugar factories are centralised. e.g. The person who maintains cash book, also maintains ledger. So financial mistakes are not located.

The co-operative sugar factories maintained their accounts under Double Entry System. However, the following books of accounts were generally maintained:

Cash Book, Purchase Book, Sales Book, Debit note Books, Journal, Ledgers, Stock Register, Production Register, Excise Register etc.

Organisation of Accounts Department :

It was seen that the accounting was organised on the uniform pattern in all the factories. A uniform organisation chart for the Department is as given on page No. 5.4. 9

where?!

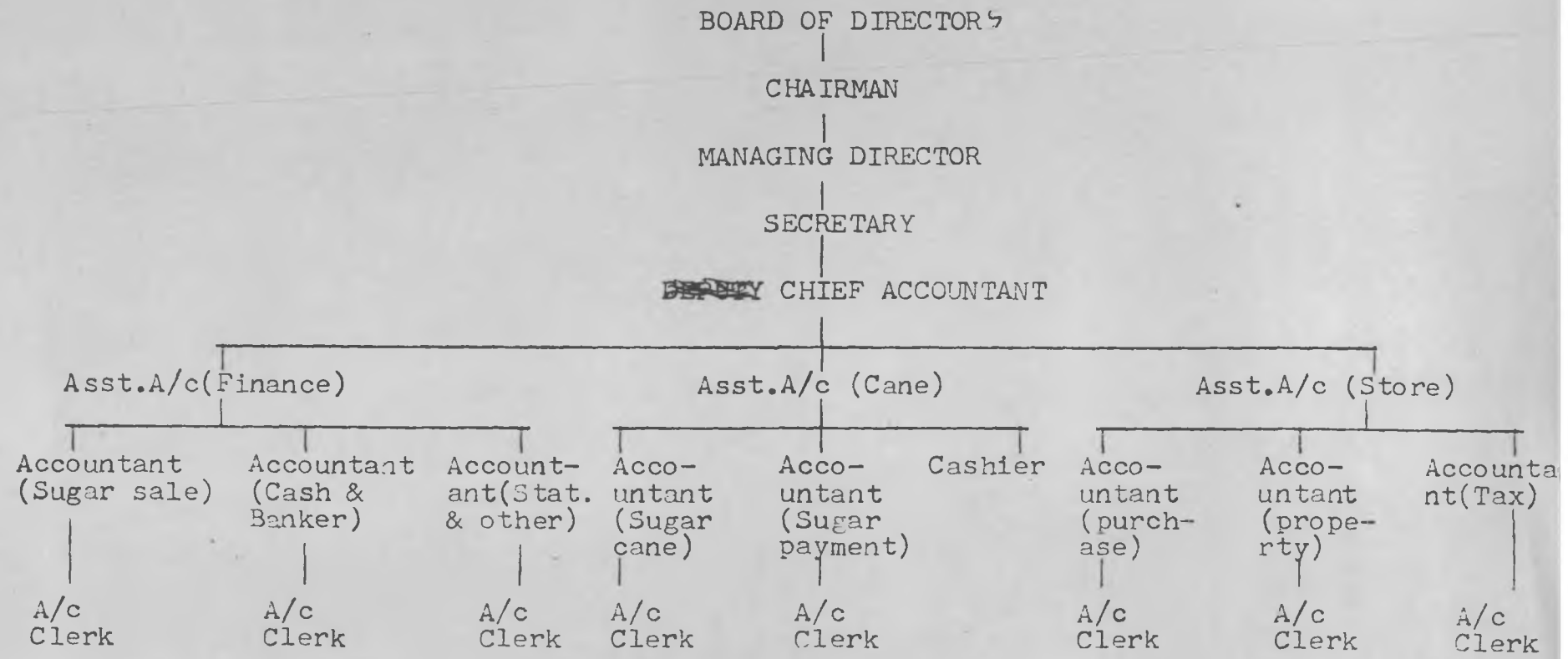
It can be observed from this that the Chief Accountant has been the head of the Account Department in almost all the factories, with the exception of one factory where the post has not been filled in. In still other two factories designation of the post differ such as Dy. Chief Accountant or Senior Accountant.

Traditionally various officers of factories in Accounts department can be stated as under-

- (1) Chief Accountant.
- (2) Dy. Chief Accountant OR  
Sr. Accountant.

Title — ?

0153



### 3. Asst.Accountant.

The various officers are normally expected to perform following functions:

#### 1. Chief Accountant :

The Chief Accountant is the principal officer regarding financial matters in the factory. His role can be appreciated better by going through the following specific functions performed by him.

