Session 1: Chapter 1: Basic Accounting Principles

Purpose of Accounting

The purpose of accounting is to accumulate and report on financial information about the performance, financial position, and cash flows of a business. This information is then used to reach decisions about how to manage the business, or invest in it, or lend money to it. This information is accumulated in accounting records with accounting transactions, which are recorded either through such standardized business transactions as customer invoicing or supplier invoices, or through more specialized transactions, known as journal entries.

The major components of Common Accounting System are:

(i) Applicability of universally accepted basic concepts and principles in the maintenance of accounts by the primary cooperatives.
(ii) Adoption of standards financial statements, viz. Balance Sheet, P&L A/c. and Trading A/c.
(iii) List of common set of general Ledger Heads of Account Compatible with financial statements; and
(iv) Maintenance of minimum essential and Standard Books of Accounts.

Thus, the purpose of accounting centres on the collection and subsequent reporting of financial information.

ACCOUNTING PRINCIPLES AND POLICIES

1. "An Accounting System is a series of tasks in an entity by which transactions are processed as means of maintaining financial records. Such a system should recognize, calculate, classify, post, analyze, summarize and report transactions." An accounting system should lead to proper recording of transactions entered into by the business during the period of the accounts and drawing up the final statements viz. the balance sheet and Profit Loss Account, such that these exhibit truly and fairly the profitability and the financial position of the business to which they relate.

2. The preparation and presentation of financial statements under the Common Accounting System are based on certain fundamental accounting assumptions. The following are the generally accepted accounting assumptions.

a) **Going Concern**: The society is viewed as a business concern that will continue its operations in the foreseeable future. This implies that the entity does not intend to, nor will it be necessary to, materially curtail the scale of its operations or be liquidated in the foreseeable future.
b) **Consistency**- it is assumed that the accounting policies adopted are consistent from one period to another.
c) **Accrual**- Revenues and costs are recognized as they are earned or incurred and not as money is received or paid, and are recorded in the accounting records and reported in the financial statements of the periods to which they relate.

These are not specifically stated as long as the assumptions are valid. If any of the accounting assumptions do not hold good in the preparation of the financial statements, the same must be specifically disclosed.

3. Primary Cooperative is a business entity undertaking both credit and non-credit business. Non- credit Business of these cooperatives are divided into five broad groups depending upon the nature of activities and materials the cooperative deal in. these groups are trading in:
   (i) Agricultural inputs;
   (ii) PDS commodities;
   (iii) Non- PDS consumer items;
   (iv) Food grains and other commodities under Govt. Procurement Schemes; and
   (v) Socially relevant schemes like Mid-day Meal Scheme.

   But in reporting all business transactions of the primary cooperative, the intention is to exhibit as true and fair picture of the profitability and financial position of the business. This call for a sound system of accounts keeping to record all transactions in proper manner.

4. **Double Entry System**- Every business transaction involves the transfer of money (or money's worth) from on e account to another and thus, the transfer necessarily involves two accounts is 'opposite' directions. The double entry system of book keeping records both the aspects of every transaction and therefore, follows the rule that every debit must have a corresponding credit and vice-versa. This rule helps to check the arithmetical accuracy of records by preparing the 'trial balance' statement. Accounts maintained under the single entry system record only one aspect of the transaction and the record is therefore, incomplete. Certain rules must be observed in recording transactions under the double entry system. The two elements of every transaction must be grouped under three types of accounts and each type of account has its rules for recording the debit and the credit aspect of the transaction. The two principal types of accounts arte (i) Personal Accounts and (ii) Interpersonal Accounts. Impersonal Accounts. Impersonal Accounts are sub-divided into a) Real or Asset Accounts and b) Nominal Accounts. Personal Account contains a record of transactions with a 'person' that could be an individual, group, society, bank etc. Real Accounts are accounts of properties or assets and contain a record of purchases and sales of the properties or assets, like land, building, goods, cash etc. Nominal accounts are accounts of expenditure and income and record gains and losses. The accounting rules to be followed for the three types of accounts are:

Type of Account	**Rules of entry**	
	Debit	Credit
Personal	Receiver	Giver
Real	What come in	What goes out
Nominal	Expenses and losses	Incomes and gains

All transactions will have a debit and a credit voucher for equal amounts.

5. **Accounting Principles:**

   Recording of transactions in books should be done having regard to certain fundamental principles of accounting. The principles are:

   a) Double-entry-book-keeping system. All transactions to have debit and credit vouchers of equal amount.
   b) Distinctions to be drawn between capital expenditure and revenue expenditure and capital receipts and revenue receipts.
   c) Financial statements must be prepared on historical cost basis and should conform to statutory provisions and practices.

d) Investments must be valued at the lower of cost or market value.
e) Book debts must be valued only at the realizable amounts and in accordance with regulatory norms/guidelines.
f) Expenditure and income to be treated on accrual basis.
g) Provisions for doubtful advances must be made to the satisfaction of the auditors and in accordance with guidelines issued by the regulatory authority.
h) Unsold stock at the end of the year should be brought into accounts and valued on a recognized basis that is consistently being followed in the organization.
i) Premises and other fixed assets must be accounted for at historical cost.
j) Depreciation should be provided for on depreciable assets on straight line or diminishing balance methods, on a consistent basis.
k) Provisions for gratuity and provident fund benefits to staff are to be made on accrual basis. Separate funds for gratuity and provident fund are to be created and should not be mixed with the funds of the cooperative.
l) A clear demarcation to be made in regard to provisions and contingencies on the one side and reserves on the other. While provisions and contingencies are to be made from P &L Account, statutory and other reserves be made out appropriation of profits.
m) The net profit disclosed in the Profit and Loss account must be computed after provision for standard loans, bad and doubtful debts, provision for overdue interest, depreciation/erosion in the value of securities and other assets, transfers to contingency funds and other usual or necessary provisions.

6. Consistent with the concepts and principles outlined paragraphs, all items of income and expenditure must be complied under relevant heads so as to disclose the sources of income, nature of expenditure incurred to earn it, the composition of assets, sources from which capital has been procured and the nature of liabilities outstanding for payment. The accounting system in all primary cooperatives needs to follow these principles and policies in the treatment and recording of all financial transactions.

SESSION 2: Chapter 2: Books of Accounting

Book keeping may be defined as an activity concerned with the recording of financial data relating to business operations in an orderly manner. Book keeping is the recording phase of accounting. Accounting is based on an efficient system of book keeping.

For all types of business organisations, transactions such as purchases, sales, manufacturing & selling expenses, collection from customers & payments to suppliers do take place. These business transactions are recorded in a set of ruled books such as journal, ledger, cash book etc. Unless these transactions are recorded properly the manager will not be in a position to know where exactly he/she stands.

The following is the complete cycle of recording transactions:

a) The opening balances of accounts from the balance sheet & day to day business transaction of the accounting year are first recorded in a book known as journal.
b) Periodically these transactions are transferred to concerned accounts known as ledger accounts.
c) At the end of every accounting year these accounts are balanced & the trial balance is prepared.
d) Then the final accounts such as trading & profit & loss accounts are prepared.
e) Finally, a balance sheet is made which gives the financial position of the business at the end of the period.

