

**ACCOUNTING SYSTEMS FOR THRIFT CO-OPERATIVES
PROMOTED BY CO-OPERATIVE DEVELOPMENT FOUNDATION**

**A Report Submitted to
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PART – I: STUDY OF THE CURRENT SYSTEM

Introduction

The Thrift groups promoted by CDF in Karminagar and Warangal districts are currently following a simple accounting system to take care of recording of transactions on a day to day basis. However, several of the groups have reached a stage of maturity in the way they are carrying out the current activities. In several cases we have found that the function of consumption smoothening has been adequately addressed. The groups are now possibly in a position to trigger off larger credit for productive purposes. It is not that the members of the groups are not using loans for productive purposes, but the time has possibly come for stepping up and taking the groups into the next orbit. In the light of the fact that there is a new dairy co-operative being promoted by CDF and the Mulkanoor Co-operative Bank, livelihood opportunities in dairying are bound to increase. With this as the background, CDF is planning to undertake the task of strengthening the co-operatives from within.

Given the fact that in several co-operatives the total savings is greater than the credit off take at the current levels, there possibly is a tremendous scope to launch new savings products as well. Currently the co-operatives offer only one savings product – the self-regulated thrift. Now, there are plans to launch at least three new savings products – savings deposits, recurring deposits and fixed deposits. Other savings products if any, will evolve over time.

In order to launch the new products and ensure that the transactions are recorded smoothly, CDF decided to review the current accounting systems in the co-operatives and suggest new systems in the light of the proposed developments. This report is a result of the exercise carried out in attempting to design accounting systems for the co-operatives. The report does not address the entire issue of operations in the co-operatives. In this sense, it excludes detailed dealing of management information systems, documentation and other related matters. There has to be a companion volume to this report that deals with both the information and control systems as well as documentation to be followed.

The report is divided into three distinct parts. The first part looks at the current systems being followed, where they need to be strengthened and the areas where they are good enough. The second part deals with the accounting formats and systems that could be introduced in the co-operatives and the third part attempts to prepare a manual for accounting using the new formats and systems.

Review Of The Accounting Systems Of Thrift Co-Operatives Promoted By CDF

In order to understand the type of transactions undertaken by the thrift co-operatives currently, a trip was undertaken to some of the co-operatives promoted by Co-operative Development Foundation (CDF) in Warangal and Karimnagar districts. The basic objective was to understand and reviewing the accounting and financial management systems of both the Men's Thrift Co-ops (MTCs) and Women's Thrift Co-ops (WTCs).

All the thrift groups promoted by CDF are registered as independent thrift co-operatives under the new Andhra Pradesh Mutually Aided Co-operative Societies Act (APMACS). Typically thrift co-operative would have a membership of around 300 to 400 members. A cluster of thrift co-operatives federates into an association (AWTCs, AMTCs). An association has around 10 thrift co-ops as members.

Most of the thrift co-operatives and the associations follow similar accounting and reporting systems. However, depending on the decisions of the local women/men there might be small differences in certain policies regarding the amount of thrift, fines imposed for late payment and distribution of profits. Save for small differences the systems are to a great extent standardised.

There are some basic differences in the design of the WTCs and MTCs and in their relationship with the association. The most significant difference is pertaining to the design of the Debt Relief Assurance Scheme, which we will discuss in greater detail later. It is proposed that even this will be standardised to ensure smooth operations.

In the process of the study, we visited three WTCs, three AWTCs and one MTC and an AMTC on a two-day intensive field trip. Later several rounds of discussions were held with the President of CDF. We also conducted a workshop with the extension staff of CDF and held discussions with the other functionaries in the field. The formats and systems have been suggested after several such iterations.

The Existing Accounting Systems

Primary Thrift Co-operatives

Transactions

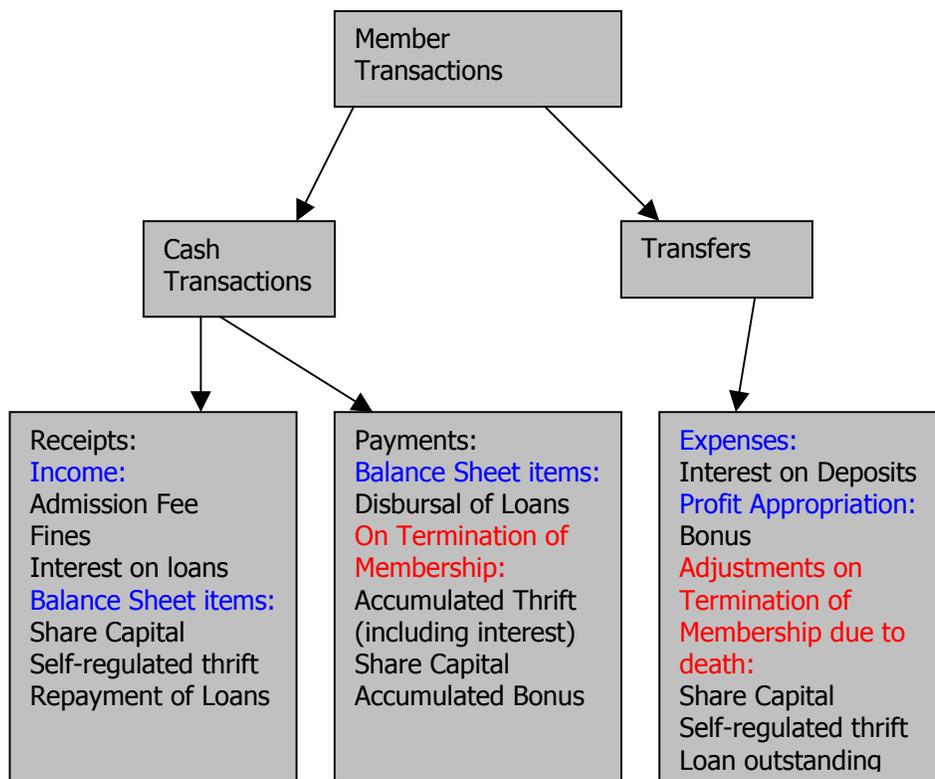
The major transactions in the co-ops can be broadly divided into two categories – those transactions involving member interface and those involving interface with others. A significant part of the transactions both in terms of number and amounts pertain to the former. We will list the type of transactions that a member is bound to have chronologically from the day s/he joins the co-operative.

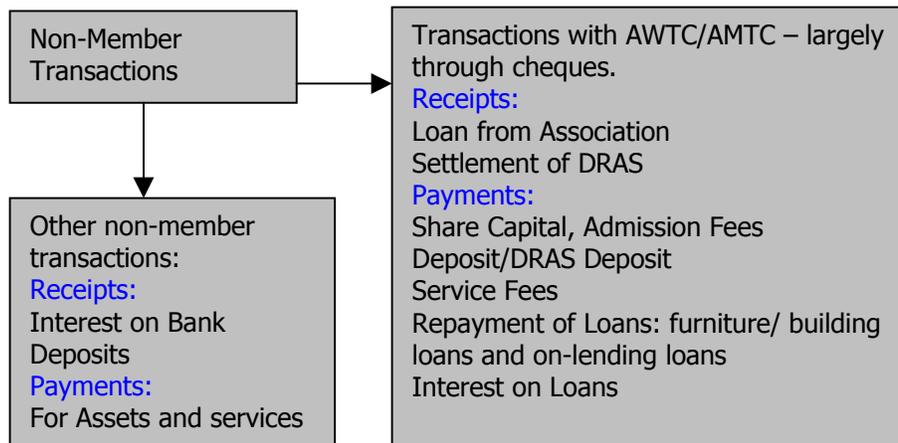
The member enters the co-operative by paying in three categories of amounts. S/he pays an admission fee, the initial share capital contribution and the first installment of the thrift. The admission fee is to be taken into the income statement of the co-operative as a period income. The thrift as well as share capital enters the liability side of the balance sheet. The share capital is a fixed amount of Rs.10 and stays with the co-operative till the termination of membership by the member. It is to be noted that there are no further additions to the share capital made by the member and therefore the amount share capital in a co-op is always ten times the number of existing members. There is no return paid on the share capital – all returns are based on transactions. It also makes immense sense not to service the share capital since it is such a small amount.

The thrift paid in by the member on joining is just the first installment. Every month the member pays in a fixed amount of thrift of Rs.20 in case of WTCs and Rs.100 in case of MTCs (some MTCs have reduced the amount to Rs.50, as there has been no off-take of credit). These thrift deposits fetch an interest of 12% per annum. All the thrift deposits are non-withdrawable in nature – meaning that the members can withdraw them only on termination of membership. Since all the thrift deposits come into the co-op on a fixed date, and are have a fixed amount, calculation of interest is not complicated. Interest is calculated once in a year and added back to the balance of thrift. Thus there is no disbursement of the interest amount.