- (a) Compilation of accounts, submission of periodical accounting and other important statements to the Board of Director or Chairman or Managing Director.
- (b) Preparation of budget estimates of income and expenditure.
- (c) Custodian for the factory's cash balances and maintenance of Bank accounts.
- (d) Scrutinises the proposals involving financial implications in accordance with the rules and regulations.
- (e) Conducts internal audit of various departments and checks the initial records maintained in the department.
- (f) Pre-checks of the bills and claims of all

payments before effecting payment with reference to their regularities and propriety and ensures that the payments are covered by the sanction of competent authority. In fact, he should be the management's finger on the pulse of the factory operations, and any variance from the normal should be reported, diagnosed and dealt with.

2. Dy.Chief Accountant or S.R.Accountant:

He helps Chief Accountant in day-to-day account department's work. He is responsible for all works in absence of Chief Accountant.

3. Asstt.Accountant :

(a) Finance & Statistics:

He maintains all the statistical record essential for the factory. He checks daily vouchers and bills and guides and controls the staff under him. He keeps control on daily cash transactions and sugar sales.

(b) Sugar Cane :

Asstt.Accountant observes sugar cane quantity and keeps their upto date record. He reports

to the Chief Accountant and maintains all sugarcane payment account.

(c) Stores Section:

- (1) Purchasing
- (2) Store accounting
- (3) Stores control

Observations :

It was interesting to note that the Chief Accountant played only a staff function (Advisory function) in the organisation. He was required to attend all meetings of the factory including meetings of the different sub-committees of the Board of Directors. His concurrence was necessary for any proposal having financial implications before it was put in Board meeting. As the name implied his duties broadly could be grouped under two categories, viz. financial advise and maintenance of accounts including budgets. He was not treated as a part of line authority in most of factories. Of course the role of the Managing Director was limited by his capacity to advise.



The analysis of educational qualifications of the staff of the Accounts Department of co-operative sugar factories in Ahmadnagar District has been given the following table.

Sr.No.	Category	Graduates.	Professionally qualified.	Post SSC	Total
1.	Accounts Clerk	429	--	385	814
2.	Sr.Accounts Clerk	054	--	007	061
3.	Accountant OR Chief Accountant	010	2	--	012
T o t a l		493	2	392	887

A very gloomy picture can be seen from the above table. With the exception of two factories not a single person was professionally qualified. At the project implementation stage, in some factories professional (C.A., ICWA ) were appointed but later on they left the services. This speaks a lot about the secondary importance given to Accounts staff in the factory.

The effective control of finance depends to a great extent on the working of the accounts systems starting from recording of transactions in books of accounts up to reporting the financial transactions.

It was observed that the following books of accounts were kept in the factory.

BOOKS OF ACCOUNTS

Sr. No.	Books	For which used	Documents of origin.
1.	Cash Book	Recording of day to day cash bank transactions.	Cash Bank Vouchers.
2.	Purchase Book	Used to record credit purchases.	Purchase Orders Bills.
3.	Sale of Sugar Book	Used to record sales of sugar (Control rate & Free sale )	Tenders, Quotations and Bank chalans.
4.	Debit Note Book.	Material returned to supplier.	List of material Bill Debit Note.
5.	Journal	Used for all transactions. Other than cash.	Vouchers.
6.	Ledger Book	It is a principal book of accounts, containing all kinds of accounts of the factory.	Entries made from original books under Sr. No. 1 to 5 above.
7.	Stock Register.	Used to record stock of sugar, store materials etc.	---
8.	Production Register.	Record of production details of sugar & bye products.	Production report.
9.	Excise Register.	Purchases and products records as required by the Excise Deptt.	---

When compared to the general norms of accountancy and audit these books can not be stated as sufficient.

Accounting Cycle :

It was found that the Accounts Departments adopted old methods to maintain Cash Book and ledgers. There was only one accounting machinery a calculator, which was used on large scale. It was high time to use computers in Account Department. Due to non use of modern equipments such as computer, Cash flow statement, can not be prepared periodically within a short notice. These by delay in cash estimation resulting in late disbursements was very common. The result of these circumstances was that the effective and timely control over the cash flow problem was next to impossible.

Financial Reporting:

Financial reporting plays an important role in Accounts system. It means presentation of right information at the right time.