Final accounts & the balance sheet are the end products of book keeping. The major books suggested for primary cooperatives are as under:

PROFORMA: SHARE CAPITAL LEDGER

Membership No. Name : ………………………………….

Date	Particulars	No.& Date of Board Resolution	Day Book Folio No.	Shares Allotted		Share Certificate Nos.	Distinctive Nos. of Shares Allotted	Shares Redeemed	
				No.	Value			No.	Value
1	2	3	4	5	6	7	8	9	10

Share Certificate Nos.	Distinctive Nos. of Shares Redeemed	Balance Shares		Share Certificate Nos.	Distinctive Nos.of Shares	No.of Days	Products	Initials
		No.	Value					

PROFORMA: MEMBERSHIP REGISTER

Membership No.			Photo
Board Resolution No. and date			
Name		Male/Female	
Date of Birth		Ration Card	
Father's / Husband's Name		Voter ID No.	
Education Qualification		IT PAN No.	
Category of Community		S.B. A/c No.	
Occupation		Telephone No.	
Address		Small Farmer/Marginal Farmer/ other	
No. of Family Members		Name and Address of Nominee	
Number of Dependents		Relationship of Nominee to Member	
		Date of Birth of Nominee if Minor	
		Name and Address of guardian, if nominee is minor	
		Date of nomination	
Land owned/cultivated by member			

House(s) owned by Member

No.	Address	Build up area	Value

Details of farm machinery owned

Item	No.	Value
Tractor		
Power Tiller		
Others (specify)		
Vehicles Jeep Car Two-wheeler Other		

Particulars of Share Capital, Borrowings etc.

Date	Share Capital Contributed (Rs.)	Amt.Borrowed (Rs.)	Deposits Kept with Society (Rs.)	Remarks	Initials

PROFORMA: SAVING ACCOUNT LEDGER

Account No:					Photo			
Membership No:								
Name :								
Occupation:					Name of Nominee			
Address					Relationship with the depositor			
Telephone No:					Date of Birth, if minor			
					Name and address of guardian, in case of minor			
Income tax Permanent Account No. (PAN):					Operational Instructions:			
Standing Instructions:					Initials of authorised person/s:			
Register Serial No.					Last day of Operation:			
Date	Particulars	Amount Withdrawn	Amount Deposited	Balance	initials	Monthly minimum balance	Interest	Remarks
1	2	3	4	5	6	7	8	9

PROFORMA: DEPOSIT LEDGER

Type of Deposit	photo		DUE ON	
Date of Operating			PERIOD	
Name and Address			FROM	
Jointly with			TO	
			Interest Rate In% pa	
			AMOUNT DEPOSITED	
			TOTAL INTEREST	
PAYMENT INSTRUCTIONS			MATURITY VALUE	
E or S/F or S			DATE OF MATURITY	
PARTICULARS OF LIEN			Nomination Particulars	

Loan A/c no.	Date of Sanction	Date of Release	Initials	Name of nominee	
				Relationship with depositor	
				Address of nominee	
				If nominee is minor	
				Date of birth of minor	
				Name and Address of Guardian	

DATE	PARTICULARS/INSTALLMENT	AMOUNT		BALANCE	Initials of authorised person/s
		DEPOSITED	WITHDRAWN		

INTEREST PAYMENT/ACCRUAL

Date of Payment	Period		Product		Interest		Progressive Total	Initials of authorized person/s
	From	To	Rs.	P.	Rs.	P.		

PROFORMA: BORROWINGS LEDGER

Borrowings from: ------------------------DCCB/ (Other) --------------------------

Purpose	1	2	3	4	5	6	7	8
Loan No.								
Date								
Amount								
Due Date								
Rate of Interest								
Crop (in case of crop)								

Date	Particulars	Debit	Credit	Balance	Initials	No. of days	Products	Interest		Remarks
1	2	3	4	5	6	7	8	9	10	11

PROFORMA: CASH BOOK

Date:

RECEIPT

Sl. No.	Particulars	Rs.	P.	Initials of authorized person's
1				
2				
3				
Total				

Opening cash Total

PAYMENT

Sl. No.	Token no.	Particulars	Rs.	P.	Initials of authorized person's
1					
2					
3					
Total					

CASH IN HAND TOTAL

Denomination-wise closing cash Balance

Notes:	No of pieces	Total Amount	
		Rs.	P.
1000 X			
500 X			
100 X			
50 X			
20 X			
10 X			
5 X			
Coins (Denomination-wise details)			
Total			

PROFORMA: SALES REGISTER

(FOR NON-CREDIT ACTIVITY)

Activity: ………………………..

Date: ……………………………

Sl.No.	Bill No.	Name of Member	SALES							
			1……..		2………		3………		4……….	
			Qty.	value	Qty.	value	Qty.	value	Qty.	value

PROFORMA: STOCK REGISTER

Name of item: ……………………………………………………………..

Date	Invoice/Cash memo	particulates	Day Book Folio	Opening Stock		Purchase		Reduction in stock (Qty)		
				Qty	Value	Qty	Value	Sales	Impairment	Total
1	2	3	4	5	6	7	8	9	10	11

Closing Stock		Initials of authorized person's
Qty	Value	

PROFORMA: GENERAL LEDGEN

Head of Account……………………………………………………

Date	Particulars	Day Book Folio No.	Debit	Credit	Balance	Initials

PROFORMA: ACCOUNTS OPENED AND CLOSED REGISTER

S.No.	Account Number	Name of the Account Holder	Date of Opening	Closure/ Transfer	Total No. of a/c subsisting	Remarks	Initials
1	2	3	4	5	6	7	8

PROFORMA: REGISTER FOR ACKNOWLEDGEMENT OF DEBT

S.No.	M. No.	Name of the Borrower	Lone No.	Type of Loan	Outstanding	Signature of	
						Borrower	Surety
1	2	3	4	5	6	7	8

Session 3:

Chapter 3: ROLE OF NCDC AND ITS SCHEMES IN DEVELOPMENT OF COOPERATIVES

About NCDC:

The National Cooperative Development Corporation (NCDC) was established by an Act of Parliament in 1963 as a statutory Corporation under the Ministry of Agriculture & Farmers Welfare.

Details are available at NCDC website http://www.ncdc.in/

Functions :

Planning, promoting and financing programmes for production, processing, marketing, storage, export and import of agricultural produce, food stuffs, certain other notified commodities e.g. fertilisers, insecticides, agricultural machinery, lac, soap, kerosene oil, textile, rubber etc., supply of consumer goods and collection, processing, marketing, storage and export of minor forest produce through cooperatives, besides income generating stream of activities such as poultry, dairy, fishery, sericulture, handloom etc.

NCDC Act has been further amended which will broad base the area of operation of the Corporation to assist different types of cooperatives and to expand its financial base. NCDC will now be able to finance projects in the rural industrial cooperative sectors and for certain notified services in rural areas like water conservation, irrigation and micro irrigation, agri-insurance, agro-credit, rural sanitation, animal health, etc.

Loans and grants are advanced to State Governments for financing primary and secondary level cooperative societies and direct to the national level and other societies having objects extending beyond one State. Now, the Corporation can also go in for direct funding of projects under its various schemes of assistance on fulfillment of stipulated conditions.

