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Co-operative Accounting #1: Thrift and Credit
Co-operatives

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CO-OPERATIVE ACCOUNTING

1. Thrift and Credit Co-operatives

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

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

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

The Group's headquarters are at 9 King Street, London W.C.2.

Foreword

This is the first of three pamphlets on Accounting for Co-operatives, issued by the Ministry of Overseas Development in continuation of the series initiated by "Agricultural Credit through Co-operatives - the Story of the Bambaki Co-operative Society". Each of the individual pamphlets on accounting is complete in itself, dealing with a particular type of co-operative business, but, together, they constitute a comprehensive manual on accounting for primary co-operatives. For the benefit of students, teachers and supervisors a number of copies will be issued with all three pamphlets bound together.

The reader will find in these pamphlets, something more than a setting out of conventional book-keeping principles. There is, instead, a strong advocacy of a particular system, which may well be novel to many readers. It is my belief that this system is an effective one and that its introduction in many countries would be of great benefit.

It is a common complaint that the standard of book-keeping among primary co-operatives is poor. Certainly, I have observed this to be the case in many of the countries I have visited. In some cases there is hardly any system at all, in other cases, the system is too complicated for secretaries to understand. There is, in my view, a real and widespread need for a system which is both effective and straightforward enough to be taught to rural-based secretaries in a relatively short time. A system, similar to that set out in these pamphlets is taught in seven weeks to secretaries in the New Hebrides and has resulted in a remarkably high standard of book-keeping in all the primary co-operatives in the territory. In Botswana, from where this system is derived, the results have also been excellent. The system combines simplicity of operation and of checking with the advantages of double entry.

Of course, where other systems are already in operation and working satisfactorily, it would be foolish to change, and these pamphlets are not addressed to Co-operative Movements in such a fortunate position. However, in the many countries where book-keeping is still a major headache, I would most earnestly commend the systems set out here to the attention of those responsible for the guidance and supervision of co-operative societies.

In the preparation of these pamphlets, the Ministry of Overseas Development has joined forces with the Intermediate Technology Development Group (ITDG). The ITDG is interested in Co-operatives both because of their potential in the application of intermediate technology and as a kind of intermediate technique of business in themselves. This accounting system can also be regarded as something intermediate, between the simple recording of "ins" and "outs" and the highly and unnecessarily complicated keeping of sophisticated ledgers. The material for the pamphlets was prepared by Mr Bernard Le Bargy, Secretary, Kent Regional Co-operative Council and formerly Manager of the Botswana Co-operative Development Trust and has been edited by Mr T N Bottomley of Hitchin College of Further Education and formerly Registrar of Co-operative Societies in Botswana.

B J Youngjohns
Adviser on Co-operatives
29 June 1970

Introduction

The book-keeping system described in this book has been devised for use by Co-operative thrift and loan societies, or other primary societies, concerned with savings and credit. It is a double entry book-keeping system based upon a single Working Ledger, within which all the transactions of the society are recorded. The book has been written as a teaching handbook and reference book for officers of the Co-operatives so the points made in it are illustrated by practical examples of the various entries which have to be made in the books of the society.

The Thrift and Loan Co-operative

The thrift and loan co-operative has the following aims -

- a. To encourage its members to save regularly.
- b. To invest these savings in a safe and profitable form.
- c. When well established, and in special circumstances, to make loans of money to its members.

The book-keeper in such a co-operative has the task of recording the savings made by each member, of recording the amounts invested, of recording all loans made and of recording all expenses incurred in the successful running of the Society.

The Book-keeper's Job

This book is about the work of the book-keeper. In some co-operatives the book-keeper is called the Secretary, in others Treasurer or Accountant, but whatever he is called his job in every co-operative is:

- a. To keep complete and accurate records of every transaction in which the Society is involved.
- b. To check the accuracy of these records at regular intervals.
- c. To keep all the books of account in a safe place.
- d. At the end of each financial year to prepare a Balance Sheet and Final Statement of Accounts which can be audited by an independent person and verified as a true record of the state of the co-operative.
- e. To prepare, at regular intervals during the financial year, statements for the Board of Management which show the current financial position of the Society.