In addition to the thrift, the members also pay in fines if they do not deposit the amount of thrift on a specified date. The amount of fine differs from co-op to co-op but is usually a fixed amount of Rs.2 per installment in case of the WTCs. It is higher at Rs.5 per installment of thrift defaulted in case of MTCs – though this amount is not standardized across all groups. Similarly the members take loans on a specified date in a month – usually the same day as collection of thrift or a day later. The loans are disbursed after due discussion by the committee members and do not normally exceed three times the accumulated thrift of the members. The interest rates charged on the loans are 24% per annum calculated on a monthly rest basis. For late payment there is a fixed fine of Rs. 5 per installment. Usually the loan installment amount is fixed in advance and the members have to pay that amount along with the accrued interest. All incomes are recorded only on cash basis.

Chart showing the type of transactions in the co-ops:





Once in a year apart from the interest on thrift, patronage benefit (bonus) is also calculated and transferred to the accounts of the members. There is a difference in the method of calculation of bonus and treatment of the amounts between the WTCs and the MTCs. This is directly related to the DRAS, which will be discussed later.

Recording of Transactions

Whenever there is a receipt from the members, the basic entry is made in a receipt book. A copy of the receipt is issued to the member and a corresponding entry is made in the member passbook. All these entries pertaining to the member transactions are also entered in the member ledger as well as the daily scroll. The daily scroll forms the basis for entering the transactions into the cash book. Non-member payments are directly entered into the cash book on the basis of receipts/bills. These receipts/bills are chronologically filed. As far as receipts from members are concerned, there are no vouchers issued. But, the cash receipt acts as a good mechanism of capturing all member transactions. The scroll is also well designed to capture all member receipts. Since this forms a significant part of the transactions, there is no problem in either finalizing accounts or reporting.

However, there is a problem with the paper trail on transactions pertaining to member payments and all transactions pertaining to non-member transactions, which do not go through the scroll and are directly entered in the ledgers. The problem pertaining to transfer payments is also similar. We shall list down the process followed in some major types of transactions.

Disbursement of Loans:

The loans are disbursed on the basis of the application and a promissory note signed with the member. The promissory note is used as a basic document for entering the disbursements both in the cash book and in the member ledger. No receipt is being taken from the member for the exact amount disbursed. No Voucher is being raised. Since all the promissory notes are kept in a bound form and are maintained in chronological order, the co-ops have not faced a problem in capturing them. However it might be advisable to maintain the payments chronologically in the form of vouchers and by maintaining a day book.

Receipts and Payments pertaining to non-member transactions:

All payments are supported by receipts/bills issued by the receiving party. There are no vouchers. Similarly all receipts received either from the AWTC or from the Bank are directly taken into the

cash-book without any basic paper trail. This is okay as of now because the number of transactions is very few – but it might be advisable to take this also through a proper paper trail.

Calculation of interest on deposits as well as bonus is done annually. In most cases it is done centrally by the Association and the figures (computer output) is used by the primary co-op. The computer output forms a basis for entering the lump-sum figure in the general ledger as well as in the member ledgers/pass books.

The basis of calculating bonus is different between WTCs and MTCs. In case of WTCs, 30% of the profit available for distribution is distributed amongst all the members on basis the year-end deposit balance. The formula used is:

$$\frac{\text{Total amount to be distributed as bonus}}{\text{Total year-end balances of deposits}} * \text{Deposit o/s in the name of the members}$$

In case of MTCs the method of calculation of bonus is on the basis total interest paid and received by the members. Either way, the calculations are done separately and individually entered in the member ledger.

Reporting to the Board

Monthly reporting to the board consists of placing the consolidation of cash book in the form of Receipts and Payments account. No accrual accounting is followed and neither is the balance sheet presented. Whereas in case of the MTCs, they are using a pre-printed format, a copy of which is sent to the AMTC, in case of WTCs, it is written down on plain paper and presented to the Board. In case of WTCs, they have an additional format, which shows the progress of operations during the month.

Annual accounts are drawn up on the basis of the cash book. As far as interest is concerned, it is recorded on cash basis and no interest receivable is booked to income. Provisioning is done as an appropriation of profits with a pre-fixed formula. Usually the profit is appropriated as follows:

- 30% to bonus or patronage benefit
- 10% to deficit fund
- 15% to bad debt fund
- 20% to inflation cover fund
- 20% to co-operative education fund
- 05% to building fund

We also found that while there is a good idea as to how many installments are in default, there is no concept of "demand". Therefore it is possible to get figures on overdue on outstanding while it is not possible to get the figures on overdue on demand. Overdue on outstanding might be a figure, which might be somewhat, misleading case of a growing portfolio. It is possible to reduce this percentage by just increasing the loan disbursements. Similarly it might be useful to get an idea of the amount at risk – which is the total amount outstanding in the accounts which are defaulting over total outstanding amount of the co-operative. Under the current reporting systems, it is difficult to get these figures straight away.

The problem that arises because of the above is that the provisioning and write off policy remains ambiguous and without basis. In any case, it is desirable that the provisioning for bad debts is arrived at before arriving at the distributable profits rather than make it a percentage of the amount available for appropriation.

Accounting systems in the Association

The Associations have transactions with member-primaries, CDF and other office related transactions. The basic nature of transactions between the association and the primaries are in the nature of loans and service fee. In case of WTCs, they pay a service fee of 10% of the interest collected to the Association as service fee. In return for the fee received, the association offers help in internal audit and accounting to the primary. In case of Kothapally AWTC, they even experimented with a fixed service fee for a while and reverted back to the percentage system. When the association receives the service fee, it issues a receipt, which forms the basis for entering the income in the books.

Primary also pays in its initial share capital (Rs.1000) at the time of admission along with application and admission fees. The major source of income for the AWTC is the service fee paid by the primary. Apart from this, the AWTCs also lend to the WTCs from the DRAS Fund. The WTCs pay in an amount equal to 10% of the self-regulated thrift collected from the members during the year. This amount is used by the AWTCs for lending to the WTCs. The WTCs pay an interest of 18% per annum on the monies borrowed on a daily rest basis. The AWTCs take 12% per annum directly into the balance sheet as a transfer to the claim fund. The other 6% go through the income statement and is used for administrative expenses alongwith the service fee.

While the internal paper trail is much easier in case of the associations because of the limited number of transactions they have, it still needs to be strengthened. In case of payments, the receipts issued by parties are treated as a basis for entering the accounting transactions. Finalising the accounts is done largely based on the cash book – and still appears manageable because the number of members co-ops are usually less than 10. There are accounting policy issues pertaining to costing of reserves and accounting of income on DRAS Fund to be clarified.

The accounting systems in the AMTCs are largely similar to the AWTCs, except that the difference in the design of DRAS makes some aspects of accounting different in AMTCs. The details of the fees and other financial transactions between the primary and the association are slightly different. The service fee paid to the AMTC is 3% of the interest income earned by the primary with a ceiling of Rs.500. In addition, the primaries are expected to deposit the first installment of the self-regulated thrift they receive from the members in the AMTC as a non-interest bearing deposit that is withdrawable only on termination of membership. Apart from this 5% of all the thrift collected is put in the association at an interest rate of 12% pa which forms the core of the funding which the AMTC gives to the primaries in the form of loans. The interest charged on the loans to the primaries is 18% pa on a daily rest basis.

In the AMTC we visited in Huzurabad, all payment vouchers were also maintained, though CDF staff advised them that it was not necessary. However, it might be advisable to continue the systems followed by the AMTC since they make the documentation and paper trail stronger.

The Design of DRAS

All thrift co-ops together with their associations offer a unique Debt Relief Assurance Scheme. While the objectives in designing the scheme appear to be the same, the design of the scheme is significantly different between the WTCs and the MTCs.

DRAS in WTCs (The scheme is titled Loan Insurance Fund in case of WTCs)

In case of WTCs, the scheme is managed out of the bonus payments transferred to the members' account. Annually, based on the profits earned by the WTCs, each of the WTCs undertake a book-entry of profit appropriation. All amounts due to members under the head "bonus" are transferred to individual members. It is to be noted that these amounts are carried under a separate head in the member ledgers and are not adjusted either to the deposit or the loan account. No interest is paid on this amount and these amounts are withdrawable by the members only on termination of membership. The society in turn pays in an amount equal to 10% of the deposits collected during the year to the association as a non-withdrawable deposit. The association uses this and other resources to lend money to the primary co-operatives for onlending to members. The association charges an interest of 18% pa on such amounts. The interest so earned on these amounts are divided into two parts, a third being taken into the income of the association for regular operational expenses and the rest going into DRAS Claim Fund. Whenever there is a death of a member, the association transfers an amount equal to the net outstanding from the member to the co-op. This claim is forwarded by the primary co-op after netting off the accumulated bonus, deposits and all other amounts payable by the WTC to the member with the amounts due from the member.

While the scheme has been effective and successful, there are some minor improvements in the design of the scheme that could be carried out. In addition, the scheme raises significant issues on accounting policies, which will be discussed in greater length.