Purposes for which assistance is provided :

- Margin money to raise working capital finance (100% loan)
- Strengthening of share capital base of societies (100% loan)
- Working capital to regional/state level marketing federations (100% loan)
- Term loan for creation of infrastructural facilities like godowns, cold storages, equipment financing, purchase of transport vehicles, boats and other tangible assets
- Term and investment loan for establishment of new, modernization/ expansion/rehabilitation/diversification of agro-processing industries.
- Subsidy for preparation of project reports/feasibility studies etc.

Activities Funded by NCDC

a) Marketing

- Margin Money assistance to Marketing Federations
- Strengthening share capital base of primary / district marketing societies

- Marketing (Fruit & Vegetable)\
- Working Capital Finance

b) Processing

- Setting up of new Sugar factories (Investment Loan) / Modernization and Expansion/ Diversification of existing Sugar Factories (Investment loan + term loan)
- Margin Money assistance to cooperative Spinning Mills / State Cooperative Cotton Federations / Share Capital participation in New Spinning Mills / Modernization/ Expansion of Spinning Mills / Modernization of Existing and Establishment of Modern Ginning & Pressing Units / Rehabilitation of Sick Spinning Mills / Cotton Development Programmers
- Other Processing Units: Food Grains / Oilseeds / Plantation Crops / Cotton Ginning and Pressing / Fruit & Vegetable / Maize Starch / Particle Board, etc.
- Power Loom Cooperatives covering pre and post loom facilities

c) Cooperative Storage

- Construction of godowns (Normal)
- Upgradation/renovation of existing godowns
- Construction of Cold Storages / Upgradation/ Rehabilitation of Cold storages

d) Distribution of essential articles through cooperatives

- Distribution of Consumer articles in rural/ urban/ semi urban areas.

e) Industrial Cooperatives

- All types of Industrial Cooperatives, Cottage & Village Industries, Handicrafts/rural crafts etc.

f) Service Cooperatives

- Agriculture Credit
- Agriculture Insurance
- Labour Cooperatives
- Water Conservation works/services
- Irrigation, micro irrigation in rural areas
- Animal care/health disease prevention
- Rural sanitation/ Drainage/ Sewage system through Cooperatives

g) Agricultural Services

- Cooperative Farmers' Service Centres
- Agro Service Centres for Custom hiring
- Establishment of Agricultural inputs manufacturing and allied units.
- Irrigation/ Water harvesting programmes.

h) <u>District Plan Schemes</u>

- Integrated Cooperative Development Projects in selected districts (ICDP)

i) <u>Cooperatives for Weaker Sections</u>

- Fisheries
- Dairy
- Poultry
- Tribal
- Handloom
- Coir & Sericulture

j) <u>Assistance for Computerization</u>

k) <u>Promotional and Developmental Programmes</u>

- Technical & Promotional Cells
- Consultancy for studies/project reports, management studies, market survey & evaluation of programmes, etc.
- Training and Education

l) <u>Consultancy Services</u>

The "NCDC Consultancy Services Division" (NCS) was set up in January 2004 to provide expertise developed by NCDC over the years. NCDC continues to provide Consultancy Services for the benefit of various type of cooperatives, other financial institutions, departments and organizations of various Ministries. Consultancy is offered on a very nominal fee and NCDC also considers financing of such projects as per its normal terms and conditions. NCDC's consultancy is purpose oriented, efficient, time bound, cost effective and client friendly to help organizations in expansion/diversification of their activities, value-addition, human resource development etc., thereby enabling them to become of self sustaining. NCDC provides consultancy in the following areas:

- Project formulation and feasibility studies
- Appraisal of projects
- Monitoring of projects
- Investment potential surveys
- Financing arrangement and loan syndication
- Domestic marketing and import/export of agriculture produce
- Performance rating of cooperative societies
- Training and exposure visits

New Schemes

- Financial assistance to Cooperatives for Tourism, Hospitality, Transport, Electricity (New/Non-Conventional) and Rural Housing programmes – Guidelines
- Financial assistance to Cooperatives for Hospital, Healthcare and Education – Guidelines
- Corporate Social Responsibility Programme of NCDC – Guidelines
- Scheme for Strengthening Monitoring and Evaluation Functions of the Corporation by utilizing Professional Expertise of Retired Officers
- Scheme for extending NCDC's Short Term Loan to Agricultural Credit Cooperatives towards Working Capital

SAHAKAR 22 : An NCDC Mission 2022 for New India

- ✓ Cooperatives: A Formidable Force with Farmers
- ✓ India has 01 MILLION COOPERATIVES with 300 MILLION MEMBERS, mostly FARMERS
- ✓ NCDC reaches the FARMERS DIRECTLY
- ✓ NCDC has extended financial assistance to DIVERSE RANGE of COOPS:
- ✓ Credit and Non-Credit Coops.
- ✓ Small (supplying inputs like fertilizers) to Very Large (Dairy/ Sugar / Textiles)
- ✓ Small Coop Banks to Large Coop Banks- UCBs, DCCBs, STCBs
- ✓ Small fish pond based activity to Large Export Oriented Prawn Processing units
- ✓ Small Consumer Stores to Large Retail Chains / Malls
- ✓ Small Health Centres to Large Hospitals
- ✓ NCDC is almost a ZERO NPA statutory organization ONLY for COOPS
- ✓ NCDC aims at cost reduction of inputs through their purchase by Coops in wholesale and output value enhancement through scaled up sales
- ✓ NCDC advances more than Rs.20,000 crore to Coops annually
- ✓ Comprehensive value addition focus through infrastructure, processing and Competitive credit to farmer members of cooperatives.
- ✓ NCDC has assisted Coops in about 400 Districts and has offices in 18 States.
- ✓ NCDC works with States / UTs closely.
- ✓ NCDC brings in respite from rigid formal credit institutions and exploitation of money-lenders and traders.

To achieve the Mission of New India by 2022 in Cooperatives, through Doubling the Farmers Income, NCDC would launch a new Mission Mode activity, SAHKAR 22

SAHKAR 22 would include

- ❖ FOCUS 222- Converge NCDC assistance for Cooperatives in 222 Districts
- ❖ PACS HUB- Transform PACS and other Coops as APNA KISAN Resource Centre
- ❖ AENEC- ACT East and North East Coops
- ❖ CEMtC- Centres of Excellence to Market through Coops
- ❖ SAHAKAR PRAGYA: Laxmanrao Inamdar National Academy for Cooperative Research & Development as Capacity Development base for SAHKAR 22

LINAC

NCDC had set up its own training institution in 1985 through a World Bank project. This Institution over time has become a major facility for developing competencies of cooperative sector professionals in India and abroad. Building upon the strength of the training Institution and to promote research and development in the cooperative sector, the Government of India in February, 2018 upgraded the institute with a broader mandate for training, research and consultancy and renamed it Laxmanrao Inamdar National Academy for Cooperative Research and Development (LINAC).

The Academy endeavors to develop its programmes and interventions with a strong client-orientation and inter-disciplinary perspective to strengthen institutional capabilities and human resources in cooperatives. The Academy organizes various kinds of training programmes throughout the year for the officials of NCDC assisted projects, State Cooperative Departments, Cooperative Federations / Societies and other organizations dealing with agriculture and allied sector. It also conducts training programmes for International participants.

