

PN-ABY-600

ISN 99367

**Hhohho Fruit And Vegetable Cooperative Society
and
Khulumela Kwenta Cooperative Society**

Operational Manual : Bookkeeping Guide

**Swaziland Commercial Agricultural Production And
Marketing Project**

March, 1996

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TABLE OF CONTENTS

- A. General
- B. Accounts, Books, Ledgers, Journals to be kept
- C. Reports and Statements to be generated
- D. Accounting Procedures
- E. Reporting Procedures

A. General

Accounting is concerned with the recording of data generated by a business activity. Accounting is often referred to as bookkeeping, this term came in to usage, since until recently all accounting data was recorded into books, also called ledgers or journals. Accounting records provide the data needed to determine the measures of income and financial progress of a business over time, planning changes in the business and analysing the success or failure of such changes. Such records also enable a determination of the resources owned by a business, what is owned by the business, how well the business is performing financially, and the strengths and weaknesses of a business. In all but the simplest business, the amount of financial data generated by normal business activity is so great that the details cannot be committed to mind but require that written records of the data be kept. Records must not only be kept, but they must be classified and summarised in a systematic way so that the results are meaningful to the business owner and others who may require them. Accounting is, therefore, a means of: recording data generated by a business venture, classifying and summarising the data into useful forms, and most importantly communicating what has been learned from the data. Potential users of accounting information include:

- the owners of the business. They will want to know if the business is profitable, what the resources of the business are, compare financial progress over time, make plans for the future and many other facts that analysis of the business accounts can yield.
- management. Accounting information provides management with a vital tool in guiding the affairs of the business and making intelligent decisions.
- the bank. If the owners wish to obtain credit to fund business operations, the bank will require such information. The bank will want to ensure payments of interest will be made and that the business will be able to repay loans when due.
- tax inspectors and other government agencies involved in the supervision of business affairs.. Proper accounting is generally required for legally registered companies, including co-operative associations, for tax and other purposes.
- other parties. These could include: prospective buyers, potential investors, businesses supplying goods on credit, and others.

Cost accounting is the application of accounting procedures to establish what a job or product costs. Costs are divided into direct costs and indirect costs. Direct costs are the costs of goods and materials directly involved in the production process.

These items can be further divided into fixed and variable costs. Indirect costs are also known as overheads. These are costs which do not contribute directly to the production process. Included are such things as management salaries, telephone, plant maintenance, and other items. Cost accounting is important in determining selling price, may reveal areas where costs may be reduced, indicates productivity of labour and machines, and other applications.

Budgeting is another important application of accounting techniques that is useful in decision making. Budgeting is a method of testing changes in business operations or production processes before they are initiated. Such changes can be in the cost of packaging, transportation, new machinery etc. Budgeting assists in determining the effect on net returns to the business as a result of anticipated changes. Partial budgets are used for changes affecting only a small portion of the overall operation. Complete budgets are used to evaluate changes which have repercussions on all or most facets of the business. Budgeting is a practical means of economically evaluating prospective changes in operations. It does not indicate optimal levels or types of operations, but provides a means of selecting the better of a limited number of alternatives.

A cash flow budget is a method of looking ahead and seeing where funds are going to come from and when expenses will have to be met. The cash flow budget gives a clear idea of the actual cash requirements of the business and records cash movements into and out of the business. It will indicate how much cash is needed and when. The cash flow budget will indicate unexpected shortages and give time to raise the necessary funds.

The whole of financial accounting is based on a very simple concept, known as the accounting equation. This can be written as: Resources in the business = Resources supplied by the owner. The resources supplied by the owner is called capital. The actual resources in the business are called assets. The equation may now be written as: Assets = Capital. In most instances, however some one other than the owner supplies some of the assets. Liabilities is the term applied to the amounts owing to other people for assets. The accounting equation is now changed to: Assets = Capital + Liabilities. It is a fact that both sides will equal one another. This will always be true no matter how many transactions there may be. The actual amounts of assets, capital, and liabilities may change, but the total of the assets will always equal the total of capital plus liabilities.