DRAS in MTCs

In case of MTCs the design of the system is somewhat different. Here the members pay in a one-time deposit (withdrawable on termination of membership) of Rs.500, Rs.700 or Rs.1000 depending on their age. This money is paid into the association, which in turn lends it to the MTCs. A notional interest of 12% is calculated on the entire amount deposited with the association and transferred to a claim fund. This is booked as an expense in the income statement. All claims are settled from this fund. In case a member withdraws from membership, the deposit is repaid to him. In case of death of a member, the deposit is adjusted towards the claim amount and a cheque for Rs.10,000 is issued to the member's co-op. (The net amount paid would only be Rs.9500 as the Rs.500 deposit then becomes non-refundable premium!) The primary co-op takes this deposit into its income and adjusts all the dues from the members and pays the residual amount to the member. In case of the Huzurabad MTC that we visited, we found that the claim fund was having a negative balance this year.

While both the schemes are very innovative, the economics of the schemes need to be worked out again to check if they would be viable in the long run. This is to be seen on a priority basis since there are some member co-ops who are with the association just for the scheme and do not have other transactions with the association.

Significant issues affecting accounting policy

The above study was a very educative experience. But still, there were some questions regarding accounting policy that have to be raised. They do not assume significant proportions now, but surely as the co-ops get into more and more activities they need to be adequately addressed.

- Notional costs being recorded as expenses – this is particularly the case with notional interest on accumulated reserves. The scheme looks very innovative, but accounting theory would not recognise such notional payments. What could be done is that an appropriate profit appropriation formula could be worked out to include plough-back of such resources into the

co-op. This is also the case with interest charged by the AMTCs on the DRAS deposits. A perusal of the act and the bye-laws does not indicate a provision to make such an entry. It is also not a true and fair picture of the business results of the year.

- Appropriating 12% of the interest earned on the loans given to WTCs directly under the DRAS Claim fund would also be incorrect accounting. All income has to go through income statement and cannot directly go to the balance sheet.
- The above issues have not come into sharp focus because none of the primaries have had to answer the Income Tax authorities since they are not taxable. However, the income tax calculations would not permit such charge offs above the bottomline. Also these issues would come into sharper focus in years when the co-ops make a loss. But these issues need to be tackled at the earliest.
- There is no clear-cut policy on provisioning. Income is being recorded on cash basis in case of the primaries. While from the point of view of derecognition of income on delinquent loans it makes tremendous sense and does not create imbalances since most of the loans are short-term in nature, it might be important to record income on accrual basis rather than on cash basis.
- It is important to get a handle on the extent of "demand". In most cases it is assumed that Rs.50 (in case of WTCs) is the installment due. From control point of view, this seems inadequate.

There are larger design issues that need to be addressed in the medium run which are as follows:

- How much of the appropriations should be member-identifiable versus non-identifiable. Currently except for bonus distributed out of profits the other 70% of the profits are put into reserves. In the long run, this might not be a desirable strategy as it creates free money that makes employees more comfortable and there is a chance for the employees of the co-op to hijack to agenda of the co-op itself.
- What is the utility of the various categories of reserves that have been created. How in practical terms are they going to be used. Would it be any different if there was only one item called general reserve?
- How are bad-debts to be written off?
- What is the design of patronage distribution. Though, in MTCs we find that the basis seems to be more scientific, it appears skewed towards borrowers than savers – whereas the savers do not have a choice, borrowers do have. Should there be different weightages assigned to interest on deposits and interest on loans? This is important since we are paying 18% per annum to the association and 12% per annum to members while charging a uniform rate of 24% pa on amounts borrowed by members. Are we rewarding the borrowers better than lenders?
- What happens when a co-op accumulates more thrift than the off-take of credit? We saw this happen in some of the men's groups in Porandla where they had reduced the monthly thrift amount.
- It is also possible that beyond small amounts of consumption smoothening, the next loans that the groups might need would be towards production needs – which would be a quantum jump in terms of loan amount. How is a co-op going to bridge this gap in the short run?
- If new products are being launched – with option of flexi-deposits and larger loans with repayment schedules according to cash flows then what would be its implication on the discipline of regular thrift and regular repayment of the loan taken now?

For smooth functioning of the accounting and reporting systems of any new products launched as well the existing transactions it might be necessary to have a proper trail wherein we could identify the transactions and their classifications right from the voucher level all the way to the Balance Sheet. In this regard, it is also necessary for us to identify the persons involved in the

transactions and if they have the approval of competent people authorized to carry out such transactions according to duly constituted rules and by-laws.

All transactions should follow the following steps. We could design better formats to suit the specific need of the co-ops and their reporting systems, but what is listed below is the bare minimum.

Whenever there is a receipt of cash, an acknowledgement is to be compulsorily issued. This could be in different formats for members and non-members. For instance we found that when primary thrift co-ops borrow from the association, they sign on a promissory note which is maintained by the association. There is no basis for entry into the accounts of the co-operative.

All receipts have to be classified into broad heads at the point of receipt itself – currently they are: loan repayment by members, interest on loans from members, deposits from members, loans from association, interest/patronage from association/bank and DRAS amounts.

We need to keep in mind that some of these amounts affect our balance sheet directly and some of these go into income statement. The classification of income/expense related items change in asset/liability and pass-through (DRAS) items should be clearly understood.

All payments are to be supported by a voucher with due acknowledgement of the receiving party either through an attachment of a receipt or through a signature affixed on the voucher. The payments are to be authorised by the competent authority.

All the transactions of the day are to be consolidated through a scroll/day book. All transactions entered into during the day – receipts, payments, transfers should find a place in the summary of the daily transactions. If necessary it might be advisable to have a cash scroll and a transfer scroll.

All transactions are to be taken into ledgers from the scroll. To this extent the scroll should be in a position to identify the member through the membership number in case of all member-related transactions. In case of other transactions, they would enter the respective heads in the general ledger/sub ledger.

The balances in the general/sub ledgers should form the basis for a trial balance, while the day wise consolidation of cash-related items could form the basis for the receipts and payments account. It would be absolutely necessary for the co-ops to produce a monthly trial balance. It would be a matter of detail if it is necessary to identify accrual amounts to draw up an income and expenditure account every month, or this is to be done infrequently – say once a quarter. One of the major drawbacks of the current accounting system is that there is no trial balance drawn up ever.

It might be necessary to monitor cash/bank balances constantly to ensure that there is no cash management is good and any excess cash is invested in appropriate instruments to fetch some return.

If new products – both savings and credit are to be launched, it might be important to run the accounting aspect of it through a few dummy transactions to see how the reporting could be done. However it is absolutely essential to ensure that the policies and systems are in place before launching new products.

Part II - Accounting Formats and Reports

While devising the new accounting formats, we have the following considerations:

- The system should be easily implementable by local accountants at the village level;
- We do not plan for computerisation at the village level at this point in time – and even if we plan for computerisation, it would be only when software is available in telugu and when the co-operative reaches a stage wherein it could buy a computer on its own; However, the system so devised should lend itself to computerisation at a future date;
- All the current products will continue in their present form and it should be simple for us to transit from the current accounting systems to the new accounting systems;
- All accounting will be done largely on cash basis and the periodicity for interest calculations, and adjustments for accrual based transactions will be done only annually;
- All the members will be organised in joint liability groups of 5 each and accordingly be grouped;
- In addition to those members, there will be a category of non-borrowing members minors and senior citizens who would be only depositors;
- A member loses membership on the attainment of the age of 60 – when her/his thrift would be repaid with the option of retaining it as fixed deposit in the co-operative. Senior citizens will be allowed to borrow against their FD and Recurring Deposit account. Minors would not be permitted to borrow at all.
- Three new savings products would be launched in addition to the existing products – the voluntary savings account, the recurring deposit account and the fixed deposit account. Concurrently two new loan products would be on the offer – against recurring deposits and fixed deposits.

Firstly, let us deal with member-transactions. We now envisage member-transactions to be in two broad categories. The first is what is absolutely essential and compulsory. This is pertaining to self-regulated thrift and the loans associated with that – the loans with joint liability groups. The other forms of deposits such as fixed, savings and recurring we expect to be normally introduced after the groups have stabilised with some minimum business. We also recognise the fact that the products like Fixed Deposits (FDs), Recurring Deposits (RDs) and Savings Accounts will be available to minors and senior citizens, who are technically not voting members. Since FDs, RDs, and Savings are voluntary in nature, we also expect that some members may not have transactions in this category.

On all transactions, it is suggested that there should be no significant change in the accounting systems as is existing. At the transaction point, a receipt is issued, which forms the basis for posting into both the primary books and ledgers. We suggest the use of a common format of receipt for all transactions – cash as well as bank. The receipts from member would be under the following heads and all these are expected in the form of cash:

Membership fees/ admission fees

Share Capital

Self-Regulated Thrift

Recurring Deposit Instalment

Fixed Deposit

Savings Deposit

Fines and other amounts

DRAS Deposit

Repayment of Loan Instalment: Principal/Interest

(Three loan products are expected, Loan against Joint Liability, Loan on RD and FD)

The cash receipt would have some pre-printed heads – those that are commonly used and there will be some blank rows to take care of other items. The suggested format is given below. This can be used for all transactions. If a member has four different types of transactions – all these will be captured in a single receipt. There is a provision to write the account code as well as the account number for each category of savings and associated loan products. There would be four different series of account numbers – Membership number (which will take care of the Self-regulated Thrift and the associated loan), the RD and associated loan, FD and associated loan and the SB account. We suggest that a master-list be prepared, having the details of all accounts that a person has with the co-op. This master list will be organised according to the membership number and would be easy to refer. Under each of the savings products, we suggest that the membership link number be maintained to ensure easy reference to the other transactions of the member. Membership fees, fines and DRAS premium are all to be associated with the membership number. Any penalty imposed will also form a part of the same receipt.