Details regarding Functional Linkages of LINAC, Functions/ Activities, Training Calendar for the year 2019-20 etc. may be seen at NCDC website http://www.ncdc.in/Activities_files/Topic.htm

Procedure To Avail Financial Assistance from NCDC

Procedure of Sanction / Disbursal of Assistance

NCDC assistance is not individual beneficiary oriented but is meant for institutional development of Cooperatives. NCDC supplements the efforts of State Government. The State Governments recommend the proposal of individual society / project to NCDC in the prescribed schematic format. The Society may also avail direct funding of projects under various schemes of assistance on fulfillment of stipulated conditions. The proposals are examined in the concerned functional division and if need be on the spot field appraisal is undertaken. Thereafter, formal sanction of funds is conveyed to the State Govt. / Society. The release of funds depends on progress of implementation and is on reimbursement basis. The period of repayment of loan ranges from 3 to 8 years. The rate of interest varies from time to time.

Application Forms, Pattern of Assistance, Rate of Interest, Guidelines for Direct Funding, Project Profiles, Schemes etc. are available at NCDC website http://www.ncdc.in/index_files/Downloads.htm

Bringing Producer Organisations (POs), Farmers Producer Organisations (FPOs) and Self Help Groups (SHGs) into cooperative fold

In recent past various forms of collectives have been organised by primary producers like farmers, milk producers, fishermen, weavers, rural artisans, craftsmen and the general public in rural areas for improving their production and access to credit for taking up income generating activities. These are working parallel to the registered cooperatives broadly on the cooperative principles.

PO is a generic name for the organisation of producers of any produce, be it agril., non-farm products, artisans etc. In case produce is a non-farm item for example handloom or handcraft than the POs is of a non-farmers while if the members are farmers when it is called FPO. These are basically constituted to provide the benefit of economies of scale and cut the long chain of intermediaries to provide better return and also to enhance bargaining power. POs are registered under Indian Companies Act.

Self-Help Groups (SHGs) are voluntary associations of people to attain a collective goal. People who are homogenous with respect to social background, heritage, caste or traditional occupations come together for a common cause to raise and manage resources for the benefit of the group members. Few important characteristics of SHGs are:-

- Voluntary and small organizations, mostly of members, homogenous in terms of caste/occupation/farm size/sex or income
- Posses an economic objective, frequently along with other social objectives.
- Members have equal status and elect their own leadership in democratic manner.
- Functioning is participatory in character.
- Work on the basic concept of savings first and credit later
- These are not adhoc associations but have rules and regulations, bye-laws or constitution which may be in writing.
- Some of the SHGs are formal, registered organizations while the other are unregistered and informal associations.

SHGs are largely functioning as savings and credit group ensuring local and easy accessibility of loan to members to undertake economic activities. SHGs work on their own initially but later in order to meet the higher demands of funds by the members operate under SHG-Bank Linkage Programme with PACS/DCCBs, RRBs or commercial banks.

POs, FPOs and SHGs, however, face various constraints when they have to grow and increase their reach and volume of business to provide better returns to the farmers by engaging in marketing and value addition activities. The cooperatives being a pride and tested model are highly patronage by the government. Various kinds of schemes and programmes are available on the centre and state government for cooperative development. The machinery to guide, monitor, supervise and advice the cooperatives is in place and easily accessible. POs, FPOs and SHGs have limited access to funds while cooperatives can easily mobilise funds from the RFIs like DCCBs and other institutions like NCDC. The SHGs may not be registered and do not have legal status therefore find still difficult to mobilise funds. SHGs currently are only working or credit and need to have a legal status like cooperatives to upscale and become and enterprise to serve their members better. The govt. / NGO support is also available only to few selected ones in this SHGs. Many of them also fail due to interference from outside mostly political and also less of professionalism. It is also seen that SHGs when become large, sometimes become unmanageable. A large number of SHGs have saturated as credit group and needs to look beyond savings and credit services to provide end to end solution for sustainable livelihood in rural areas. There is an urgent need to expand by adopting right kind of business improvement of the skills, providing marketing linkages etc. which would be carried out effectively and efficiently if these register themselves as cooperatives in view of inherent advantages and available patronage from governments. As registered cooperatives, all type of collectives can have access to financial assistance including subsidy for business promotion and creating infrastructure and facilities besides professional guidance, training and promotional benefits.

Session 4:

Chapter 4: Preparation of Trading, Profit/Loss Accounts and Balance Sheet

FINANCIAL STATEMENTS

1. Financial statements of primary cooperatives would include the following statements:

   (i) Trial Balance
   (ii) Trading Account
   (iii) Profit & Loss Account; Appropriation of Profits
   (iv) Balance Sheet
2. Financial statements form part of the process of financial reporting and are drawn up with the objective of exhibiting truly and fairly the profitability and the financial position of the entity. Activity-wise trading accounts for each of the non credit activities will have to be prepared in a register form before preparing the summary trading account which is given in Annexure-V. the formats of the Trial Balance, Trading Account, Profit and Loss Account and Balance Sheet are given in Annexure I - IV. (Figures are to be given for the current year and for the previous year for comparison).
3. The trial balance which is an extract of balances in all the heads of accounts in the General Ledger and cash and bank balance is to be drawn up on a monthly basis. The format of the trial balance given hereafter incorporates opening balances, debits and credits during the month and closing balances, the debits and credits show the movement of the account during the month and the closing balances are the trial balances figures.
4. The profit and loss Account prepared at the close of the financial year discloses the manner in which the amount of profit or loss has been arrived at for the year. The items of income and expenditure which arose in the accounting year are detailed and grouped under relevant heads. The profit or loss has been ascertained; it is appropriated or distributed for various purposes. The manner of appropriation of the profit is either shown as a separate section in the profit and loss account or is prepared as a aspirate appropriation account. In addition to, the balance brought forward from the previous period, the balance of the profit and loss account of the current period is brought into the appropriation account. Appropriation of profits involves transfers to various reserves, setting aside amounts for payment of dividends etc. the formats of the Trading Account and Profit & Loss A/c may be used for arriving at the Income & Expenditure of the Entity on monthly basis.
5. The profit and loss Account is accompanied by a balance Sheet shows the financial position of an entity as on the basis of the Balance Sheet. The Balance Sheet is a classified summary of the balances of assets and liabilities remaining open in the General Ledger after all the income and expenditure accounts have been closed by transfer to the Profit and Loss Account. It shows the financial position of the business at a given date by disclosing the amount of capital contributed, how the same has been invested and the

values of assets and liabilities of the business as at the close of the period. Understandably, relevance, reliability and comparability are the four principal qualitative attributes that make the statements useful to stakeholders. Application of these qualities results in financial statements that present a true and fair view of the financial position and performance. The details of Steps for preparation of financial Statements of primary cooperatives. Explanatory Note and Annual Report are given in Annexure VI.

6. Annual Closing of Accounts

Ledger accounts of real and personal accounts as to be closed at the end of the year and the closing balances carried forward to the next year as opening balances. Balances in Nominal accounts are to be closed by transfer to be profit and loss account. The steps for closing the books of account and preparation of financial statements of PAVS are given in Annexure VI (Part 1).