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

Importance of Book-keeping

Some people may wonder why a co-operative needs a book-keeper and why books of account have to be kept. A man who is in business by himself wants to know how well he is doing. The more his business grows, and the more money that is involved, the greater this need becomes. A co-operative society has an even greater need to know how well it is doing, because a co-operative society is not owned by a single businessman, but by all the members who have invested money in the Society. Unlike the businessman, the members of the co-operative do not themselves run the day-to-day affairs of their business. They elect a Board and appoint officials to do this for them. But the members need to know at regular intervals how their business is being run, whether it is making a profit, and whether their money is safe. A co-operative can only provide this information for its members if accurate records are kept. The Society's books of account must therefore show to the members:-

- a. How much the Society owns.
- b. How much the Society owes.
- c. Whether the members' investments are safe.
- d. Whether their investments are being used to produce a profit.

All co-operatives therefore need books of account, so that they can give their members the information they need. And in most countries there are laws which state that co-operatives must keep these records.

Books and Ledgers

A number of books and ledgers are used in the system described in this handbook. They are:

- a. Books of Original Entry These record the transactions of the co-operative as they occur. For example, special receipt books are used for transactions which occur frequently, such as members' savings. Receipts and invoices for goods purchased are also books (or documents) of original entry.
- b. The Working Ledger This is a summary ledger. All the transactions recorded in the Books of Original Entry are transferred to the Working Ledger. Each figure is recorded twice. This creates a "double entry" book-keeping system.
- c. The Main Ledger A summary of the ledger balances in the Working Ledger is entered at regular intervals in the Main Ledger.
- d. The Members' Savings Ledger In this ledger the savings and investments of each member of the Society are recorded.
- e. The Members' Loans Ledger In this ledger the details of loans made to members are recorded.

Book-keeping Terms Book-keeping is the science of recording business transactions. Like all sciences it has a language of its own. Some of the most common book-keeping terms that are used in this book are:

Financial or Accounting Period At the end of regular periods, usually six months or a year, the ledgers are closed and the balances are transferred to the Final Accounts. The Financial period is the period of time covered by the Final Accounts.

Final Accounts and Balance Sheet These are prepared at the end of a financial period. The thrift and loan Co-operative only needs two final accounts; the Income and Expenditure Account and the Balance Sheet. But to assist in the preparation of the accounts we also prepare a statement called a Trial Balance.

The Income and Expenditure Account is a summary of all the money that has been received and all money paid out by the Society in a financial period. The balance of this account shows the profit or loss. If the income for the period is £600 and the expenditure £550 the profit is £50. If the income is £525 and the expenditure £530 there is a loss of £5.

The Balance Sheet is a summary of what the Society owes, to its members and others, and what it owns (its assets and liabilities) at a specified date. A Trial Balance is a statement in which we list the balances in the various accounts in order to check the accuracy of the entries we have made.

Assets are anything of value owned by the Society. They can include land, buildings, equipment, money in the bank, investments, or cash and money owed to the Society by outside people, who are known as the Society's debtors.

Liabilities are the total amount of money owed by the Society to its members or other people. They include the money invested by the members, reserves and profits which have not been distributed, and money owed to outside people for goods they have supplied or services they have performed. People to whom the Society owes money are known as the Society's creditors. A society is in a good financial position if the value of its assets (what it owns) is greater than the value of its liabilities (what it owes).

Debit and Credit These terms are explained fully on page (4). Debit and Credit are usually abbreviated to Dr and Cr. In a Balance Sheet the assets are 'Dr' and the liabilities 'Cr'.

Auditor The auditor is a skilled accountant whose job is to check and verify the accounts of a co-operative society at the end of a financial period and at any other time the Registrar of Co-operative Societies may think necessary. The auditor is always independent of the Society. In many countries auditors are employed by the Registrar of Co-operative Societies. The auditor provides a check on the honesty of the book-keeper. Also, as he is a professional book-keeper himself, he can help the book-keeper with accounting problems.

Finally, to complete this introductory section, a few words of advice to the book-keeper.

- a. Balance the books at regular intervals, preferably every week.
- b. Never do anything in a hurry. Try to understand why you are making each entry. Speed and accuracy will come with practice and study.
- c. Make sure that you always give enough information when you make an entry. Note particularly the double entry.
- d. Be neat. If you make a mistake do not try to rub it out. Put a line through it with your pen. If the auditor notices that something has been rubbed out he will suspect that something is wrong.

The Double-Entry System

Now we have completed our introductory survey of the main features of the double entry system of book-keeping, and its use in keeping the accounts of a thrift and loan Co-operative, we turn to its practical application. The reader is advised to read through the whole of the book first, then to return to this point and study each section carefully, making sure that he thoroughly understands each part before proceeding to the next. It is necessary to fully understand the reason why we record each transaction twice (once as a credit and once as a debit) so that the book-keeper not only knows what he is doing but also why he is doing it. Any system is only as good as the person operating it. A book-keeping system is no exception - it works only if the book-keeper understands what it is all about.