It is observed that the arrangement for reporting in sugar co-operative has been as under:

(1) Production and Recovery:

The Chief Chemist prepares the report of crushing of sugarcane, production of sugar and its average recovery every day, and he submits the relevant report in form No. 1 every day to the Account Department when crushing season goes on. The Account Department then evaluates (judges) its income & expenditure everyday for it. This information is submitted to M.D. by Account Department immediately.

(2) S t o r e s :

The next important report is of the stores Department. In this section the store keeper gives his daily report to Account Department regarding how much material was received and how much material was issued to various sections of the factory. This helps to understand the position of the store Department of the factory. At the end of the year, the Store keeper submits his stock report to the competent authority. The Board of Directors decides with the help of annual report, how much amount is invested in the

store. If it is found that maximum amount is invested in the store, the factory has to pay interest on loan. Hence the factory tries to minimise the investment in the store, so that they have less loss. It is found that the financial position of the factory is down because of maximum investment in the store.

(3) Cane Transport :

The third important report is cane transport. This report is also submitted every day to Account Department by Agriculture Department. This helps to understand the actual crushing capacity and supply of the sugar cane to the factory. If it is found that sugarcane is lesser than required at the factory, necessary steps are to be immediately taken, and Account Department also gets accurate information to prepare the bills of sugarcane growers. This helps the factory to find out the amount to be taken from financial institutions.

(4) Sugar House and Sugar Sale :

The Godown keeper prepares his reports regarding sugar stock in the godown. He also submits the reports regarding free and control sales to the Account Department. It helps to understand financial position of the factory. Thus, the Godown keeper prepares the annual report of the stock and sale (Free & control) during the same year.

(5) Periodical statements of accounts :

At the end of every month, Account Department prepares the Trial Balance and submits it to the M.D. The Trial Balance helps to give accurate information of each Departments' expenditure, balance, outstanding payment and income. The factory thus, plans its income and expenditure for the next month. But it is observed that most of the factories do not prepare the monthly trial balance.

At the end of the financial year of the factory, Account Department prepares annual financial report

which consists of Manufacturing Account, Profit and Loss Account, and Balance Sheet. This helps to understand the accurate information regarding loans, outstanding income and payments, profit and Loss and various funds. The factory also prepares its reports regarding how many social work are completed and how many social work are to be done. All these reports are submitted to the meeting of the Board of Directors by M.D. After the permission (Sanction) by the Board of Directors, it is printed and put up in annual general meeting of the shareholders to judge their opinions. Thus their suggestions are taken into consideration for the improvement of the following years. But it is observed that most of the factories neglect shareholders suggestions.

#### Management and Control of Store.

The management and control of stores in a sugar factory consists of activities.

- (1) Purchasing.
- (2) Stores accounting.
- (3) Stores control.

Asstt. Accountant prepares Purchase Orders for all other goods except purchase of sugarcane. He keeps record of all kinds of properties viz. movable, immovable etc. of the factory.

Purchase Procedure :

Purchasing other than sugarcane takes place in the following way in the co-operative sugar factory. A list of such essential requirements is demanded from producers and suppliers. After verifying various price lists, a particular supplier or producer is selected. The list of essential requirements and selected price list is presented before the Board of Directors, when the Board gives its consent, the order is placed with the selected producer or supplier. There are two situations which are exception to the above mentioned system.

- (a) If there is a monopoly of any producer or supplier of any particular goods.
- (b) In the time of emergency and any goods upto Rs. 10,000/- can be purchased directly with the consent of Managing Director.



Observation :

The purchase procedure described above was seen implemented with the exception of some emergency spot purchases.

After the material purchased is received, the purchase order and the list of GR Note with its price list is verified by the concerned departments. Then the above bill is sent to the Chief Accountant. After the verification of the bill by the Chief Accountant, it is sent to the M.D. The bill is paid after it is sanctioned by M.D. Generally, the bill is paid by cheque. The cheque bears the joint signatures of the Chairman or Vice-chairman or the Director and the M.D.; or Secretary. The cheque is never signed by the Chief Accountant. Every outgoing amount is thus passed through the top management. This is something unique feature and an appropriate one.

Stores Accounting :

It is observed that accounting for stores consists of the following books and ledgers in the co-operative sugar factory.

- (a) Daily store receipts Register.
- (b) Store Ledger.
- (c) Issue and Allocation of stores.

(a) Daily store Receipts Register:

The daily material received report is prepared from Daily store Receipts Register. The entries are made in the daily store receipts register as soon as material is received and checked.

(b) Stores Ledgers :

The following stores ledgers are maintained.