7. Periodicity for financial Statements

The trial balance, trading account and profit and loss account may be prepared on a monthly basis while the balances sheet may be prepared on a yearly basis.

ANNEXURE - I

Trial Balance as on

(Last working day of the Month)

Month; …………… Year: ……….

LIABILITIES & INCOME

Head of account in GL (as per the prescribed list given in Annexure VII)	Folio No.	Opening Balance at the beginning of the month	Total of Debit during the month	Total of Credit during the month	Closing Balance
1	2	3	4	5	6(3+4+5)

ASSETS AND EXPINDITURE

Head of account in GL (as per the prescribed list given in Annexure VII)	Folio No.	Opening Balance at the beginning of the month	Total of Debit during the month	Total of Credit during the month	Closing Balance
1	2	3	4	5	6(3+4+5)

Note: No additional heads of accounts of GL to be added, other than the ones prescribed in Annexure VII.

ANNEXURE – II

TRADING ACCOUNT

For the month of ………………..Year……………

Particulars	Amount (Rs.)			Particulars	Amount (Rs.)	
	Current Year	Previous Year			Current Year	Previous Year
1. Opening Stocks				1. sales a/c including sale Tax		
				1a) Stock /Raw Material		
2. Purchase A/c				1b) Less Sales Return		
2a) Stock /Raw Material				1c) Net Sales (1a-1b)		
				2 Commission		
				3 Compensation		
2b) Less Purchase Return				4 Gunny Bags Sales		
2c) Net Purchase(2a-2b)				5. Other Trading Income		
3 Transport and other expenses on purchase				6 a) Gross Stock		
4 Salary for salesman/ manufacturing wages						
5 Factory expenses						
6 Insurance for stocks, godown				6b) Less: Value of stock in deficit and reduction in value of damaged / rejected stocks		
7 Godown rent						
8 Electricity charges						
9 Licence fee				6c) Net Closing Stock (6a-b)		

10 Interest on borrowing for the non-credit activates						
11 Other expenses						
12 Trading gross profit carried to main profit & loss account				7 Trading Loss carried to the main Profit & Loss Account		
Total				Total		

This is a composite format of manufacturing and trading profit and loss account relating to all activities. Where appropriate, separate accounts may be drawn up for manufacturing and trading.

ANNEXURE – III

FORMAT OF PROFIT AND LOSS ACCOUNT OF PRIMARY AGRICULTURAL CREDIT SOCIETY (PACS) FOR THE YEAR ENDED 31 MARCH 20…

Expenditure	Amount (Rs.)			Income	Amount (Rs.)	
	Current Year	**Previous Year**			**Current Year**	**Previous Year**
1 Gross loss transferred form Trading A/c				1 Gross Profit transferred from trading a/c		
2 Interest (Paid and payable) on				2 Interest on Loan and Advances (Received and Receivable)		
3 Establishment and other Expenses				3 Income on Investment		
4 Rent, Taxes, Electricity and repair costs on premises				3i) Interest on Deposits with Banks/institutions		
5 Insurance				3ii) Dividend on other investments		
6 Law Charges				4 Rental Income		
7 Postage and Telephone Charges				5 Admission Fees		
8 Printing and Stationery				6 Miscellaneous Income (specify details in annexure)		
9 Audit Fees						
10 Vehicle Expenses						
11 Travelling & Conveyance expenses						

12 Donations and Subscription						
13 Depreciation on properties						
14 Other Expenses						
15 Provisions for						
16 Profit for the year						
Total				Total		

*Applicable to PACS under two-tier system.

FORMAT OF BALANCE SHEET OF PRIMARY AGRICULTURALCREDIT SOCIETY (PACS)
As on 31 March (year)

S.No.	LIABILITIES	Breakup	31 Mar.200 (Current year)	31 Mar 200- (Previous year)
1.	Capital			
2.	Reserves and Funds (created out of surplus of PACS)			
3.	Profit and Loss Account (if closing balance is profit)			
4.	Grants and other funds			
5.	Deposits			
6.	Borrowings			

Sl.No.	**Assets**	**Breakup**	**31 March, 20__ (current year)**	**31 March, 20__ (Previous Year)**
1.	Cash on Hand			
2.	Balances with DCC Bank/SCB			
3.	Balances with Other banks/Institutions			
4.	Investments			
5.	Loans and Advances			
6.	Closing Stocks			

Session 5:

Chapter 5: Trial Balance, Reconciliation and Audit Compliance

Trial Balance

The trial balance is simply a list of names of the accounts, and the balances in each account as at a given moment of time, with debit balances in one column and credit balances in another column. The preparation of trial balance serves two principal purposes (i) it shows whether the equality of debits and credits has been maintained and (ii) it provides a convenient transcript of the ledger record as a basis for making adjustments and closing entries for preparation of final accounts.

FINAL ACCOUNTS

The final accounts of a business consists of :

(i) Manufacturing Account
(ii) Trading Account
(iii) Profit and Loss Account
(iv) Balance Sheet.

(i) Manufacturing Account :

When a concern is engaged in both production and selling activities it will have to open a manufacturing account in the general ledger. Manufacturing Account is balanced by adding debit side and finding the excess of debit over credit. The excess of debit over credit will indicate the cost of manufacturing of the finished goods. This balancing figure will be inserted in the credit side of the Manufacturing Account preceded by the word 'By cost of manufacturing' during the period transferred to Trading Account and the same figure will also be written on the debit side of a 'Trading Account' to be opened in General Ledger. In the Trading Account this figure will be preceded by the word 'To cost of production transferred from the Manufacturing Account'. Thus Manufacturing Account is closed and the cost of production of finished goods during the period is transferred to the Trading Account.

(ii) Trading Account

When a concern is engaged in trading activities only, there will be no Manufacturing Account. The Trading Account on its debit side will show certain entries regarding opening stock (of saleable goods), purchase less returns and expenses relating to purchase viz. freight, duty, carriage inward etc. The credit balance of sales account (less the debit balance of sales return accounts) will then be transferred to Trading Account by debiting the former account and crediting the latter account. The excess of credit total of trading account over the debit total is called the gross profit.

This amount is computed and an entry is passed by debiting this amount to Trading Account (preceded by the word 'To Gross Profit transferred to Profit and Loss Account') and crediting the Profit and Loss Account (preceded by the word 'By Gross Profit, brought over from Trading Account'). The Trading Account .thus indicates the gross result from selling of the goods.

(iii) Profit and Loss Account

At this stage Profit and Loss Account stands credited with gross profit. The Profit and Loss Account also stands adjusted with some of the adjustment entries like bad debts, depreciation, insurance, rent etc. All the debit and credit balances lying in different nominal accounts are then transferred to Profit and Loss Account. The debit balances are closed by entering the respective word 'By Profit and Loss Account'. The respective amounts are also entered on the debit side of the Profit and Loss Account preceded by the words To .... The credit balance of nominal accounts are similarly closed by passing debit entries to the respective nominal accounts preceded by the word 'To Profit and Loss Account'. In the credit side of the "Profit and Loss Account" the corresponding credit entries are inserted preceded by the word 'By ....'. Thus, the Profit and Loss Account on its credit shows Gross Profit and items of miscellaneous incomes and on its debit shows Gross Loss and expenses incidental to carrying of the business and arising in course of running the business. The excess of credit side over the debit side is known as net profit and the excess of debit side over the credit side is known as net loss. The net profit or net loss is transferred to Capital Accounts) in case of proprietary or partnership business and to an account called Profit and Loss Appropriation Account in case of corporate business.