The Books of Original Entry

Accurate accounts of all transactions can only be kept if a record is made when each transaction happens. This record is kept in the books of original entry. A thrift and loan co-operative needs three numbered receipt books, one for each of the different kinds of transactions that it makes: one receipt book for Membership Fees, one for Members' Savings and one for Members' Withdrawals. Most of the transactions made by a thrift and loan co-operative are between the Society and the members, but the Society sometimes needs to pay money to people outside it. Whenever the Society spends money, a signed receipt must be asked for, showing how much has been spent. These receipts must be kept carefully. They are also part of the 'Books of Original Entry'. A copy of the receipt is handed to the member as his evidence of the transaction and a duplicate is kept by the Society for book-keeping purposes.

A typical receipt might look like this:-

ABC Thrift and Loan Co-operative Society Ltd	
	Receipt No 93
Received from _____	
Membership No _____	
The sum of _____	
_____	£ _____
Signed _____	Secretary _____

Remember that an accurate book-keeping system must be a complete record of all the money that comes into the Society and all the money that goes out of the Society.

The Working Ledger

At the end of each week all the transactions that have been recorded in the books of original entry during the week are transferred to the Working Ledger. This is a ledger containing several columns headed Date; Narration; Reference No; Names of Accounts; Trial Balance (see illustration 1).

Columns will be needed in the Accounts Section of the book for Bank, Cash, Membership, Savings and Expenses. Additional accounts can be added when necessary. We call these accounts "ledger accounts" because they are in the ledgers. In a double-entry book-keeping system each of the ledger accounts has two columns headed Dr (Debit) and Cr (Credit).

The date entered is the date on which the transaction took place. Under 'Narration', a short description of the transaction is entered, so that anyone looking at the ledger will understand what the transaction was about. The number of the receipt involved in the transaction is entered under the heading "Reference No".

Each transaction is entered on a separate line in the ledger giving date, narration, and reference No. The amount of the transaction is entered twice, once under a debit column and once under a credit column. Making two entries for one transaction is not as strange as it may seem. Imagine a member paying his savings into the co-operative society. The member is parting with the money: the Society is receiving the money. When the co-operative society pays this money into the Bank the Society is parting with the money: the Bank is receiving it. Double-entry book-keeping records both of these actions - the parting and the receiving. The examples that follow will show how the system works. A simple rule to remember is: PARTING IS A CREDIT ENTRY: RECEIVING IS A DEBIT ENTRY.

Illustration 1 - The Working Ledger

Date	Narration	Ref No	Bank Account		Cash Account		Savings Account		Membership		Expenses		Trial Balance			
			Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr		
1970																
January 5	New Members	M1-40			4.00					4.00			11.00			Bank
January 6	Stationery	113				3.00					3.00		19.00	18.00		Cash
January 6	Savings	S1.32			15.00		15.00							15.00		Savings
January 6	Registration Fee	21				4.00					4.00			4.00		Member-ship
January 6	Bank Deposit		11.00			11.00							7.00			Expenses
			11.00		19.00	18.00		15.00			4.00	7.00	37.00	37.00		

- Note 1. In the first item (January 5) the entry M1-40 in the Ref No column shows that receipts Nos 1 to 40 in the Membership (M) Receipt Book refer to the amount of £4.00 which has been paid. Similarly in the second item on January 6 the entry S1-32 shows that receipts Nos 1 to 32 in Savings Receipt Book refer to the amount of £15.00 paid in by members.
2. Notice how the totals in each column have been transferred to the Trial Balance columns - all the debits in one column and all the credits in the other.

The first transactions of a newly formed thrift and loan co-operative might be these -

- a. January 5 40 people join the Society and pay a membership fee of £0.10 each
- b. January 6 The Secretary buys ledgers and receipt books costing £3
- c. January 6 32 members pay in savings totalling £15
- d. January 6 The Registration fee of £4 is paid to the Registrar of Co-operatives
- e. January 6 £11 in cash is paid into a Bank Deposit Account

Now let us look at these transactions and see how the book-keeper makes his first entries in the Working Ledger.