MACTS Limited				
Village: _____		Registration No _____		
Receipt				
Membership Number _____			Receipt No. _____	
Name of the Member _____			Date: _____	
SI	Account No.	Account Code	Particulars	Amount
1		2001	Self Regulated Thrift	
2		2002	Recurring Deposits	
3		2003	Fixed Deposits	
4		2004	Savings Deposits	
5		1001	Repayment of Loan on SRT	
6		4001	Interest on Loan on SRT	
7		4006	Fines	
8				
9				
10				
11				
12				
Total				
Rupees (in words) _____				
By Cash/Cheque No. _____				
Authorised Signatory _____				

Whatever amounts are entered in the receipt will then be transferred to the individual ledger accounts through the scroll. The scroll will be multi columnar with blank spaces for titles wherein all the account heads and codes can be entered on a daily basis depending on the type of transactions. The co-op could get into the next page of the scroll if the number of heads on a particular day exceed the number of columns available.

At the end of the day, the summary of all member/customer receipts is to be carried to the cash book through a scroll. The specimen of the scroll is suggested to be as follows:

MACTS Ltd. Village _____											
Receipt Scroll											
										Page Number _____	
										Date _____	
Receipts											
Rec t No.	Mem bersh ip No.	Thrift	RDs	FDs	Savin gs	Loans (SRT)	Int on Loans	Fines	Cash	Bank	Total
		2001 Amt	2002 Amt	2003 Amt	2004 Amt	1001 Amt	4001 Amt	4006 Amt	Total Amt	Total Amt	
Total											
Signature of the Accountant						Signature of the Chairperson					

Till now we have dealt with receipts only. At present, the system for recording payments is not very uniform. In most cases, there are no payment vouchers being maintained. The co-ops are using either pro-notes or the receipts as the basic document for entering the accounts. However, it is important that a voucher supports every transaction. The format for a payment voucher could be as follows:

MACTS Ltd. Village _____				
Payments Voucher				
Name of the party _____			Voucher No. _____	
MembeA/c number _____			Date _____	
Account Code	Membership/ Account No.	Cheque DD No.	Particulars	Amount
			Total	
Signature of the Accountant		Signature of the President/Secretary		Received Rs (in words) _____ towards _____ _____ Signature of the person receiving the amount

MACTS Ltd. Village _____											
Cash Book											
Date	Receipts	Scroll Ref	A/c code	Amount		Date	Payments	Scroll Ref	A/c Code	Amount	
				Cash	Bank					Cash	Bank
Opening Balance											
Total						Closing Balance					
Authorised Signatory											

Apart from the scrolls, the transactions are also captured in the member-ledger on a day to day basis. The format for the member-transaction ledger could be fixed since all transactions happen only once a month. The member ledger could have the following format:

MACTS Ltd									
Member Ledger – Self Regulated Thrift and Loan									
Name of the member _____					Membership No _____				
Date	Cash Rect No.	Thrift Amt	Balance	Loans Disbursed	Loans repaid	Loans O/S	Int on Loans	Other items	Signature
Op Bal									
Total									
This account is transferred to folio no.____ in the next member ledger No.____ starting January 1st 2001									
Authorised Signatory									

The member ledgers will have a top page – which will have summary postings from the cash book for the day. This will help easy verification and referencing. So, on any day it would be possible for us to know the balance of each of these accounts. The format for the top page is given below the respective ledger pro-formas. It is to be noted that while for individual member-customer account postings, we have the interest included in the ledger sheet, we do not capture the summary interest amount on the top page – this would be captured in a separate ledger account titled Interest Income. The format for the top sheet of member ledger is given below:

MACTS Ltd Summary Transactions – Member Accounts (Top Page of Member Ledger)							
Date	Thrift Received	Thrift Redeemed	Balance	Loans Disbursed	Loans Repaid	Balance	Signature
Opening							
Closing							
_____ Authorised Signatory							

In addition to the Member ledger, we will have a customer-wise ledger for all other deposits. The RD ledger could be similar to the Member ledger. We have also provided for a column to take care of any loans against the RD, which captures the entire customer transactions in this category on a single place. The suggested format of the Recurring Deposit Ledger is given below.

MACTS Ltd Recurring Deposit and RD Loan Ledger									
Name of the member _____						Membership No _____			
RD Account Number _____									
Date	Rect No.	RD Inst	Balance	Loans Disbursed	Loans repaid	Loans O/S	Int on Loans	Other items	Signature
Op Bal									
Total									
This account is transferred to folio no. _____ in the next RD ledger No. _____ starting January 1st 2001									
_____ Authorised Signatory									

We suggest that the top page of the RD ledger be as follows:

MACTS Ltd Summary Transactions – Recurring Deposit (Top Page of RD Ledger)							
Date	Depostis Received	Deposits Redeemed	Balance	RD Loans Disbursed	Loans Repaid	Balance	Signature
Opening							
Closing							
_____ Authorised Signatory							

Similarly the FD Ledger will capture all transactions relating to individual FDs and associated loans and will have a top page capturing all FD related transactions except interest, which will be accounted for separately in a sub-ledger.

MACTS Ltd Fixed Deposit Ledger								
Name of the Depositor _____				Account No _____				
Rate of Interest _____ (FD) _____ (Loan)		Maturity Amount _____						
SB Link No		Membership Link No				Maturity date		
Date	Recpt No.	Amount Depositd	Int (trns to SB)	Loans on FD	Loans Repaid	Interest on Loans	Bal of Loan O/s	Signature
Other Charges								
Closing								
_____ Authorised Signatory								

The top page of the FD ledger will also have a place for summary transactions and could be in the following format:

MACTS Ltd Summary Transactions – Fixed Deposit (Top Page of FD Ledger)							
Date	Deposits Received	Deposits Redeemed	Balance	FD Loans Disbursed	Loans Repaid	Balance	Signature
Opening							
Closing							
Authorized Signatory							

The customer ledgers for Savings bank account will have both cash as well as transfer transactions. The transfer transactions may be done through a Journal Voucher specifically designed to make all transfer transactions. It is to be noted that apart from annual interest and bonus payments to members and DRAS claim adjustments, there will not be many transfer transactions in the co-operative. While the format for a transfer voucher will be given later, it is suggested that we do not have a separate format for pay-in and withdrawal from the SB account at this point in time. We could use the regular cash receipt and the payment voucher as basis documents. The format for Savings Bank Ledger could be as follows:

MACTS Ltd SB Ledger						
Name of the Depositor_____			Account No_____			
Rate of Interest_____						
		RD Link No	Membership Link No.			
Date	Rect No.	Particulars	Increase (Amount)	Decrease (Amount)	Balance O/S	Signature
This account is transferred to folio no.____ in the next member ledger No.____ starting January 1st 2001.						Authorized Signatory

The top page of the Savings Bank account ledger will be in the following format:

MACTS Ltd					
Summary Transactions – Savings Bank					
(Top Page of SB Ledger)					
Date	Particulars – scroll link reference	Deposits received during the day	Payments made during the day	Closing Balance	Signature
Authorized Signatory					

All accounts, which do not get posted to the individual member or deposit account, have to be posted in the general ledger. The format for the general ledger folio is given below.

MACTS Ltd. Village _____						
General Ledger						
Head of Account:				Folio No _____		
Account Code						
Date	Cash/ Adj Ref	Particulars	Debit Amount	Credit Amount	Balance Amount	Signature
Total						
Authorized Signatory						

The above description captures all the transactions, which are based on exchange of cash. The co-ops will have some transactions which are purely transfer in nature – the year end bonus/interest being a case in point. It is necessary to pass a journal voucher for all such transactions. All non-cash transactions are taken to their respective ledger accounts through a day book. In essence, the cash book and the day book together should capture, chronologically all the transactions of the day. The format for the journal voucher could be as follows:

MACTS Ltd Journal Voucher				
			Voucher No. _____	
			Date _____	
Account Code	Membersh ip Number	Description	Debit Amount	Credit Amount
		Total		
Towards:				
Signature of the Accountant				Authorised Signatory

The Adjustment Day book format could be as follows:

MACTS Ltd Adjustment Day Book						
Date	JV No.	Account Code	Particulars	Ledger Folio	Debit Amount	Credit Amount
Total						
Authorised Signatory			Signature of the President/Secretary			

Similarly on the basis of ledger accounts a trial balance can be worked out. However, the income and expenditure account can be worked out once a year. This is because while the co-ops may continue to adopt a policy that all interest income will be recognised only on cash basis, the interest expense will have to be recognised on an accrual basis. This is because the deposit terms – both FD and RD could be for a period of greater than one year and if interest expense is not recognised, there might be a mismatch between the income and expense sides thereby not giving a true and fair picture of the accounts. It is however recommended that all interest be recognised only on accrual basis. A separate module on the year end routine of calculating and posting interest and other entries will be elaborated – but there would be no special formats that may be needed for the routine.