(iv) The Balance Sheet

A balance sheet shows the financial position of an organization as on a specified moment of time; in fact it is sometimes called a statement of financial position. It is therefore a status report, rather than a flow report. After Trial Balance is prepared; adjustments entries passed, and revenue accounts drawn up, all the nominal accounts will stand closed. The accounts still remaining open in the general ledger will represent either personal accounts or real accounts. The balance remaining after the preparations of Trading and Profit and Loss Account in the Trial Balance represents either assets or liabilities existing on the date of the closing of the accounts. When they are arranged in a proper manner, the resultant statement is called 'Balance Sheet'.

Only the relevant particulars are extracted from the general ledger. The balance sheet is prepared on a certain date and not for a period. Therefore, it is true only on the date of its preparation and not on any other day. Secondly, the total of liabilities including capital must be equal to total of assets, otherwise it means that the double entry system of book keeping has not been followed properly in respect of all the transactions.

RECONCILIATION OF ACCOUNTS AND AUDIT COMPLIANCE

Adjusting Entries

Why adjusting entries are needed

In order for a company's financial statements to be complete and to reflect the accrual method of accounting, adjusting entries must be processed before the financial statements are issued. Here are three situations that describe why adjusting entries are needed:

Steps for Recording Adjusting Entries

Some of the necessary steps for recording adjusting entries are

- You must identify the two or more accounts involved
    - One of the accounts will be a balance sheet account
    - The other account will be an income statement account
- You must calculate the amounts for the adjusting entries
- You will enter both of the accounts and the adjustment in the general journal
- You must designate which account will be debited and which will be credited.

Types of Adjusting Entries

We will sort the adjusting entries into five categories.

1. Accrued revenues	Revenues (and the related receivables) have been earned, but the sales invoices have not yet been processed.
2. Accrued expenses	Expenses (and the related payables) have been incurred, but the vendors' invoices have not been completely processed.
3. Deferred revenues	Money was received in advance of having been earned.
4. Deferred expenses	Money was paid for a future expense.
5. Depreciation expense	An asset was purchased in one period, but its cost must be allocated to expense in each of the accounting periods of the asset's useful life.

1. Accrued Revenue

Under the accrual method of accounting, a business is to report all of the revenues (and related receivables) that it has earned during an accounting period. A business may have earned fees from having provided services to clients, but the accounting records do not yet contain the revenues or the receivables. If that is the case, an accrual-type adjusting entry must be made in order for the financial statements to report the revenues and the related receivables.

If a business has earned $5,000 of revenues, but they are not recorded as of the end of the accounting period, the accrual-type adjusting entry will be as follows:

Accrued Receivables	5,000	
Service Revenues		5,000

2. Accrured Expenses:

Under the accrual method of accounting, the financial statements of a business must report all of the expenses (and related payables) that it has incurred during an accounting period. For example, a business needs to report an expense that has occurred even if a supplier's invoice has not yet been received.

To illustrate, let's assume that a company utilized a worker from a temporary personnel agency on December 27. The company expects to receive an invoice on January 2 and remit payment on January 9. Since the expense and the payable occurred in December, the company needs to accrue the expense and liability as of December 31 with the following adjusting entry:

Temporary Help Expense	200	
Accrued Liabilities		200

3. Deferred Revenues

Under the accrual method of accounting, the amounts received in advance of being earned must be deferred to a liability account until they are earned.

Let's assume that Servco Company receives $4,000 on December 10 for services it will provide at a later date. Prior to issuing its December financial statements, Servco must determine how much of the $4,000 has been earned as of December 31. The reason is that only the amount that has been earned can be included in December's revenues. The amount that is not earned as of December 31 must be reported as a liability on the December 31 balance sheet.

If $3,000 has been earned, the Service Revenues account must include $3,000. The remaining $1,000 that has not been earned will be deferred to the following accounting period. The deferral will be evidenced by a credit of $1,000 in a liability account such as Deferred Revenues or Unearned Revenues.

The adjusting entry for this deferral depends on how the receipt of $4,000 was recorded on December 10. If the receipt of $4,000 was recorded with a credit to Service Revenues (and a debit to Cash), the December 31 adjusting entry will be:

Service Revenues	1,000	
Deferred Revenues		1,000

If the entire receipt of $4,000 had been credited to Deferred Revenues on December 10 (along with a debit to Cash), the adjusting entry on December 31 would be:

Deferred Revenues	3,000	
Service Revenues		3,000

4. Deferred Expenses:

Under the accrual method of accounting, any payments for future expenses must be deferred to an asset account until the expenses are used up or have expired.

To illustrate, let's assume that a new company pays $6,000 on December 27 for the insurance on its vehicles for the six-month period beginning January 1. For December 27 through 31, the company should have an asset Prepaid Insurance or Prepaid Expenses of $6,000.

In each of the months January through June, the company must reduce the asset account by recording the following adjusting entry:

Insurance Expense	1,000	
Prepaid Insurance		1,000

5. Depreciation Expense:

Depreciation is associated with fixed assets (or plant assets) that are used in the business. Examples of fixed assets are buildings, machinery, equipment, vehicles, furniture, and other constructed assets used in a business and having a useful life of more than one year. (However, land is not depreciated.)

Depreciation allocates the asset's cost (minus any expected salvage value) to expense in the accounting periods in which the asset is used. Hence, office equipment with a useful life of 5 years and no salvage value will mean monthly depreciation expense of 1/60 of the equipment's cost. A building with a useful life of 25 years and no salvage value will result in a monthly depreciation expense of 1/300 of the building's cost.

Reversing Entries

The first two categories of adjusting entries that we had discussed above were:

1. Accrued revenues
2. Accrued expenses

These categories are also referred to as accrual-type adjusting entries or simply *accruals*. Accrual-type adjusting entries are needed because some transactions had occurred but the company had not entered them into the accounts as of the end of the accounting period. In order for a company's financial statements to include these transactions, accrual-type adjusting entries are needed.

In all likelihood, an actual transaction (that required an accrual-type adjusting entry) will get routinely processed and recorded in the next accounting period. This presents a potential problem in that the transaction could get entered into the accounting records twice: once through the adjusting entry and also when it is routinely processed in the subsequent accounting period. The purpose of reversing entries is to remove the accrual-type adjusting entries.

Reversing entries will be dated as of the first day of the accounting period immediately following the period of the accrual-type adjusting entries. In other words, for a company with accounting periods which are calendar months, an accrual-type adjusting entry dated December 31 will be reversed on January 2.

To illustrate, let's assume that the company had accrued repairs expenses with the following adjusting entry on December 31:

Repairs Expenses	6,000	
Accrued Liabilities		6,000

This accrual-type adjusting entry was needed so that the December repairs would be reported as 1) part of the expenses on the December income statement, and 2) a liability on the December 31 balance sheet.