Transaction a. is between the Society and the people who join the new Society and pay the membership fee. This is a non-returnable amount which is collected to enable the Society to cover its administrative expenses. Each new member is given a receipt for his membership fee. A copy of this receipt is kept by the Society. At the end of the week the receipts are added up, and the total amount is recorded in the Working Ledger. The book-keeper now makes his first Working Ledger entry as shown in Illustration 1. The date is taken from the last receipt used; the 'Narration' is 'New Members', which shows the reason for the entry; 'Ref No' gives the numbers of the receipts that were given to the members. The book-keeper makes the double entry for £4.00 (the total amount received), one debit, one credit. The member is parting with cash and the Society is receiving cash. The entry will be - Cr Membership account, Dr Cash account. Note carefully how this has been done.

Transaction b. is the Secretary's purchase of account books. This is an expense necessary to the running of the society. The ledger entry will be date of purchase; narration, or explanation of the transaction will be "Stationery", the Ref No on the receipt the Secretary received from the Stationer from whom he bought the books; and then the double entry. The accounts involved in this transaction are Expenses and Cash. The Society is parting with money through its Cash Account, and the Stationer is receiving it. The entry will be - Cr Cash account Dr Expenses account.

Transaction c. is between the Society and the members who are putting their savings into the new Society. Each member who puts money in is given a receipt. Copies of these receipts are kept by the Society. At the end of the week all these receipts are added up, and the total amount is recorded in the Working Ledger. The accounts involved in this transaction are the Cash account and the Savings account. The Society receives cash and the savers are parting. So our entries must show that the Savings account, which shows the amount the members have paid in as savings and which the Society, therefore, owes them, has parted with £15.00 and that the Cash account has received this amount. The entry is - Cr Savings account, Dr Cash account.

In most countries there are laws about the running of Co-operative Societies. Usually these laws require formal registration with the Registrar of Co-operatives. Transaction d. is the payment of a fee of £4.00 for this registration. This fee is an expense necessary to the running of the Society, so the entry is the same as that for transaction b. - Cr Cash account, Dr Expense account.

Transaction e. is the Secretary paying the members' savings into a Bank account. There are two very good reasons for doing this. The first is security. However safe a hiding place you may have for your money, thieves may find it, or it may be destroyed in a fire or a flood. If this happens, the money will be lost for ever. But if you put your money in a reputable Bank, it is absolutely safe. The second reason for using the Bank is that you can increase your money by doing so. Money kept in a hiding place, or in the Society's safe, does not grow, but money in a Bank deposit account earns more money in the form of interest. Most co-operatives will therefore open a Bank deposit account and

receive a Bank Book. Every time the co-operative puts money in the Bank the amount put in is recorded in the Bank Book. The amount is also entered in the Working Ledger - Cr Cash account, Dr Bank account. This shows the Cash account has parted with money and the Bank account has received it.

The Trial Balance

At the end of the week, when all the transactions have been recorded in the Working Ledger, the ledger must be balanced. A line is drawn underneath the last ledger entry and all the columns are added up. (See Illustration 1) The book-keeper now prepares a Trial Balance, which is a summary of all the debit entries and all the credit entries. When all the debits are added up, they should equal all the credits. This is because, in the double entry system, every time we make a debit entry we make a credit entry for the same amount. If the Trial Balance totals are not equal, something is wrong, and the entries must be checked. The best way to do this is to:

- a. Check all additions.
- b. Check that there is a double entry for every transaction.
- c. Check that for every double entry one is in a Cr column, one is in a Dr column (not two in credit or two in debit columns!)

We refer to the Trial Balance again when discussing the preparation of final accounts.

The Main Ledger

When the Trial Balance is completed the entries are transferred to another ledger called the Main Ledger. The Working Ledger is a record of every transaction which has been made. The Main Ledger is simply a summary of the balance in each account at the end of the week. For each account in the Working Ledger we allocate a page in the Main Ledger, but in the illustration we have for convenience shown them alongside one another. The entry in the Main Ledger for the first week should be easy to make (See Illustration 2. For the time being simply identify the entries made from the Working Ledger on January 10, 1970, and ignore the other entries these will be referred to later.) The totals from each account in the Working Ledger are simply transferred to the corresponding account in the Main Ledger, and a balance is struck. If the debits exceed the credits it is a debit balance. If the credits exceed the debits it is a credit balance. The Bank account has only a debit entry, therefore the balance is Dr £11. The Cash account has debits of £19 and credits of £18, and so the debits exceed the credits by £1. The balance is, therefore, Dr £1. The entries are quite simple but it is important to understand what each balance represents.

The Bank account balance represents the amount of money the Society has in its Bank Deposit account. This can be checked against the Bank Book.