The DRAS amounts will be captured in separate DRAS Premium account and summary postings will be made into that. As far as DRAS deposit amount is concerned, an individual multi-columnar register may be maintained and various instalments of the DRAS premium received may be posted in it. Whenever a member withdraws from DRAS, it could be recorded in the DRAS register. The summary would give the balance in the DRAS deposits on any given day. The

The RD Pass book could be as follows:

<p style="text-align: center;">MACTS Ltd Recurring Deposit Ledger</p>								
Name of the Depositor _____						Account No _____		
	SB Link No		FD Link No		Installment amount		Maturity date	
Date	Particulars	RD Installment/Interest	Balance	Loans Disbursed	Loans Repaid	Interest on Loans	Loans outstanding	Signature

The SB account pass book format could be as follows

<p style="text-align: center;">MACTS Ltd SB Pass Book</p>					
Name of the Depositor _____				Account No _____	
Rate of Interest _____					
	RD Link No			Membership Link No.	
Date	Particulars	Increase (Amount)	Decrease (Amount)	Balance Outstanding	Signature

The format for the Fixed deposit Receipt could be as follows:

MACTS LTD	
Term Deposit Receipt	
No. _____	Date _____
Received from 	Amount Rs: Date of Deposit: Rate of Interest: Maturity Value Due Date:
A sum of Rupees _____ As a deposit for ____ Years ____ Months ____ Days	for MACTS Ltd
Signature of the Accountant _____	Authorised Signatory _____
Name of the Nominee _____ Age _____	
Name of the Guardian (in case of a minor) _____	
Relationship with the Guardian _____	
Redemption Amount _____	
Received the above amount in final settlement of my Fixed Deposit Account with the co-operative	
_____ Signature of the person receiving	

A similar format in a smaller size would appear as a counterfoil

For contra entries to be passed between the bank and cash account, the following contra voucher could be used. It is to be noted that contra entries do not affect the receipts and payments scrolls or postings. They only affect the cash/bank balances.

MACTS Ltd Contra Voucher				
				Voucher No. _____
				Date _____
Account Code	Cheque No.	Description	Debit Amount	Credit Amount
		Total		
Towards:				
Signature of the Accountant				Authorised Signatory

If the co-operative wishes to maintain the Demand-Collection-Balance Figures, the following format would be useful.

_____ MACTS Limited													
Demand Register													
		Year											
Date	Particulars	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	Opening												
	Loan A/c No												
	Loan A/c No												
	Loan A/c No												
	Loan A/c No												
	Loan A/c No												
	Loan A/c No												
	Loan A/c No												
	Loan A/c No												
	Loan A/c No												
	Add: Overdue Balance Last Month												
	Add: Prepayments from Future Demand												
	Deduct: Prepayments already effected from current Demand												
	Total												
	Actual Collections During the Month												
	Overdues (total – collections)												
	Collection Percentage												

Part III – Manual of Accounting Operations

Introduction

This manual is prepared on the basis of the study of thrift co-operatives promoted by CDF and the initial formats, which were presented and discussed. The accounting formats were first discussed not only with senior staff of CDF, but were also presented to the extension team of CDF in a workshop held in Warangal. This draft has been arrived at after all initial discussions and before implementation of the system in the field. The manual has to be updated regularly based on the changes incorporated in forms and procedures. It is also important to note that the manual does not contain the procedures for related non-accounting operations such as documentation.

Codification of Accounts

Before embarking on the details of how entries should be passed in the current system, it would be in order, to talk about some structural issues pertaining to the new systems. Firstly, the new accounting system is designed in such a manner that it should be easy for computerisation at a future date. The system is structured, modular and easily implementable in co-operatives. It also tries to provide as much information as possible with the least amount of complication. In order to make life simpler, it might be necessary for the co-operatives to start with codification of their account heads. We suggest that there be four distinct series – each pertaining to Expenses, Incomes, Assets and Liabilities. This would help in easily identifying the accounts. If the numbering system is uniform across co-operatives, then it would be easier for audit, consolidation and reporting purposes. The Warangal office has prepared a draft set of account codes which will be circulated to all the co-ops.

Generating Membership Numbers

We will have to distinguish between the two categories of members that a co-op would have. The first category is the regular-voting members. These members would of course have to compulsorily subscribe to self-regulated thrift, and can avail of all other facilities and services offered by the co-operative. The other category of members would be nominal members who would not have the eligibility to vote. Amongst the nominal members – there is a further sub-classification – members who are eligible to subscribe to Self-regulated thrift and members who are not. Amongst nominal members, only minors will be permitted to join the Self-regulated thrift account. The other category of nominal member is where the person has attained the age of 65 and is therefore not eligible to continue as a regular member. For both these categories, a separate series of membership numbers have to be generated – and this could be done serially.

In case of voting members there is a proposal to have 5-member mutual guarantee groups. In such cases, the membership number will have four-digits – the first three digits representing the group number and the last being the number for the members. Usually it is expected that the size of the group will usually be 5 with some exceptions of groups having four members.

In case of a change in the composition of the group due to voluntary re-grouping, death or withdrawal of membership, the loan accounts of all the group members will be fully reviewed to ensure that all liabilities are cleared and the re-grouped members will be allotted fresh numbers. These numbers have to be effected in the member-sub-ledgers and in the member-pass-books.

In case of nominal members – minors or members who have attained the age of 65 and have compulsorily retired there will be no grouping and a serial membership number under this category may be generated. Minors will not be eligible for any loans. Others will be eligible for

loans against their RDs and FDs. In such cases, it would be important to check their outstanding loan balances before releasing their deposits.

The master list showing all the account numbers of the members may have the following format.

MACTS Limited								
Membership Master list – Voting Members								
Memb ership No	Date of Membersh ip	Name of the Member	Father’s Husband ’s Name	SB A/c No	FD A/c No	RD A/c No.	Withdrawal details/New Membership No	Signa ture

Now, whenever a new member joins, we will have to enter the membership number at the end of the list. The membership number will double up as both the Self-regulated thrift account number and the related loan account number. To distinguish between thrift and a loan, we could give the prefix or suffix T and L respectively when we are writing the basic receipt and use that reference for posting. As and when the member opens a new form of account, Savings, Fixed or Recurring we would be generating these account numbers serially in the respective ledgers and then entering the details in the master list.

Let us take an example to illustrate this. We already have 10 members in the co-operative who have become members on various dates given in the member master list. Now each of these members come to the co-operative in the following sequence on 20th Feb 2000 and open the following category of accounts. Let us also assume that on 20th there are no other FD/RD/SB accounts except the ones that are being entered now.

- Jaya, Memb. No. 001-4 opens an FD account
- Sudha, Memb No. 002-2 Opens an RD account
- Viji, Memb No. 001-2 opens an FD account
- Lata, Memb No.001-5 opens an SB account
- Suma, Memb No 002-5 opens an RD account
- Viji, Memb. No 001-2 opens an SB account

Now, how do we allot account numbers to each of these members?

In each of the ledgers the numbers allotted would appear as follows:

MACTS Limited FD Ledger- Index page						
Date	Name of the Member	Father's Husband's Name	FD A/c No	Membership Number	Withdrawal details	Signature
20-2-00	Jaya	Sampat	FD-001	001-4		
20-2-00	Viji	Pavan	FD-002	001-2		

MACTS Limited RD Ledger- Index page						
Date	Name of the Member	Father's Husband's Name	FD A/c No	Membership Number	Withdrawal details	Signature
20-2-00	Sudha	Chandra	RD-001	002-2		
20-2-00	Suma	Nakul	RD-002	002-5		

MACTS Limited SB Ledger- Index page						
Date	Name of the Member	Father's Husband's Name	FD A/c No	Membership Number	Withdrawal details	Signature
20-2-00	Lata	Sridhar	SB-001	001-5		
20-2-00	Viji	Pavan	SB-002	001-2		

The master-list showing the names of all the members and their associated membership numbers will appear as follows

MACTS Limited Membership Master list – Voting Members								
Membership No	Date of Membership	Name of the Member	Father's Husband's Name	SB A/c No	FD A/c No	RD A/c No.	Withdrawal details/New Membership No	Signature
001-1	01-01-00	Radha	Krishna					
001-2	01-01-00	Viji	Pavan	SB002	FD002			
001-3	01-01-00	Meera	Shyam					
001-4	01-01-00	Jaya	Sampat		FD001			
001-5	01-01-00	Lata	Sridhar	SB001				
002-1	10-01-00	Neha	Murali					
002-2	10-01-00	Sudha	Chandra			RD001		
002-3	10-01-00	Kavya	Deva					
002-4	10-01-00	Ramya	Shiva					
002-5	10-01-00	Suma	Nakul			RD002		

This master list is regularly updated to ensure that all new accounts get mentioned against the membership numbers. In case of nominal or non-voting members, the system followed is similar – the membership number itself is a straight serial number without any group prefix.