Assets consist of property of all kinds, such as buildings, machinery, stocks of goods, and vehicles. Assets would also include: debts owed by customers and money in the bank. Liabilities consist of money owing for goods supplied to the business, and for expenses. Loans made to the business are also included. Capital is often referred to as the owner's equity or net worth.

As a result of the equality of the accounting transaction, every business transaction affects two items. It may increase assets and increase liabilities, increase some assets while decreasing others, decrease assets and liabilities, increase assets and capital, decrease assets and capital or decrease liability and increase capital. The net result is that for each transaction the total of assets equals the total of capital and liabilities.

The keeping of accounting records for a business involves the following steps. Every transaction must be documented, for example on a receipt, invoice, cheque, etc. The data on the documents is summarised in journals, e.g. cash receipts journal, cash payments journal, etc. The summarised data is posted to the ledger. The ledger is a

book where records accounts are debited or credited. Cash receipts are debited to the bank account and cash payments are credited to the bank account. The accounts may be classified in various ways depending on the nature of the business. A common system of classifying accounts is into assets, liabilities, expenses, income, and owners equity. At regular intervals, daily, weekly, monthly, the accounts are totalled or balanced and a list of accounts are drawn up to check that debits equals credits. At the end of a financial period or accounting period, usually a year, the accounts are adjusted, closed, and balanced. The trading and profit and loss accounts will show whether a profit was made or not. The following statements will be drawn up from the accounts in the ledger. The income statement showing total expenses and income for the year and profit or loss made. The balance sheet gives the owner's equity, assets, and liabilities on a certain date.

The profit and loss account and the balance sheet are multi-purpose documents. Depending on the company and the information required other reports or accounts may be desired. The accountant is often faced with the dilemma of giving clients information they are asking for or the information they should be asking for.

It may be surprising to note that there is no "overall accepted theory of accounting". This is pleasing to many practical accountants and frustrating to many academic accountants. Accounting theory does provide a frame of reference in which to judge accounting practices and guides the development of new practices and procedures. It must also be pointed out while there is no overall accepted accounting theory, there are legal and other regulations governing financial accounts which must be observed, and generally accepted standard accounting methods have been developed.

No matter which system is employed and which accounts kept and reports and statements generated, they should have the following characteristics of useful information:

1. Relevance.

The information supplied should satisfy the needs of its users. This is regarded as one of two main qualities.

2. Reliability.

The information provided should stand up to independent scrutiny, this will enhance the reliance that can be placed on such information. Reliability is considered to be the other main quality.

3. Objectivity.

Information which is free from bias will be more useful and reliable than information which is not. Management is often guilty of introducing bias to enhance the measure of it's performance, it is the auditor's job to counter this tendency and ensure objectivity.

4. Ability to be understood.

Information will not be of much use unless it is presented in a form that the recipient can understand and use.

5. Comparability.

Users of accounts will want to compare them with previous and future accounts of the same company and those of other businesses: without comparability, accounts would be of little use.

6. Realism.

Accounts should give an accurate and fair view.

7. Consistency.

A basic concept in accounting, this does not preclude adoption of new and improved methods or changes to keep pace with changes in the nature or complexity of the business.

8. Timeliness.

Up to date information is more useful than outdated news.

9. Economy of presentation.

Too much detail can obscure important details and present difficulty in understanding. In addition, accounting is costly and unneeded or unwanted information will increase the businesses costs.

10. Completeness.

A well rounded presentation of the company's activities is needed.

B. Accounts, Books, ledgers, Journals to be kept:

- produce delivery (receival)(field agent collection record) books - for deliveries of farmers produce.
- receipt (cash sales) books.
- invoice (credit sales) books.
- payment voucher book - used to provide details of any payments.
- cheque book
- cash analysis book - 2 are used, columns are maintained for cash, bank (current account), and such expense and income ledger accounts columns as are necessary for efficient accounting and management.