The Cash account balance shows how much cash is held by the Secretary.

The Savings account balance shows the total amount saved by the members.

The Membership Fees balance is the total amount collected from members joining the Society.

The Expenses account shows the total amount spent on the day-to-day requirements of running the Society.

Illustration 2 - Main Ledger

DATE 1970	BANK ACCOUNT			CASH ACCOUNT			SAVINGS ACCOUNT			MEMBERSHIP		
	Dr	Cr	Balance	Dr	Cr	Balance	Dr	Cr	Balance	Dr	Cr	Balance
January 10	11.00		Dr 11.00	19.00	18.00	Dr 1.00		15.00	Cr 15.00	4.00	Cr	4.00
January 17												
etc												
etc												
December 26			Dr 1002.00			Dr 8.00			Cr 1008.00			Cr 19.00
December 31	32.95	100.00	Dr 934.95	29.00	36.00	Dr 1.00	2.50	28.00	Cr 1033.50	1.00	Cr	20.00
1971												
January 1			Dr 934.95			Dr 1.00			Cr 1033.50			
Members Interest								15.00	Cr 1048.50			
Allocation to Reserve												

Note: The balances entered against the date December 26 are for the purpose of our example, we assume have taken place and in full space these are not entered in full.

EXPENSES A/C			LOAN ACCOUNT			INVESTMENTS A/C			INVESTMENTS INTEREST A/C			RESERVE FUND		
Dr	Cr	Balance	Dr	Cr	Balance	Dr	Cr	Balance	Dr	Cr	Balance	Dr	Cr	Balance
		Dr 7.00												
		Dr 17.00												
50		Dr 18.50	32.00		Dr 32.00	100.00		Dr 100.00		32.95	Cr 32.95			
					Dr 32.00			Dr 100.00						
													19.45	Cr 19.45

the balances of all transactions which, for the
 ing the period January 10-December 26. To save

Members' Savings Ledger

The Members' Savings Ledger is not part of the main book-keeping system, but this ledger is very important. The Society is primarily concerned with the Members' Savings, and an accurate record must be kept of the amount saved by each member. In the Members' Savings Ledger there is one page for each member. The pages are drawn up like this:

Illustration 3

NAME: J J JONES					MEMBERSHIP NUMBER: 1				
Date	Deposit	With- drawal	Interest	Balance	Date	Deposit	With- drawal	Interest	Balance
1970	£	£	£	£	1971	£	£	£	£
Jan 6	1.00			1.00			balance	b/f	4.00
Feb 3	1.00			2.00				.09½	4.09½
Mar 3	.25			2.25	Jan 6	1.00			5.09½
Apr 7	.25			2.50					
May 5	.50			3.00					
June 3	.50			3.50					
July 7	.50			4.00					
Aug 4	.50			4.50					
Oct 7	.50			5.00					
Nov 3	1.00			6.00					
Dec 8		2.00		4.00					

Each page in the ledger is numbered. Member No 1 is given page 1, and so on. At the end of each week the Secretary takes the receipt books for Members' Savings and Members' Withdrawals and enters each amount on the members' ledger page. Each receipt is ticked when the ledger entry has been made.

Interest is paid to members to encourage them to save. In this example interest is being paid at 3 per cent. The rate of interest is decided on by the Society. It can be calculated monthly or quarterly from prepared tables (see Appendix). The amount of interest each member had earned is pencilled into the Interest column. At the end of the year the interest is added to each member's account.

A Society that has only a few members may prefer to keep the Members' Savings Ledger on an index card, with the Application for Membership form on one side, and the ledger on the other.

On the next page an illustration of an Application for Membership form is given. On its reverse side it would be ruled as in illustration 3 above.

ABC THRIFT AND LOAN CO-OPERATIVE SOCIETY LIMITED

Member's No

Application for Membership

I, the undersigned hereby apply for membership of the above and agree to abide by the rules of the Society.

NAME:

ADDRESS:

OCCUPATION:

DATE OF BIRTH:

SIGNATURE:

Application accepted/rejected on _____ 19_____

Withdrawals

From time to time members will wish to make withdrawals from their savings account and these must, of course, be recorded in our books. For this purpose we have a special Withdrawals Receipt Book (one of our books of original entry). When money is paid out to a member the amount is entered onto one of the receipts in this book, the member signs the receipt showing he has received the money and the original receipt is left in the book as the property of the society.