Recording of Cash Receipts

All receipts – cash and cheque/draft, irrespective of whether they are related to member transaction or not have to be first issued a Receipt - *Zama Raceedu*. There are seven rows in the receipt, which have already been filled up with accounting codes and heads. If the head of account is not pre-printed, it is necessary to fill up the account head and the account code. As soon as the amount is received, we have to ensure that the following items are filled up:

1. Name of the member/party paying in
2. Membership Number – wherever applicable. There might be some transactions where we do not receive the amounts from the members – like the amounts received from Samiti. In such a case, we may leave this blank.
3. Date.

Once these details are filled up, we will have to fill two columns – Account number and Account code. For the Account number, we may have to refer to the master list, if the member has not brought the passbook. If the passbook is there, then the number will be readily available.

Let us take a few entries and see how the receipt formats are entered.

- 25 Feb 2000 Member 001-2 deposits Rs.50 in SB a/c and Rs.100 in SRT a/c.
- 25 Feb 2000 Member 001-4 deposits Rs.1000 as FD and Rs.100 in SRT a/c.
- 25 Feb 2000 Member 002-2 deposits Rs.200 in RD a/c, Rs100 in SRT and repays an SRT Loan of Rs.200, with interest Rs.20

In each of these cases we issue a single receipt for each of the members though there are multiple transactions.

MACTS Limited				
Village: _____		Registration No _____		
Receipt				
Membership Number <u>001-2</u>		Receipt No. <u>1</u>		
Name of the Member <u>Viji</u>		Date: <u>25 Feb 2000</u>		
SI	Accou nt No.	Accoun t Code	Particulars	Amount
1	001-2	2001	Self Regulated Thrift	100
2		2002	Recurring Deposits	
3		2003	Fixed Deposits	
4	SB002	2004	Savings Deposits	50
5		1001	Repayment of Loan on SRT	
6		4001	Interest on Loan on SRT	
7		4006	Fines	
8				
9				
10				
11				
12				
Total				150

Rupees (in words) <u>One Hundred and Fifty only</u>
By Cash/Cheque No. _____
Authorised Signatory _____

The other receipts will also be written in a similar fashion. Please note, for the account numbers of SB account, we have referred to the member-master list that we have prepared above.

After recording these in the receipts, the amounts are entered in the scroll and in the member ledger. An entry to the passbook has to be made only after the entry into the member-ledger has been carried out. Ideally it would be better if the person who handles cash is different from the person who handles the member ledger and pass book. The person who handles cash can tally all the transactions at the end of the day and this could be cross-verified with the member-ledger summary if necessary. However, this system might not be necessary where the transactions on a given day are not too many.

Soon after issuing a receipt, the details have to be entered in the receipts scroll. The receipts scroll has some pre-printed heads in some columns. If the transaction is in a new head, the head of account has to be entered. For instance, we can now enter the transactions listed above in the daily receipt scroll format.

MACTS Limited				
Village: _____		Registration No _____		
Receipt				
Membership Number <u>001-4</u>		Receipt No. <u>2</u>		
Name of the Member <u>Jaya</u>		Date: <u>25 Feb 2000</u>		
SI	Account No.	Account Code	Particulars	Amount
1	001-4	2001	Self Regulated Thrift	100
2		2002	Recurring Deposits	
3	FD-001	2003	Fixed Deposits	1000
4		2004	Savings Deposits	
5		1001	Repayment of Loan on SRT	
6		4001	Interest on Loan on SRT	
7		4006	Fines	
8				
9				
10				
11				
12				
Total				1100
Rupees (in words) <u>One Thousand One Hundred only</u>				
By Cash/Cheque No. _____				
Authorised Signatory _____				

MACTS Limited	
Village: _____	Registration No _____
Receipt	
Membership Number <u>002-2</u>	Receipt No. <u>3</u>
Name of the Member <u>Sudha</u>	Date: <u>25 Feb 2000</u>

SI	Account No.	Account Code	Particulars	Amount
1	002-2	2001	Self Regulated Thrift	100
2	RD-001	2002	Recurring Deposits	200
3		2003	Fixed Deposits	
4		2004	Savings Deposits	
5	002-2L	1001	Repayment of Loan on SRT	200
6	002-2L	4001	Interest on Loan on SRT	20
7		4006	Fines	
8				
9				
10				
11				
12				
Total				520
Rupees (in words) <u>Five Hundred and Twenty only</u>				
By cash/Cheque No. _____				
Authorised Signatory				

MACTS Ltd. Village _____											
Receipt Scroll											
										Page Number <u>1</u>	
										Date <u>25 Feb 2000</u>	
Receipts											
Rect No.	Membership No.	Thrift	RDs	FDs	Savings	Loans (SRT)	Int on Loans	Fine	Total	Total	Total
		2001 Amt	2002 Amt	2003 Amt	2004 Amt	1001 Amt	4001 Amt	4006 Amt	Cash	Bank	
R1	001-2	100			50				150		150
R2	001-4	100		1000					1100		1100
R3	002-2	100	200			200	20		520		520
Total		300	200	1000	50	200	20		1770		1770
Signature of the Accountant						Signature of the Chairperson					

If there are any other receipts, new columns will have to be opened. The printed registers would have adequate blank columns to fill in more number of accounts. It is expected that the printed registers would have around 16 columns. Any new head could be entered in the blank column.

If there are receipts in the form of cheque or demand draft, that would also be entered in the receipt as well as in the scroll. We need to take care that a separate receipt is issued for cash and bank portion of the transaction if in case the same transaction involves two components. The cash transactions and bank transactions will be totalled independently and will be tallied with the totals in the cashbook every evening.

Recording of Cash Payments

The payments system will also operate very similar to the receipts system. All payments have to be accompanied by a Payment Voucher. It has been seen in the past that several co-operatives do not generate a payments voucher when they disburse loans. In the past, the promissory note has been used as an evidence of payment. However, we have to realise that a pro-note is a legal document, while the voucher is an accounting document. A payment voucher therefore must compulsorily accompany all payments.

Very much like the receipt voucher, all details have to be entered on the payment voucher as well. If the payment is made using a cheque or demand draft, then the instrument number, the details of the transaction and amount has to be entered. It is also necessary that there has to be an acknowledgement from the receiver for every payment made, unless the payment is through a cheque or a demand draft. If the payment amount is greater than Rs.500/= a revenue stamp has to be affixed to the voucher. All vouchers have to be first entered into the payment scroll. This scroll is similar to the receipts scroll. Let us take a few examples and see how we enter the details in the voucher as well as in the payments scroll.

- 25 Feb 2000 SRT loan of Rs.10,000 disbursed to Usha, M No. 001-5
- 25 Feb 2000 FD Loan of Rs.5,000 disbursed to Tara M No. 003-2
- 25 Feb 2000 Repayment of Samiti Loan Rs.10,000 and interest Rs.1500
- 25 Feb 2000 Repayment of FD Rs.10,000 and Interest Rs.800 to Sara M No. 004-2

For each of the above transactions, we first draw up a voucher.

MACTS Ltd. Village _____				
Payments Voucher				
Name of the party <u>Usha</u>			Voucher No. <u>1</u>	
MembeA/c number <u>001-5</u>			Date <u>25 Feb 2000</u>	
Account Code	Membership/ Account No.	Cheque DD No.	Particulars	Amount
1001	001-5	Cash	SRT Loan given to Usha	10000
			Total	10000
Signature of the Accountant			Signature of the President/Secretary	Received Rs (in words) <u>Ten Thousand only</u> towards <u>Loan against thrift deposit</u>
				Signature of the person receiving the amount

MACTS Ltd. Village _____				
Payments Voucher				
Name of the party <u>Tara</u>			Voucher No. <u>2</u>	
MembeA/c number <u>003-2</u>			Date <u>25 Feb 2000</u>	
Account Code	Membership/A ccount No.	Cheque DD No.	Particulars	Amount
1003	003-2-FD003L	Cash	Loan against FD to Tara	5000
			Total	5000
Signature of the Accountant			Signature of the President/Secretary	Received Rs (in words) <u>Five Thousand Only</u> towards <u>Loan against FD No.003</u>
				Signature of the person receiving the amount

MACTS Ltd. Village _____ Payments Voucher				
Name of the party <u>Samiti</u>			Voucher No. <u>3</u>	
MembeA/c number _____			Date <u>25 Feb 2000</u>	
Account Code	Membership/ Account No.	Cheque DD No.	Particulars	Amount
2006			Repayment of loan principal to Samiti	10000
3006		0245632	Payment of interest on the loan	1500
			Total	11500
Signature of the Accountant		Signature of the President/Secretary		Received Rs (in words) <u>Eleven Thousands five hundred only</u> towards <u>Loan Principal and interest</u>
				Signature of the person receiving the amount

MACTS Ltd. Village _____ Payments Voucher				
Name of the party <u>Sara</u>			Voucher No. <u>4</u>	
MembeA/c number <u>004-2</u>			Date <u>25 Feb 2000</u>	
Account Code	Membership/ Account No.	Cheque DD No.	Particulars	Amount
2003	004-2FD004	Cash	Repayment of FD on Maturity	10000
3003			Interest on FD	800
			Total	10800
Signature of the Accountant		Signature of the President/Secretary		Received Rs (in words) <u>Ten Thousand Eight Hundred Only</u> towards <u>repayment of FD and interest thereon</u>
				Signature of the person receiving the amount

From the vouchers, we will have to enter these amounts into the payments scroll. In the above example there are three cash payments and one payment by cheque. We can see how they are recorded in the Payments scroll.