On January 2, the following reversing entry is recorded in order to remove the accrual-type adjusting entry of December 31:

Accrued Liabilities	6,000	
Repairs Expense		6,000

The reversing entry removes the liability established on December 31 and also puts a credit balance in the Repairs Expense account on January 2. When the vendor's invoice is processed in January, it can be debited to Repairs Expenses (as would normally happen). If the vendor's invoice is $6,000 the balance in the account Repairs Expenses will show a $0 balance after the invoice is entered. (The $6,000 credit from the reversing entry on January 2, plus the $6,000 debit from the vendor's invoice equals $0.) Zero is the correct amount because the expense of $6,000 belonged in December and was reported in December as the result of the December 31 adjusting entry.

Some accounting software will allow you to indicate the adjusting entries you would like to have reversed automatically in the next accounting period.

Bank Reconciliation Statement

Introduction and Importance of Bank Reconciliation Statement (BRS)

To keep a record of business transactions, a Bank Reconciliation Statement (BRS) comes into play. Bank Reconciliation Statement is a statement which records differences between the bank statement and general ledger. The amount specified in the bank statement issued by the bank and the amount recorded in the organization's accounting book maintained by Chartered Accountant might differ. A BRS checks entries on a monthly basis to avoid any future discrepancy. A BRS means matching records for a cash account entries corresponding to the bank statement. BRS checks the dissimilarity found between the two and makes appropriate changes. In this article, we will discuss the bank reconciliation format and how to prepare it.

What is the Bank Reconciliation Statement (BRS)?

A bank reconciliation statement is a summary of business activity that reconciles financial details. It ensures that payments have been processed and money has been deposited on the same date. An accountant prepares the reconciliation statement once a month.

Bank Reconciliation Statement:

Particulars	Amount (Rs)	
Balance as per pass book(Cr) (Positive) (Favourable)		10000
Add: 2) Cheques deposited but not credited 4)Bank charges unrecorded	2000 10	2010
		12010
Less: 1) Cheque issued but not cleared 3) bank interest received unrecorded in cash book	5000 50	5050
Calculate balance as per cash book (Dr) (Positive) (Favourable)		6960

The bank prepares a bank statement including cash deposits and withdrawals for a month. Whereas, accounting record book records the same entries by the hands of the accountant. Due to the difference in publishing firms, errors might creep in. Bank reconciliation helps in substituting those differences. In simple words, to eradicate two different versions of the same document.

Difference Between Bank Reconciliation Statement and Company's Ledger

1. Cheque issued by the company not delivered for payment

Before the end of the month (i.e. time of BRS generation) if a company issues a cheque and it is not handed for payment, it would not be counted as debit amount. This might become a discrepancy.

2. Deposits entered in ledger but not stated in the bank statement

The depositor might submit some amount in his account. If the payment is not recorded in the bank statement, it will make a difference. Whereas a depositor will never forget to add an entry for the same.

3. Interest rates may diffe

The interest rates differ from bank to bank. Ledger may contain entries with a slight difference in interest. Also, interests on some entries might out in ledger!

4. Service charges might not be applied properly

Banks provide various services to their users with applicable service charges. Like interest rates, service charges can be missed.

5. NSF Check might cause an error

NSF (Not Sufficient Funds) is a highlighted issue. Bank officials add money in beneficiary's account after receiving a cheque.

If a sufficient amount is not present in payee's account, it deducts the amount from the beneficiary's account. The bank returns the cheque to the payee with NSF Check. The entry might be saved as an added amount and causes an error in the company's ledger.

Steps to Prepare Bank Reconciliation Statement:

Initial Check

First of all, compare the records in the company's bank statement and ledger cash account. Check off records that match. Check whether all records in ledger clear the bank account statement. Reconciliation at this stage removes major faults.

Deposit Check

Once the initial check is complete, mark all items remained in the ledger. Add any transit deposits accounted in ledgers that might not appear in the bank statement. Hence, the case of transit deposits occurs due to transactions made just before bank holidays or non-working hours. Transit deposits are deposits that are currently in pending status and therefore, bank statement can't note them.

Interests earned

Add the interests earned noting accurate interest rates. It applies only to interest-bearing accounts.

Bank errors

After all, officials working in the bank are humans like us. They might mistakenly interchange entries for two different account statements. Or they might record wrong entries. Add or delete bank errors accordingly.

Outstanding Checks

Deduct outstanding checks from overall balance.

Check ledger errors

A bank provides facilities for which it charges. Like transfer charges, account maintenance charges, late payment charges, etc. Deduct bank service charges from the ledger.

Check Reconciliation

Ledger may contain posting a payment that didn't reach completion. Make necessary amendments. Check it carefully before adding in the bank statement.

Equate Final Balance

The overall balance must match to finalize reconciliation.

Journal Entries

As a part of this process, you might require to prepare some journal entries to correct errors. These errors are those which interrupt during bank statement and general ledger comparison.

Importance of Bank Reconciliation Statement

There's no point in saying that banks aren't trustworthy. But there is no harm in double-checking the bank statements with ledgers. After all, bank accounts hold our assets. Segregation of duties makes it possible to rectify errors at a better speed. Hence, the identification and correction of errors are necessary. Neither bank nor you would like to meet a loss. Reconciliation also assists in monitoring the flow of cash in a business.

Conclusion

BRS proves to be a useful tool in fixing irrelevant faults in bank statements. Bank statements are useful in huge transactions and in making Income Tax Return (ITR) statements. We can call it a basic medium of operation in banking. If basic is not justified, unidentified problems arise with further documents.

Reconciliation makes the bank statement error-free and clears additional charges. Therefore, before closing the accounting chapter in the banking book, reconciliation checks whether the closing page hits green light i.e. ending is correct and safe.

AUDIT SYSTEM AND PROCEDURE

Audit is a specialized function having complex legal ethical and economic implications. The auditors, as independent professional, lend credibility to the financial statement of organizations in which millions of people have a stake either individually or through the state. The Auditor, therefore, has come to enjoy a destructive professional status in society.

Classical definition of Auditing:

"Auditing is being concerned with the verification of accounting data, with determining the accuracy and reliability of accounting statements and report".

Modern Definition of Auditing:

Auditing is a systematic examination of financial Statement, and operationally related records to determine adherence to generally accepted accounting principle, Management policies or stated requirement.

An Auditor has to develop his Audit:

Programme on an intelligent application of various factors, some of which are listed below:

1. The terms of reference: These refer to the legal or contractual requirements concerning an audit. The exact nature of audit step require in a particular audit depends upon what exactly is required to be done and what type opinion is required from the Auditor.
2. Acquaintance what the organization, its nature and Environment: A study of the type of organization, its structure and management pattern and the nature of business helps the auditor to plan his audit programme in consonance with the realities of the situation.
3. Review and Analysis if internal control and Accounting system: This helps the auditor in evaluating the reliability of systems on the basis of which the nature and extents of verificatory audit steps can be determined. The auditor should identify crucial areas such systems must be particularly tested.
4. Testing Arithmetical Accuracy of Records: The nature and extent of these test would depends upon the manner and type of records maintained.
5. Collection and Evaluation of Evidence in support of transaction: This is the most crucial of an audit programme. The auditor must determine what kind of additional matter can be obtained in support of the various monetary transactions.
6. Disclosure Requirement and expression of Operation: An awareness of the disclosure requirement in a given audit situation must be included in designing audit programme. He should cover the various facts the organization in a manner so as to enable him to express an opinion in the accounting statements. As well laid out and implemented audit programme helps an auditor to arrive at proper conclusions regarding the accounting statements and thus help him to formulate his opinion.