Members' Savings Cards

For book-keeping purposes it is not necessary for members to have savings cards showing how much they have invested in the Society. It is, however, a good idea to provide members with such cards so that they have their own record of their savings. Each time a member puts money into the society this is entered and added to the previous total. When money is taken out this is entered and the amount deducted from the previous total showing how much the member has left. At the end of each financial year all cards are collected in, the totals checked against the figures in the Members' Savings Ledger and the amount of interest earned for the year entered into the card.

Members' Loans Ledger

This ledger is not part of the main book-keeping system but, like the Savings Ledger, it is very important and must be kept accurate and up-to-date. A page in the ledger is allocated to each member who has a loan from the society and details of the loan, or loans, given, the amount of interest charged, the repayments made, and the balance outstanding (the amount still to be re-paid) are entered. This book is made up at the same time as the Members' Savings Ledger.

When loans are approved by the Committee and paid out to the members concerned it is essential that a receipt from the member is obtained. For this purpose we use a special Loans Receipt Book in which a receipt is made out and signed by the member. The Society retains the original copy of the receipt as its own property.

It is, of course, also necessary for the member receiving a loan to sign an agreement which will include all the conditions of the loan including the interest to be charged, when repayments have to be made, and the terms of the loan. But in this book we are only concerned with the necessary book-keeping arrangements.

Making Entries - An Exercise

Let us imagine that our Society is coming to the end of its first year. The Society has grown quickly, and now the ledger entries for the week are becoming a little more complicated. Here are the transactions for the week ending 31 December. See how many you can enter correctly in the Working Ledger on page 13. Some of the entries will be familiar, others are entirely new.

- a. December 29 New receipt books purchased from Stationers
 (Receipt number 930) Cost £1.50.

- b. December 29 £100 transferred from Bank Deposit Account to
 the Government Agriculture Development Corporation.

- c. December 30 10 new members join Society. (Receipt Numbers
 M191-M200) £1.00.

- d. December 30 Member leaving the district withdraws his savings.
 (Receipt Number W5) £2.50.

- e. December 30 Members' Savings collected (Receipt Numbers S30 to
 S65) £28.00.

- f. December 31 Committee approve loans to two members to purchase
 agricultural equipment.
 T Suva - Member No. 3 £20.00
 A Smith - Member No.8 £12.00

- g. Bank interest added to Bank Deposit Account £32.95.

Note: To assist in identification, we give each of the receipt books used a reference letter which is the initial letter of its title. For example S for Savings Receipt Book, W for Withdrawals Receipt Book, M for Membership Receipt Book.

Illustration 4 - The Working Ledger

Date 1970	NARRATION	FOLIO	BANK ACCOUNT		CASH ACCOUNT		SAVINGS ACCOUNT		MEMBER-SHIP		EXPENSES ACCOUNT		LOAN ACCOUNT		INVESTMENTS ACCOUNT		INVESTMENT INTEREST ACCOUNT		TRIAL BALANCE		
			Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	
																				Dr	Cr

Now let us look at the transactions in detail and check the Working Ledger entries we have made. At least three transactions might have created few problems.

- a. This is an expense. Dr Expenses Account. Cr Cash account; because the society has parted with Cash (Cr) to pay an Expense (Dr).
- b. We know that Members' Savings must be kept safe, and that they can earn interest. Putting the money in Bank deposit accounts is not the only way to do this. One of the safest alternatives is a Government organisation. The 'Government Agriculture Development Corporation' is imaginary, but many Government organisations like this exist throughout the world. The book-keeping entries are straightforward. A new account is opened for Investments. The entries are Dr Investments account and Cr Bank account. The Investments account has received and the Bank account has given.
- c. Dr Cash account. Cr Membership account.
(see similar item in Illustration 1)
- d. A member who saves with the Co-operative can also withdraw his money. If he wants to withdraw a large amount, the Society usually asks him to give a certain amount of notice. This is simply to give the Secretary time to withdraw the money from the Bank account. When a member withdraws savings, the book-keeping entries are the reverse of the entries that are made when he saves. He is receiving cash from the Society. The money is being taken from the Members' Savings account. So the entry is:

Dr Members' Savings account. Cr Cash account.

- e. The next entry is Members' Savings which have been put into the Society. The entries are:

Dr Cash Account. Cr Members' Savings.

- f. When a Society is well established it can grant loans to members who have put their savings into the Society and who need a loan for a special purpose. The Committee must carefully consider applications for loans. They can only be granted if the Committee is certain that they will be repaid. Sometimes the Society will keep some property or other thing belonging to the person who has asked for a loan, as a security. Loans must be repaid by a specified date, and at an agreed rate of interest. The Society gives the loan in the form of cash, so the book-keeping entries are:

Dr Loan account. Cr Cash account.