From scroll, it can be seen that the totals of cash transactions are recorded in the cash column and that of the bank in the respective column. While posting to the cash book, we need to follow the same rule. Similarly the totals of each individual columns are to be posted in the general ledger accounts.

MACTS Ltd. Village _____										
Payments Scroll										
										Page Number <u>1</u>
										Date <u>25 FEB 2000</u>
Payments										
Vou cher No.	Memb ership No.	Loans (SRT)	Loans (FD)	Loan from Samiti	Interest on S.Loan	FD	Intere st on FD	Cash	Bank	Total
		1001	1003	2006	3006	2003	3003	Total	Total	
		Amt	Amt	Amt	Amt	Amt	Amt	Amt	Amt	
P1	001-5	10000						10000		10000
P2	003-2		5000					5000		5000
P3	Samiti			10000	1500				11500	11500
P4	004-2					10000	800	10800		10800
Total		10000	5000	10000	1500	10000	800	25800	11500	37300
Signature of the Accountant						Signature of the Chairperson				

In dealing with the above transactions, we have concentrated mostly on member related transactions. However there are non-member transactions like dealings with Samiti, CDF, Bank, salaries, miscellaneous expenses, stationery etc. All these have to go through a similar process and enter the scroll.

The use of scroll is simple. It classifies the day's transactions into a manageable number of account heads and helps us in easy finalization of the accounts at the end of the day. We could also easily verify the cash/bank balance by taking the totals of the daily scroll into account. It is likely that the bank balance in pass book might be different from what is available in our books. For that we need to draw up a bank reconciliation statement.

For maintaining proper control systems, it is absolutely necessary to close the cash every evening, check the denominations and get the signature of a designated person – the president, the treasurer or the secretary – whoever has been authorised by the board. Similarly if all postings are made the same day, we would be in a position to get the trial balance at the end of the day. If there are any differences detected, they have to be resolved immediately. We will have to put the opening cash balance in a fresh page the next day.

Once the scroll is updated, the amounts have to be posted in the respective books. Let us take the above examples of both receipts and payments and see how they are posted into the cash book. Let us assume that there was an opening cash of Rs.30,000 and a bank balance of Rs.25,000.

MACTS Ltd. Village _____											
Cash Book											
Date	Receipts	Scro ll Ref	A/c code	Amount		Date	Payments	Scro ll Ref	A/c Code	Amount	
				Cash	Bank					Cash	Bank
Opening	Balance			30000	25000	25.2.00	Loans SRT	P1	1001	10000	
25.2.00	SRT Dep	P1	2001	300		25.2.00	Loan FD	P1	1003	5000	
25.2.00	RD Dep	P1	2002	200		25.2.00	Loan Smti	P1	2006		10000
25.2.00	SB Dep	P1	2004	50		25.2.00	Int on Smt	P1	3006		1500
25.2.00	FD	P1	2003	1000		25.2.00	FD	P1	2003	10000	
25.2.00	SRTL Rep	P1	1001	200		25.2.00	Int on FD	P1	3003	800	
25.2.00	Int on SRTL	P1	4001	20							
						Closing Balance				6030	13500
Total				31770	25000					31770	25000
Authorised Signatory											

Apart from the cash book, we will have to post these entries in the respective ledger accounts. In case of transactions with members, there will be ledgers for each savings product and the related loan. All entries pertaining to each of these have to be posted in the individual member accounts. The subledger totals will have to tally with the general ledger accounts.

Contra Entries

In case there are entries of cash withdrawal or deposit in the bank account, we will have to pass a contra entry. This could be done by raising a contra-voucher and by-passing the receipts and payments scroll. The entry gets directly affected in the cash book and does not affect any other positngs. The format for contra voucher is reproduced below:

MACTS Ltd Contra Voucher				
				Voucher No. _____
				Date _____
Account Code	Cheque No.	Description	Debit Amount	Credit Amount
		Total		
Towards:				
Signature of the Accountant			Authorised Signatory	

Postings

What we have discussed till now is how to pass the basic entries in scroll and cash book. Apart from the cash book we will have to post these entries transactions in the respective ledger

accounts and the member sub-ledgers. Ideally, each receipt should be posted to the top sheet of the member ledger and then to the respective account. At the end of the day the total of the top sheet has to be tallied with the scroll column total and then posted to the main ledger folio in the General ledger. However, given the fact that there might be only one employee doing all these entries and the fact that transactions might be lumped on a few days because of collection of compulsory thrift, this does not seem practicable. Therefore we have to follow a system which might not be optimal, given the field conditions.

In order to see how postings are done, let us take the example of the receipts scroll, the payments scroll and the adjustment book and post the individual heads into the respective ledger accounts.

Ledger Accounts

MACTS Ltd. Village _____ General Ledger Head of Account: SRT Deposits Folio No _____ 1 Account Code: 2001						
Date	Scroll /Adj ref	Particulars	Debit Amount	Credit Amount	Balance Amount	Signature
		Opening Balance			0	
25.2.00	SCR1	Deposits from 3 members		300	[300]	
MACTS Ltd. Village _____ General Ledger Head of Account: RDeposits Folio No _____ 2 Account Code: 2002						
Date	Scroll /Adj ref	Particulars	Debit Amount	Credit Amount	Balance Amount	Signature
		Opening Balance			0	
25.2.00	SCR1	Deposits from 2 members		200	[200]	

MACTS Ltd. Village _____ General Ledger						
Head of Account: FDeposits Account Code: 2003				Folio No _____ 3 _____		
Date	Scroll /Adj ref	Particulars	Debit Amount	Credit Amount	Balance Amount	Signature
		Opening Balance			[20000]	
25.2.00	SCR1	Deposits from 1 member		1000	[21000]	
25.2.00	SCP1	FD Refunded	10000		[11000]	

MACTS Ltd. Village _____ General Ledger						
Head of Account: Savings Deposits Account Code: 2004				Folio No _____ 4 _____		
Date	Scroll /Adj ref	Particulars	Debit Amount	Credit Amount	Balance Amount	Signature
		Opening Balance			0	
25.2.00	SCR1	Deposits from 1 member		50	[50]	

MACTS Ltd. Village _____ General Ledger						
Head of Account: Loans on SRT Account Code: 1001				Folio No _____ 5 _____		
Date	Scroll /Adj ref	Particulars	Debit Amount	Credit Amount	Balance Amount	Signature
		Opening Balance			1000	
25.2.00	SCR1	SRTL repaymnt		200	800	
25.2.00	SCP1	SRTL Disbursement	10000		10800	

MACTS Ltd. Village _____ General Ledger						
Head of Account: Interest on SRTL Account Code: 4001				Folio No _____ 6 _____		
Date	Scroll /Adj ref	Particulars	Debit Amount	Credit Amount	Balance Amount	Signature
		Opening Balance			0	
25.2.00	SCR1	Interest from 1 member		20	[20]	

MACTS Ltd. Village _____ General Ledger						
Head of Account: FD Loans Account Code: 1003				Folio No _____ 7 _____		
Date	Scroll /Adj ref	Particulars	Debit Amount	Credit Amount	Balance Amount	Signature
		Opening Balance			0	
25.2.00	SCP1	FD Loans Given	5000		5000	

MACTS Ltd. Village _____ General Ledger						
Head of Account: Loan from Samiti Account Code: 2006				Folio No _____ 8 _____		
Date	Scroll /Adj ref	Particulars	Debit Amount	Credit Amount	Balance Amount	Signature
		Opening Balance			20000	
25.2.00	SCP1	Loan Repaid to Samiti		10000	10000	

MACTS Ltd. Village _____ General Ledger						
Head of Account: Interest on Loan from Samiti Account Code: 4001				Folio No _____ 9 _____		
Date	Scroll /Adj ref	Particulars	Debit Amount	Credit Amount	Balance Amount	Signature
		Opening Balance			0	
25.2.00	SCP1	Interst on loan from Samiti	1500		1500	

MACTS Ltd. Village _____ General Ledger						
Head of Account: Interest on FD Account Code: 3003				Folio No _____ 10 _____		
Date	Scroll /Adj	Particulars	Debit Amount	Credit Amount	Balance Amount	Signature
		Opening Balance			0	
25.2.00	SCP1	Interst on loan from Samiti	800		800	

Recording Adjustment Entries

When there are entries that do not involve exchange of cash or a financial instrument such as a cheque or a demand draft, we would be required to pass adjustment entries. Since these entries do not result in the movement of cash, these would naturally not appear in the scroll. In case of such entries, we raise an adjustment voucher and put the entries in the adjustment book. Let us take an example of a situation where we are passing adjustment entries:

➤ 25 Feb 2000 Received money from Samiti towards DRAS of member 004-5 – Rs.10,000. The above amount obviously contains Rs.500 of the deposit of the member placed in the Samiti and Rs.9500 relief granted by the Samiti. This transaction is a cash/bank transaction and will take the usual route of going through the receipt and the scroll. However, what is important is what we do after we receive this money. We need to pay this money to the members. If the member has no dues, then we raise the usual payment voucher. However if the member has some dues towards the society, then the relevant amount is adjusted using the Adjustment Voucher.