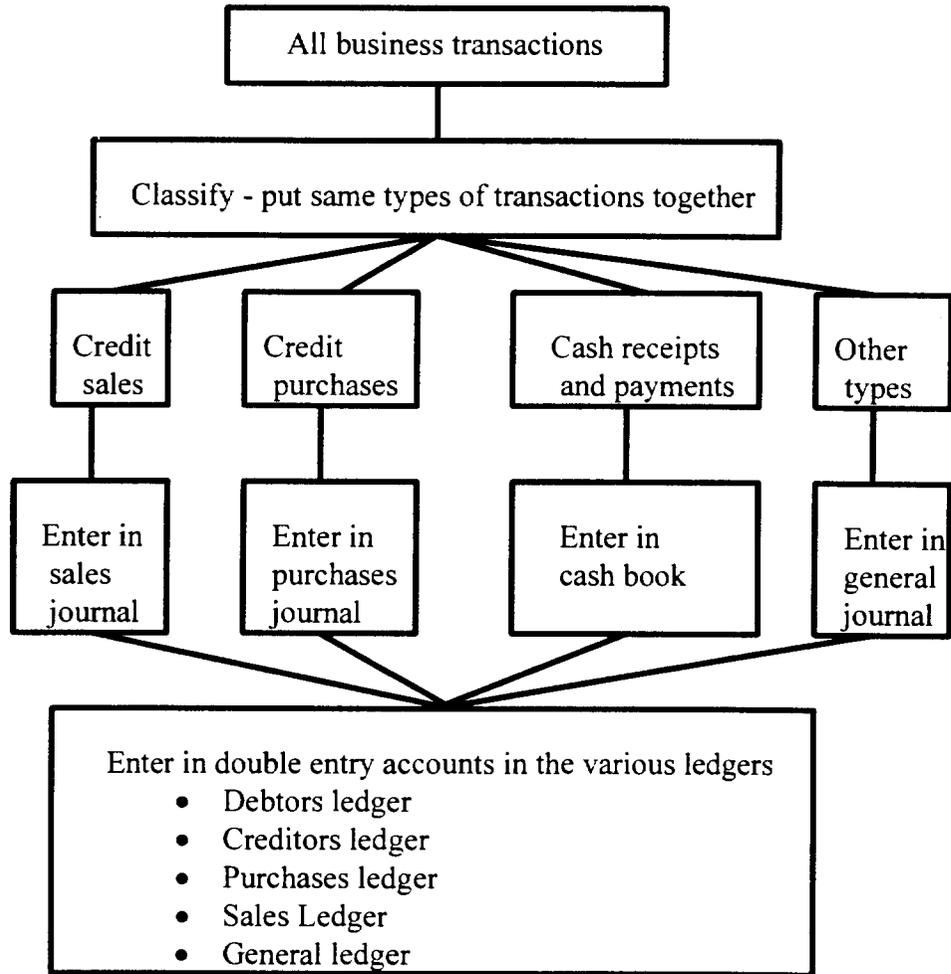
1. income cash analysis book.
2. expense cash analysis book.