- g. The money invested in the Society's Bank Deposit account earns interest at a fixed rate. At certain times of the year the Bank adds the interest earned by the Society's investment to the Society's Bank Account balance. The entries for this interest are:

Dr Bank account. Cr Investment Interest account.

The Working Ledger entries should, therefore, be as shown in Illustration 5. Check the entries you made in Illustration 4 against this.

Illustration 5 - The Working Ledger

Date 1970	NARRATION	BULLIO BANK ACCOUNT		CASH ACCOUNT		SAVINGS ACCOUNT		MEMBER-SHIP ACCOUNT		EXPENSES ACCOUNT		LOAN ACCOUNT		INVESTMENTS ACCOUNT		INVESTMENT INTEREST ACCOUNT		TRIAL BALANCE		
		Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	
Dec 29	Stationer																			
" 29	GADC		100.00																100.00	Bank
" 30	New Members			1.00															36.00	Cash
" 30	Members Withdrawals								1.00										28.00	Savings
" 30	Members Savings			28.00			2.50												1.50	Members Expenses
" 31	Loan - T Suva				20.00								20.00						32.00	Loan
" 31	Loan - A Smith				12.00								12.00						100.00	Investments
" 31	Bank Interest	32.95																		Inv Interest
		32.95	100.00	29.00	36.00	2.50	28.00	1.00		1.50		32.00						197.95	197.95	

When all the transactions for the week have been entered, the Working Ledger is ruled off and a Trial Balance is prepared, as shown on the right hand side of Illustration 5. Once this is in balance, the totals in each account are then transferred to the Main Ledger. In Illustration 2, the balances for the week ending 26 December are recorded in the Main Ledger. The new balance is struck by doing a simple sum. If the balance brought forward from the previous period is a debit, the new week's debits are added and the credits are deducted. In the Bank account column the result of this is:

Brought forward	Dr	£1002.00
Add	Dr	32.95
		1034.95
Deduct	Cr	100.00
		934.95
Balance for week ended 31 December		934.95

The Main Ledger balances show how much is owned and how much is owed by the Society. Therefore the Bank Account balance of £934.95 shows how much money the Society has invested in the Bank.

Remember that when all the Main Ledger Dr and Cr balances are added, they should always equal one another.

Final Accounts

At the end of the year the accounts are audited and the Final Accounts are prepared. The small thrift and loan co-operative only needs three accounts: a Trial Balance, an Income and Expenditure account and a Balance Sheet.

Trial Balance

To begin the preparation of our Final Accounts we first prepare a Trial Balance of all the debit and credit balances in the accounts in the Main Ledger. Because our system is a double entry one, all the debits and all the credits in the Main Ledger must balance. If they do not, there has been a mistake somewhere and all the figures must be checked again to find it. If rough Trial Balances of the Main Ledger balances are made every week, a great deal of work can be saved at the end of the year.

The Trial Balance at the end of the year for our Society will look like this (refer to Illustration 2 to see how we arrive at these figures):

TRIAL BALANCE AT 31 DECEMBER 1970

	Dr	Cr
	£	£
Bank	934.95	
Cash	1.00	
Savings		1033.50
Membership		20.00
Expenses	18.50	
Loan	32.00	
Investments	100.00	
Investments Interest		32.95
	1086.45	1086.45

Sometimes we find that the figures as taken from the Main Ledger do not balance (in other words the total of the credits and the total of the debits are not equal). This means an error has been made somewhere and we must find it before proceeding. If the Trial Balance totals are not equal -

- a. Check that the balances brought forward from the Main Ledger are correct and that the Trial Balance has been added correctly.
- b. Try to find out where the mistake, or mistakes, have been made by preparing Trial Balances from the Main Ledger at various dates during the year.
- c. Check that the Main Ledger balances have been added correctly.
- d. Check that the totals from the Working Ledger have been copied into the Main Ledger correctly.

Income and Expenditure Account

This account shows how much surplus or profit the Society has made during the year. It is sometimes called the 'profit and loss account', though if the members' savings have been invested wisely there should be no loss. The Income and Expenditure is a summary of the income of the Society - in this case the investments and the membership fees, less the expenses of running the Society and the interest due to members on their savings. The balance is the profit for the year. In a Co-operative society it is customary to call this profit the surplus (what is left after all charges for operating expenses and interest are met).