Let us assume that the member has the following balances with us: Member 004-5 - SRT Deposit Rs.2000, Interest on deposit upto current date Rs.20 ,Loan on SRT Rs.6000, Interest to date on the loan Rs.240, DRAS Deposit Rs.500

Now, classifying this, the member has to pay Rs.6240 as loan/interest and receive Rs.12020 – Rs.2000 SRT Deposit, Rs.20 Interest, Rs.9500 as DRAS Claim and Rs.500 DRAS deposit.

One way to pass the above entry is to show everything as having been received in cash. This is the current practice. However, the accounting entries should represent the actual transactions. We are adjusting the claim and deposit amount against the loans. The journal entry will be:

1. Based on the claim we have received from the samiti, we pass the entry through the scroll.

Cash/Bank a/c	Dr		10000
		To Claim Payable	9500
		To DRAS Deposit with Samiti a/c	500

(Being amount received from Samiti, payable to deceased member)

Now, the settlement of the account with the member will be as follows:

2.

DRAS Claim a/c	Dr		9500
DRAS Deposit (Member) a/c	Dr		500
SRT Deposit a/c	Dr		2000
Interest on SRT Deposit a/c	Dr		20
		To Loan on SRT	6000
		To Interest on SRT Loan	240
		To Cash	5780

(Being the DRAS claim adjusted towards dues and balance paid to the deceased member)

Now, there are two parts to this transaction – one part being cash paid which will go through the receipt, scroll and cash book, the other part of it being an adjustment entry. What we will do is – firstly draw up an journal voucher in the following format.

MACTS Ltd Journal Voucher				
			Voucher No. 1	
			Date 25 Feb 2000	
Account Code	Membersh ip Number	Description	Debit Amount	Credit Amount
2010	004-5	DRAS Claim A/c	3720	
2005		DRAS Deposit A/c	500	
2001		SRT Deposit A/c	2000	
3001		Interest on SRT Deposit	20	
1001		Loan on SRT		6000
4001		Interest on SRT Loan		240
		Total	6240	6240
Being the DRAS claim amount settled to the deceased member				
Signature of the Accountant			Authorised Signatory	

We will make a cash payment for the rest of the amount, by drawing up a cash payment voucher and posting it in the scroll. The rest of the entries follow the natural course stated above. The journal voucher details will be entered in the adjustment book and will be used as a basis for ledger posting. The adjustment ledger posting will be done in the following manner:

MACTS Ltd Adjustment Day Book						
Date	JV No.	Account Code	Particulars	Ledger Folio	Debit Amount	Credit Amount
25.2.00	1	2010	DRAS Claim A/c	GL-12	3720	
		2005	DRAS Deposit A/c	GL-11	500	
		2001	SRT Deposit	GL-1	2000	
		3001	Interest on SRT Deposit	GL-13	20	
		1001	SRT Loan	GL-5		6000
		4001	Interest on SRT Loan	GL-6		240
Total					6240	6240
Authorised Signatory			Signature of the President/Secretary			

The adjustment entries also have to go through the process of posting into the ledgers. If we have the opening trial balance or balance sheet with us it would be easy for us to draw up the trial balance of the co-operative on any given day, by just taking the general ledger balances as well as the cash/bank balances.

Posting to the Member Ledgers

All these entries have to be posted to the individual member ledgers/deposit/loan accounts. Under each category of deposits/loans we would be opening individual accounts. The totals of each of these individual accounts put together should tally with the main ledger balances of the General Ledger. For instance, in General Ledger Folio-1 given above, we have SRT deposits. The explanation and the person-wise break up of the deposits will be available in the member accounts. The member-ledger formats have been given in the previous section. Entries have to be made in each of these accounts. We have to note that in case of member-ledgers we have both the deposits and the associated loan accounts on the same page. This will help us in easily monitoring the balance. We however have to note that the deposits and loans are two distinct accounts with different account codes.

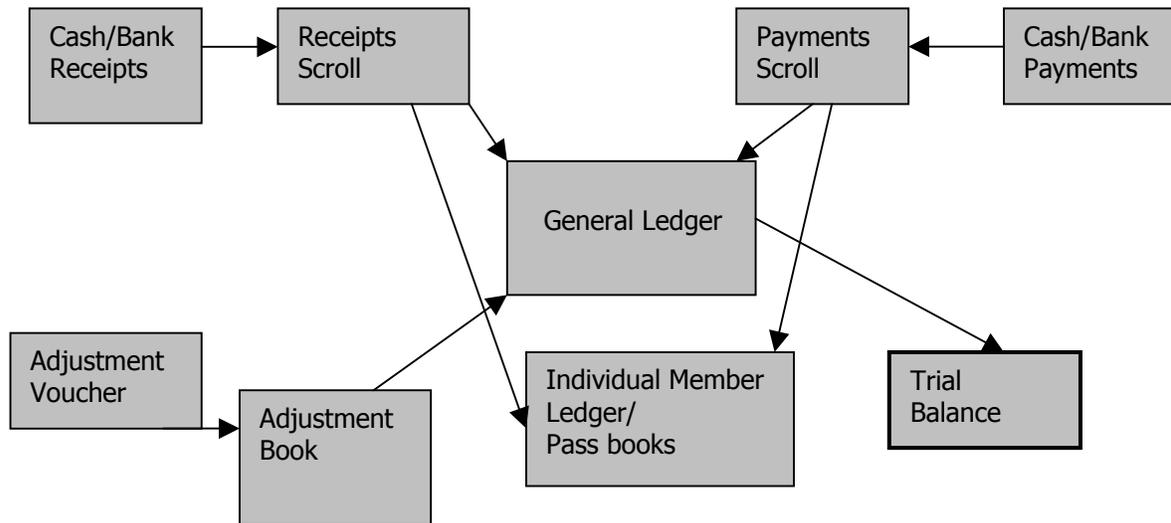
If we go back to the receipts scroll and take the account of Member No.002-2, we find that the member has paid in a thrift of Rs.100 as SRT, Rs.200 into RD, repaid an SRT loan of Rs.200 with an interest of Rs.20. Now obviously there are two distinct products with which we have the member transacting – SRT and associated loan and RD. Leaving RD aside for a moment, if we were to just as an example make postings in the member ledger pertaining to SRT – the entries would appear as follows:

MACTS Ltd									
Member Ledger – Self Regulated Thrift and Loan									
Name of the member <u>Sudha</u>					Membership No <u>002-2</u>				
Date	Cash Rect No.	Thrift Amt	Balance	Loans Disbursed	Loans repaid	Loans O/S	Int on Loans	Other items	Signature
Op Bal#			1000			2000			
25.2.00	R3	100	1100		200	1800	20		
Total									
This account is transferred to folio no.____ in the next member ledger No.____ starting January 1st 2001									
Authorised Signatory									

#Please note that the opening balance figures have not been given and have been assumed.

The entries in the pass book will be similar to the entries in the member-sub-ledger. On any day the subledger balances will always have to tally with the balances of the general ledger for each account head.

To summarise, we can look at the flow chart indicating the movement of transactions.



Closing of Accounts

At the end of each year, we will have to calculate interest receivable, interest payable, depreciation and other year ending accounts. Interest calculations can be done according to the policy of the co-operative (daily/monthly/quarterly rest). All these entries have to be posted to individual member accounts and the general ledger and should be shown as payable. We would thus be shifting to a system of accrual accounting from the current accounting. Similarly the co-ops will have to review their policy on provisioning for bad loans from time to time. Currently this is not an issue because we are recognising income only and cash basis and the collections are fairly high. We are also making a provision as an appropriation from profit. The provisioning has to be made before the profits are recognised and should be appropriate according to the policy of the co-op. If we start recognising income on an accrual basis, then we would also have to derecognise income on bad loans, which have been recognised in the past. All these however, have implications only on the closing of accounts and not on day to day functioning of the co-operative.

This accounting operations manual is based on the current design of the system and will be continuously evolving. A companion section of documentation also has to be added to the accounting operations manual, which was not the scope of the current task. However it would make immense sense to dovetail the documentation aspects also into this so that we could evolve a step-by-step procedure. It is also necessary to review the accounting systems of the Samiti also so that these two systems go hand in hand.