- sales journal - a chronological record of all credit sales.
- purchases journal - a chronological record of all credit purchases.
- creditor accounts (accounts payable) ledger - a separate ledger account is to be set-up for each individual creditor to whom the co-op owes money.
- debtor accounts (accounts receivable) ledger- a separate ledger account is to be set-up for each individual debtor who owes the co-op money.
- order book - to document orders placed by the society.
- checking account journal - this is currently done in the cash book using the bank column.
- inventory book - inventory accounts of all items that are traded or otherwise received or depleted on a regular basis.
- stock cards - maintained for all assets held by the co-op.
- member accounts ledger - debtor and creditor accounts are maintained for each co-op member, in addition to good bookkeeping practice, individual co-op member accounts are required by law.
- lug box account ledger - separate lug box accounts are to be maintained for each member, customer, and any other entity to whom lug boxes are loaned, as well as a pack shed lug box account.
- sales (income accounts) ledger - a separate income account is maintained for each income account set-up in the cash book.
- purchases (expense accounts) ledger - a separate expense account is maintained for each expense account in the cash book.
- share register - a listing of each member and the amount of shares owned as well other pertinent information, name, address, beneficiary, etc. required by co-op law.
- general ledger - contains accounts which do not belong in other ledgers
 - asset accounts - a separate account is maintained for each asset owned by the society, that is not recorded in the income account ledger.
 - liability accounts - a separate account is maintained for each liability owed by the society, that is not recorded in the expense account ledger.
- wages and salaries book - a listing of all employees, hours worked, overtime, salary payments, etc., required by the Department of Labour.

Note: All transactions are to be accompanied by proper documentation such as petty cash vouchers, delivery notes, receipts, invoices, credit notes, etc. In cases, where there is no accompanying documentation, the accounting staff of the co-op creates original documentation, by writing for example, a receipt for cash received, or a delivery slip for farmers produce received, or an invoice for goods supplied on credit, etc.. These must be filed and retained by the co-op (usually for at least three years) as supporting documentation and actual proof of each transaction posted to the books.

Figure 1.

DIAGRAM OF ACCOUNTS



C. REPORTS AND STATEMENTS TO BE GENERATED:

- daily cash control report
- member's payment record
- weekly sales analysis
- creditor (accounts payable) report
- debtor (receivable accounts) report
- trading profit and loss statement
- trial balance
- balance sheet
- other reports

Features to be incorporated into the accounting package:

- simplicity, while providing adequate detail to provide informational needs of the societies committee, management, and members,
- provide data needed to produce such reports as required by members and management for the efficient and transparent operation of the societies affairs
- insure that farmers are paid correctly, accurately, and on time for goods delivered to the co-operative,
- ensure that buyers accounts are credited for produce received and debited for payments made, track timeliness of payments,
- be designed with ability to expand to accommodate future growth of association,
- provide proper control of cash and material assets,
- computer adaptable with paper backup,
- protection of data, through duplication, triplication,
- meet legal requirements embodied in the co-op by-laws and the laws of the Kingdom of Swaziland,

D. Accounting Procedures.

The entire physical process involved in the receipt of produce is covered in the co-op's Produce Receipt Policy. This section will cover only those aspects of the delivery of produce involved in the accounting procedures used by the society.

All deliveries of produce to the pack shed by members must be recorded in the produce delivery book. This book is alternatively called the receipt book or field agent collection record. Information regarding the delivery is recorded in triplicate. A separate page is used for each item delivered by a farmer, e.g. Nema tomato, Floradade tomato, green pepper, etc. The delivery note serves as an official receipt for the farmer for produce delivered and the original is given to him. The farmer's copy verifies the delivery. It is very useful when errors occur as it provides a reference or starting point for the co-op management or bookkeeper in their investigations.

It must be remembered that members produce is delivered to the pack shed on a consignment basis. This means that prices paid to members are determined by calculating the average price received for the sale of all produce of a particular variety and grade for a set period. The period used is currently a week, and runs from Saturday of one week to Friday of the following week. The weekly pooling period is set to coincide with the normal weekly marketing cycle.

It is recommended that all produce from members is accepted on a consignment basis only. Consignment means that the society acts as the farmer's representative or agent in the marketing of his produce. The co-op does not take title to and therefore does not own the produce it handles. This arrangement is justified by the fact that as owners of the co-operative society, any risk or loss will automatically fall back on the members as owners of the society. Consignment also assists in

protecting the financial integrity of the co-op business from unforeseen losses arising from: grading and handling, shrinkage and spoilage, fluctuating prices, inability to market, and any other circumstance resulting in the loss of produce,

Produce delivered to the pack shed is received by the quality control supervisor or receival clerk. (Note: When volumes are low, the quality control supervisor and receival clerk are one and the same at the pack shed. When volumes increase, the co-op employs individuals to fill both positions. In addition, there is an additional receival clerk, during peak seasons, to accompany co-op transport and receive produce in the fields.) It is examined for quality, maturity, and defects. If it meets minimum standards, it is accepted into the pack shed. If it does not meet minimum standards, it is returned to the farmer, with an explanation of why the produce can not be accepted.