INCOME AND EXPENDITURE ACCOUNT for year ending 31 December 1970

Income	£	Expenditure	£
Membership Fees	20.00	Expenses	18.50
Investment Interest	32.95	Members' Interest	15.00
		Surplus	19.45
	<hr/>		
	52.95		<hr/>
	<hr/>		52.95

The Members' Interest is regarded an expense when a pre-agreed rate of interest is paid on the members' savings. This amount is calculated by adding up the amounts of interest that has been credited to the members' accounts during the year in the Members' Savings Ledger. The profit, or surplus, for the year is £19.45. The members decide how this money is to be used. In the first year of the Society it should be put in a Reserve Fund to help build up the Society's own capital and so increase its financial strength.

Balance Sheet

This is a summary of all the amounts that the Society owes to other people, including its own member (liabilities) and all the amounts owned by, or owed to, the Society (assets) at the end of the year.

BALANCE SHEET at 31 December 1970

Cr	Liabilities	£	Assets	£	Dr
	Members' Savings	1033.50	Investments	100.00	
	Members' Interest	15.00	Members' Loans	32.00	
	Surplus -		Bank Deposit	934.95	
	Allocated to Reserve	19.45	Cash	1.00	
		<hr/>			
		1067.95		<hr/>	
		<hr/>		1067.95	

New Financial Period

At the end of the year, the Main Ledger is ruled off and the Ledger Balances are transferred to the Final Accounts. When the new financial year begins the only things that are brought forward in the Main Ledger are the Balance Sheet balances (see the Balance Sheet above and Illustration 2). Notice that the members' interest is added to the members' savings, so the balance of that account is increased to £1048.50. The surplus for this year is put into a Reserve Fund, so a new Reserve Account is started, with a credit balance of £19.45.

A Summary

Our book-keeping system is now complete. It can be summarised thus:

1. All transactions are recorded in books of original entry.
2. These records are transferred periodically into the Working Ledger.
3. Every transaction is recorded in the Working Ledger in double entry form. For each transaction one entry is a credit, one is a debit.
4. When the entries for the period (usually one week) have all been made in the Working Ledger it is ruled off and a trial balance is made.
5. A Members' Savings Ledger is kept up to date by using information from the receipt books for Savings and Withdrawals.
6. The Working Ledger balances are transferred to the corresponding account in the Main Ledger.
7. The total debit balances in the Main Ledger should always equal the total credit balances.
8. All books of account, records and receipts must be kept for the purpose of audit, and for the preparation of the Final Accounts.

This small book has been written to help the newly appointed secretary or treasurer in setting up his book-keeping system, and for use as a reference book in applying the system. As a Society grows in membership, and its business expands, so the book-keeping becomes more complicated. But the system we have explained here contains all the basic and essential requirements. If it is carefully followed the Society's accounts will always be in good order and will show a true and accurate record of the financial position. Finally, remember that good book-keeping - making all entries correctly - is essential to good business. The book-keeper's job is very important. To do his job well he must know what he is doing and why he is doing it. Careful study of this book will help him do his job well.

APPENDIX

Calculating Interest

The rate of interest on savings is a fixed figure varied only from time to time as the Committee decides is necessary. It is a business expense which appears in the Income and Expenditure Account.

The balances in Members' Savings Accounts vary during the year as members invest and withdraw savings. The amount of interest to be paid is therefore usually calculated at regular intervals during the year, say monthly or quarterly.

Share Interest Tables

These are based on quarterly balances for a decimal currency system. Calculations to the nearest $\frac{1}{2}$ unit.

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

Using the above, or similar tables, at the end of each quarter the interest is calculated and pencilled into the interest column for each member in the Members' Savings Ledger. At the end of the financial year these amounts are totalled and added to the amount due to the member. Appropriate entries are then made in the Main Ledger: Dr Savings account Cr Expenses (Members Interest) Account. The following example shows why it is wrong to calculate interest on the ledger balances only at the end of the year.

Member A			Column 1	Column 2		
Date	Contri- butions	With- drawals	Interest Balance	Contri- butions	With drawals	Interest Balance
Feb 3	2.00		2.00	2.00		$\frac{1}{2}$ * 2.00
Mar 28		1.00	1.00		1.00	$\frac{1}{2}$ * 1.00
Dec 30	79.00		80.00	79.00		$\frac{1}{2}$ * 80.00
			2.40*			0.60 *

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

* = Pencilled figures

Why it is wrong:

Assume the interest rate is 3%.

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

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

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

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

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