- |                                   |                                      |
|-----------------------------------|--------------------------------------|
| 1. Small stores.                  | 2. Hardware                          |
| 3. Iron & Steel                   | 4. Pipes & Pipe fittings.            |
| 5. Paints & Varnishes             | 6. Transmission goods.               |
| 7. Electrical goods               | 8. Tools- Tackles                    |
| 9. Building stores                | 10. Chemicals.                       |
| 11. Sugar sacks-gunny bags-Twine. |                                      |
| 12. Oil & Lubricants.             | 13. Fuel Steam. Coal bagasse         |
| 14. Timber & wood.                | 15. Machinery                        |
| 16. Medicals                      | 17. Safely applicances,<br>furniture |
| 18. Motor & Tracters.             | 19. Crockery & utensils.etc.         |

Entries in respect of stores purchases are posted itemwise in the store ledgers from daily stores receipt register.

(c) Issue and Allocation of Stores:

The broad classification of material in store can be seen from the following:

1. Engineering current expenses.
2. Work shop job.
3. Electrical current expenses.
4. Electrical installation.
5. Manufacturing current expenses.
6. Laboratory current expenses.
7. Laboratory apparatus.
8. Work shop machinery.
9. Main factory building.
10. Office Building.
11. Additions to machinery.
12. Furniture & fittings.
13. Repairs to furniture & Fittings.
14. Tools.
15. Tubewell and its repairs.
16. Dispensary.
17. Stationery & Printing.
18. Motor vehicles and running expenses.

The details of store required for any job are to be mentioned in the requisition slip by the issuing authority and this must be insisted upon by the store clerk.

The original copy of the requisition slip is to be sent to the store keeper who retains it with him.

The duplicate may be kept with account and triplicate with the requisitioner.

The issues are posted from the requisition slips into a Daily Register. After the Daily Issue Register is posted it is to be checked daily by the materials manager or his authorised representative alongwith the requisition slips. The entries of Daily stores Issue Register will then be posted in the monthly stores Issue Register. At the end of the month each item of the material appearing under their respective job accounts will be totalled and posted to their respective accounts in the store ledger maintained for purposes of costing.

StoresControl :

The verification of bills, cash memos etc. is done from the Daily stores Receipt Register. Before verifying the bills for payment or adjustment, the store keeper is required first to compare them with the copy of the material received report to see that the goods received confirm to the quantity and price at which goods were ordered. Any difference in the copy of the purchase order and bill regarding quantity, amount etc. is reconciled by issuing of debit/credit

notes in quadruplicate and the adjustments are to be made accordingly. After this the bill is to be passed on to the accounts departments alongwith an advice in duplicate in the prescribed form. The accounts department after checking the bill adjusts it and the adjustment voucher number and date are to be entered on both the copies of advice and one copy is to be sent to stores and purchase department.

Financial Statements:

Next important function of the Accounts Department is to prepare annual financial statements. The top management is responsible for the preparation of such statements as per Law. The co-operative sugar factories refer to the three statements which are prepared by the sugar factory at the end of the year. i.e. 1st Oct. to 30th September. These are sugar manufacturing account, Trading, Profit & Loss Account, and Balance Sheet. These statements reflect a combination of recorded facts, accounting conventions and judgements of Board of Directors of the co-operative sugar factory. It is clear that these statements are affected by three things i.e. recorded facts, accounting convention and Board of Directors judgements. Only

those facts which are recorded in books will be reflected in the financial statements e.g. fixed assets are recorded in the books at cost price and shown in the balance sheet at cost price irrespective of their market or realisable price. The main objectives of financial statements are -

- (a) To provide reliable information about economic resources and obligations of the sugar factory enterprise.
- (b) To provide other needed information about changes in economic resources and obligations.
- (c) To assist in decision making.

Manufacturing Account :

In this statement of the co-operative sugar factory following expenses are included i.e. purchase of sugarcane expenses, cane procurement expenses, cane development expenses, sugar manufacturing expenses, salaries and wages concern, machinery repairs and maintenance, depreciation and other if any. Income side of this statement includes i.e. sales of by-products e.g. molasses etc. This statement shows

cost of production of the sugar. Table No. 7.6 shows information of manufacturing cost per quintal. (Sugar) co-operative sugar factories. Table No.7.6 shows that manufacturing cost of one co-operative sugar factory was more than other sugar co-operative factories of the Ahmadnagar District in the year 1980-81, 1981-82 and 1982-83. Processing and other expenses were also more of the same factory comparatively to other factories in the same years. And also other three sugar co-operative sugar factories processing and other expenses were in excess when compared to other co-operative sugar factories. These three factories are sick factories in the list of Government of Maharashtra. It means that financial administration and control of the management was not good. It is not good for the factory development in the future period.