Technique of Auditing:

- Physical Examination
- Confirmation
- Examination of documents and their comparison with records
- Recomputation
- Retracting Book- keeping procedures
- Scanning
- Inquiry
- Examination of subsidiary records
- Analysis of Financial Statements
- Co-relation with Related information
- Flood charting

Standards of Auditing:

The American Institute of Certified public Accountants (AICPA) lists the following as the generally accepted auditing standards:

General Standards:

1. The examination is to be performed by the person or persons having adequate technical training and proficiency as Auditor.
2. In all matter to the assignment, independence in mental attitude is to be maintained by the auditor or auditors.
3. Due professional care is to be exercised in the performance of the examination and the preparation of the reports.

Standards of Field Work:

1. The work is to be adequately planned and assistants, if any, are to be properly supervised.
2. There is to be proper and evaluation of the existing internal control as a basis for reliance there on and for the determination of the resultant extent of the test to which auditing procures are to be restricted.
3. Sufficient competent evidential matter is to be obtained through inspection, observation inquires and confirmations to effort a reasonable basis for an opinion regarding the financial statement under examination.

Standard of Reporting:

1. The report shall state whether financial statements are presented in accordance with generally accepted accounting principles.
2. The report shall whether such principles have been consistently observed in the current period in relation to the preceding period.
3. Information disclosures in the financial statement are to be regarded as reasonably adequate unless otherwise stated in the report.

Co-operative Audit:

A Co-operative Society is a social organization with a view to meet economic need of members formed it and having stake in it. The objectives of such organization are being implemented through operations in monetary terms and the operations are based on public money. Hence, audit is compulsory to examine the use of public money in an every event. Therefore, Audit is made statutory in case of Co-operative Societies in India.

Co-operative audit may be defined as an examination of accounts and enquiry into the affairs of the society in order to ascertain the correctness of accounts and the extent to which the activities of societies were useful in promoting the socio-economic and welfare of its members through the satisfaction of their needs in accordance with the principles of co-operation. It is both financial audits as well as administrative audit must also ensure objectivity and independence of audit. But co-operatives audit must also ensure examination of the activities of the society beyond financial audit so as to ascertain how far the society has been able to carry on the business on sound cooperatives lines and has secured the material and moral improvement of its members, so the staff entrusted with audit should have a right type of attitude and training. They should possess a cooperative background and an appropriate outlook in relation to the working of cooperatives. The idea of co-op, Audit is to ensure management in accordance with sound business principles or prudent commercial practices.

The Accounts every cooperative Society is required to be audited at least once in each co-operative year at the expense of the society. The Registrar of cooperative Audit is responsible for audit.

The Board of Co-operative Societies may also arrange internal audit.

Procedure of Audit:

The audit shall be conducted at the office of society with prior intimation to the society. It is incumbent upon the officers and employees of the Society to render all assistance to the audit officer towards completion of audit.

- Verification of cash balance and securities.
- Valuation of asset and liabilities.
- Examination of overdue debts.
- Verification of balance at the Credit of the Depositors and Creditors and the amount due from the Deviators of the Society.
- An examination of the monitory transactions including propriety of the transactions.
- Submission of statement on stock and purchases and checking of the entries in stock and purchases and checking of the entries in stock register, purchase register and godown
  Register with challans invoices and delivery order etc.
- Verification of closing balance together with reconciliation between stock balance as per Book and physical verification.

- As curtailment of overdue loan and overdue interest at the end of the cooperative year.
- Examination of the provision of overdue interest in suspense.
- The audit must include in addition above items such other matters as the Director of Co- operative Audit RCS may order specify.

In course of Audit, and audit officer can give audit objection to the Secretary who has to reply in seven days time.

Power of RCS Audit:

- To appoint audit officer
- To draw up audit programme.
- To receive annual return.
- To modify audit statement of accounts.
- To accept audit report.
- To accept rectification reports.
- To direct rectification of defections and
- To receive complains reporting in respect there to.

Audit Officer's report:

The audit officer is required to submit the report together with statement of accounts on completion of audit year to the RCS and to the cooperative Society, the audit report must incorporate the following:

1. Transactions that are contrast or any direction given by the Director of Cooperative Audit RCS.
2. Sums which are required to be brought into account but have not been so done.
3. Deficiency Or Loss Occurring due to negligence for which further investigation is necessary.
4. Misappropriation or fraudulent retention of society's money, stock or property.
5. Bad or doubtful assets.
6. An audit certificate.
7. Material impropriety or irregularly in the expenditure or relation of money due to the society.
8. The audit report will contain the objection which has not been satisfactory replied.

The audit report shall include certification of realized profit, mentioning of the cooperative society suggestions for improvement of the working of the society. While conducting audit, if it is found by the Audit officer that there exists a case of serious irregularity in the nature of misappropriation or embezzlement or pilferage or violation of the provisions of law, he is required to intimate such irregularly to the RCS in a special confidential report under sealed cover expeditiously. Action in the matter is required to be taken by the director of co-operative Audit under the Rule.

Trading Accounts-for Different Non-Credit Activities-Summary Position there
To be maintained as Register (will not form part of Financial Statement

Annexure-V

(Amount in Rs)

Sl.No.	Item	Opening Stock	Purchases	Purchases Returns	Net Purchases	Godown Rent	Transportation expenses	Salary of Salesmen	Insurance for stocks/godown	Interest on borrowings	Other expenses	Total expenses (3+6+7+8+9+10+11+12)	Sales	Sales Return	Net Sales	Commission Compensation	Gunny bag sales	Other trading income	Gross closing stock	Value of deficit rejected impaired stock	Net Closing stock	Total Income (16+17+18+19+22)	Gross Profit (Loss taken to P&L A/c)
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
1	Trading of Agricultural Inputs																						
i.	Fertilisers																						
ii.	Seeds																						
iii.	Pesticides																						
iv.	Others																						
v.	Sub-Total																						
2	Trading of Public Distribution System (PDS) items																						
i.	Wheat																						
ii.	Rice																						
iii.	Sugar																						
iv.	Kerosene																						
v.	Others																						
vi.	Sub-Total																						
3	Trading of Non-PDS Items																						
i.	Grocery																						
ii.	Cloth																						
iii.	Others																						
iv.	Sub-Total																						
4	Foodgrains & Other commodities under Govt. Procurement Scheme																						
i.	Foodgrains																						
ii.	Pulses																						
iii.	Edible Oil																						
iv.	Others																						
v.	Sub-Total																						
5	Programmes like Mod-day Meal Scheme etc.																						
i.	Foodgrains																						
ii.	Pulses																						
iii.	Edible Oil																						
iv.	Others																						
v.	Supply of Meals/Food Items																						
vi.	Sub-Total																						
	Grand Total {1(v),2(vi), 3(iv), 4(v) and 5 (v)}																						

g activity. (ii) Electricity and godown rent should be proportionate to the activity