Profit and Loss Account :

Next important financial statement of the co-operative sugar factory is profit and loss account. It is prepared at the end of the accounting period to know the net income earned by the sugar factory

during the accounting period i.e. 1st October to 30th September. It is helpful in measuring the financial performance of the sugar factory i.e. success or failure of the factory. Management, shareholders, employees, bankers and other creditors are anxious to know the latest income of the factory.

The profit and loss account is usually made up of two accounts i.e. Trading Account and Profit and Loss Account. Trading Account is prepared to know the trading results of the sugar factory i.e. how much gross profit factory has earned during a particular period. Expenditure side of the trading account includes opening stock of the sugar manufacturing expenses, sale (Sugar) expenses and income side includes sale on sugar and closing balance of the sugar. (For detail see proforma No. 1 to 3 ). The difference between expenditure and income is gross profit. It is transferred to the profit and loss account.

Statement No. 5.2 shows the information about gross profit earned for the 1980-81, 1981-82 and 1982-83, three years of the co-operative sugar



T A B L E NO. 5.2

Statement showing the Gross Profit of the Co-operative sugar factories in Ahmadnagar District.

( Rs.in lakhs )

Sr.No.	Name of the factory	1980-81	1981-82	1982-83
1.	Jagadamba S.S.K.	26.11	51.51	67.44
2.	Ganesh S.S.K.	130.67	155.44	176.15
3.	Kopargaon S.S.K.	141.29	175.33	251.17
4.	Sanjivani S.S.K.	100.41	144.91	203.17
5.	Mula S.S.K.	229.02	87.06	116.92
6.	Dnyaneshwar S.S.K.	54.97	150.60	145.84
7.	Vridheshwar S.S.K.	15.22	26.02	72.51
8.	Rahuri S.S.K.	87.53	117.11	196.84
9.	Sangamner B.S.S.K.	83.25	66.95	159.09
10.	Shrigonda S.S.K.	74.32	77.34	107.93
11.	Ashok S.S.K.	121.27	172.31	196.15
12.	Pravara S.S.K.	228.88	309.28	410.71

factories in Ahmadnagar District. Four co-operative sugar factories; gross profit was less than other sugar co-operative factories. Higher gross profit is the better. It is important that a factory keeps up its margin of gross profit otherwise it may not cover its operating expenses.

The second part of the profit and loss account is prepared to calculate the net profit of the factory. Indirect income are added to the gross profit and indirect expenses are debited to the profit and loss account and the result is net profit or net loss of the factory.

Balance-sheet:

A balance sheet is also an important financial statement of co-operative sugar factories. It is a statement prepared with a view to measure the financial position of the factory at particular moment of time. The financial position of a concern is indicated by its assets, liabilities and owners equity on a specified date. This statement contains information about the resources and obligations of a concern. The left handside of the balance sheet may be viewed as a description of the sources from which the factory has obtained the capital with which

it currently operates and the right hand side as a description of the form in which that capital is invested on a specified date.

On the liabilities side of the Balance sheet the several liability items describe how much capital was obtained from trade creditors, from Banks and from bill holders and other outside parties. Capital obtained from various sources has been invested according to management's best judgement of the optimum mix or combination of assets for the sugar factory. A certain fraction is invested in buildings, another fraction in stock, another fraction is retained as cash for current needs of the sugar factory and so on. The asset side of the balance sheet, therefore shows the result of those management's judgements as of the date of the Balance sheet.

A properly drawn up Balance sheet gives information relating to -

- (1) The nature and value of assets.
- (2) The nature and extent of liabilities.
- (3) Whether the factory is solvent.
- (4) Whether the factory is overtrading.

COST ACCOUNTING:

Cost Accounting is an important section of the account department of the co-operative sugar factory. The cost Accounting Record (Sugar) Rules 1974 notified by the Government of India, Ministry of Law, Justice and company Affairs. Department of company Affairs, New Delhi with GSR No. 982 Dated 4th September 1974 came into force on the 1st October 1974. They shall apply to all companies registered under the Company Act. 1956, which are engaged in the production or manufacture of white or raw sugar or both by vacuum pan. However these provisions do not apply to co-operatives.

It was quite note worthy to put on record here that two factories (Dnyaneshwar and Sangamner ) have kept cost accounting records.

C o n c l u s i o n :

From the foregoing pages, one can conclude that Accounts system of co-operative sugar factories was as follows:

The co-operative sugar factories maintained their

accounts under of Double entry system. But it was seen that recording of day-to-day transactions in the books of accounts was not made. The following Books of Accounts were maintained i.e. Cash Book, Purchase Book, Sales Book, Debit Note and journal ledger, Stock Register, Production Register, Excise Register etc.

It was observed that the accounts were maintained on the uniform pattern in all the factories and Chief Accountant was head of the Accounts Department. The Chief Accountant played only a staff function. His role as advisor was limited by his capacity and the importance given to him by the top management. It was seen that there was a general dearth of professionally qualified staff in the Accounts Department.

The sugar factories did not use modern automatic or labour saving devices in the Accounts Department. It was high time to use computers in accounts department.

Production and Recovery, Store, cane transport, sugar House Account and annual reports etc. were important.

It is binding on the part of sugar factory to complete the Accounts statements within three months of the ending of financial year. But it was found that co-operatives took one year to complete the Accounts statements and got printed in annual report to be sent to members alongwith the notice of general meeting.

It was observed that cost Accounting records were essential also for the co-operative sugar factories. But it was not maintained except two factories.

PROFORMA NO. 1

The \_\_\_\_\_ Co-operative Sugar  
 Factory Ltd., Manufacturing Account for the year ending  
 30th September 19

Particulars	Dr.Amt.	Particulars	Cr.Amt.
To Opening Stock		By Sales of Molasses	
Sugar in process		Other	
Molasses			
Other		By Closing Stock	
To Purchase of Sugar -		Sugar in process	
Cane Expenses		Molasses	
Cane Purchases			
Cane Cutting		To Manufacturing cost	
Cane Pur-tax		transferred to	
		trading account	
To Cane procurement			
Expenses			
Agriculture Exp.			
Road Expenses			
To Cane Development Exp.			
Lift Irrigation			
Borringtone.			
To Manufacturing Exp.			
Stores & Others.			
To Salaries & Wages			
Cane procurment Dep.			
Manuf.Dep.			
Eng.Dep.			
To Machinery Repairs			
& Maintenance.			
To Other if any			
To Depreciation			
(Manu assets)			

PROFORMA NO. 2

The \_\_\_\_\_ Co-operative Sugar Factory Ltd.,  
Trading, profit and Loss Account for the year ending 30th  
September 19

Previ- ous Y Rs.	Particulars	Dr. Rs.	Pri. Y Rs.	Particulars	Cr. Rs.
	To Opening Stock			By Sales of Sugar	
	Sugar			By Other Sales	
	Other			By Closing Stock	
	To Manufacturing cost.			Sugar	
				Other	
	To Excise duty Exp.				
	To Exp. of sale of sugar & other				
	To Gross profit transfer to P & L A/c				
		=====			=====
		=====			=====
	To Interest			By Gross profit	
	To Bank Commission			By Intrest Received	
	To Salaries & Wages			By Dividend Received	
	To Salaries & Allowances to M.D.			By Miss. Income	
	To Attendance fee and allowances to Directors			By Excess provision for Previous	
	To Travelling Exp.			By Provision for Development	
	To Rates & taxds.				
	To Post & Telegrams				
	To Printing & Stationery				
	To Audit fees				
	To General Exp.				
	To Loss on sale of Assets				



B/f

B/f

To Depreciation

To General Exp.

To Provisions

To,Net Profit

====

====

PROFORMA NO.3

The \_\_\_\_\_ Co-operative Sugar factory Ltd,

Balance sheet as on 30th September. 19

Pri.Y Rs.	Capital & Liabilities	Rs.	Pri.Y Rs.	Property & Assets	Rs.
	<u>Share Capital</u>			<u>Cash and Balances</u>	
	Authorised			Cash on hand	
	Subscribed			Cash at Bank	
	<u>Reserve Fund &amp;</u>			<u>Investment</u>	
	Ither Funds			Loan & Advances	
	Secured Loans			Sundry Debtors	
	Long Term Loans			Deposits	
	Unsecured Loans			Current Assets	
	Deposits			Closing stocks	
	Current Liabilities &			Sugar	
	Provisions			Others	
	Govt.Dues			Fixed Assets	
	Provisions			Others	
	Unpaid dues			Profit & Loss A/c	
	Other liabilities			( if loss )	
	Profit & Loss A/c				
	( if profit )				