Once the quality control supervisor screens a lot of vegetables and accepts it for delivery to the pack shed, it must be recorded into the produce delivery book. This provides the society with an original record of the delivery of a farmer's produce at the pack shed and provides the farmer with a physical receipt confirming his delivery to the pack shed. This is the beginning of the accounting process with regard to the receival of produce from members.

The produce delivery books are pre-printed in colour coded triplicate with unique delivery or invoice reference numbers at the top right hand corner. These are currently being obtained from Apollo Printers (Pty) Ltd, Coventry Crescent, PO Box 35, Mbabane, tel. 42187, 42711. These books are quite expensive (E28 each) and must be ordered at least a month in advance. It would be possible for the co-ops to realise a substantial savings by substituting standard, off the shelf delivery books available at most stationery stores.

The standard delivery books do present one problem in that they normally come numbered from 1 -100 and don't offer unique reference numbers. This can easily be over come by using a system of letters and numbers, such as AA-01, AA-02, AA-03, ... AA-100, AB-01, AB-02, ... to ZZ-100, to create a unique number series in which only one delivery will have the same number during the course of the fiscal year. The co-ops have been employing this system for their invoices for two years with no problems, so it should work as well for deliveries.

The delivery slip currently being used appears as follows:

FIELD AGENT COLLECTION RECORD

FARMER ID NO. : _____

INVOICE NO. 0001

FARMER NAME: _____

FARMER LOCATION: _____

DATE: _____

COMPANY: _____

VEHICLE REG. NO.: _____

RECEIVED BY: _____

FARMERS SIGNATURE: _____

FIELD AGENTS SIGNATURE: _____

FARMERS SIGNATURE: _____

| QUANTITY | UNIT | COMMODITY | COMMENTS |
|----------|------|-----------|----------|
| | | | |
| | | | |
| | | | |
| | | | |

Notes: Only one commodity per record sheet. Farmer must sign.

Farmer must note if packaging has been supplied by himself.

The quality control supervisor or receipt clerk completes the delivery slip for each lot of produce delivered by a farmer or collected by the co-op from the farm. The delivery slip is completed in triplicate. The delivery slips currently being used are colour coded, with the original top copy being white, the second copy being pink, and the third copy being yellow.

The delivery slip issued to members for produce delivered must contain the following information:

1. Farmer ID No.

This is a unique number issued to each farmer. Previously farmer numbers were issued by CAPM and consisted of a letter prefix followed by three digits, e.g. U 017, etc. The co-op should continue to issue each member a unique farmer number upon granting membership. The simplest method would be to continue on the CAPM system giving each new member a new number in a consecutive series, e.g. U 125, U126, U127, etc. This system will accommodate up to one thousand members and should be adequate to meet the co-ops needs for the foreseeable future.

It is important that the farmer number be included on all delivery slips as it is used by the bookkeeper as a reference number to avoid mistaken identity and ensure that each delivery is credited to the correct individual. This is particularly essential as many members may share the last surname and even first initial.

2. Delivery (Invoice) No.

The delivery number is important as it is used by the bookkeeper as a reference number in identifying a particular transaction. It assists in ensuring that all deliveries are recorded and accounted for in subsequent bookkeeping operations. The delivery number, in combination, with other information is valuable in tracing a particular delivery for whatever reason. On pre-printed stationary, the delivery (invoice number) is printed on the top of each sheet. If the society decides to economise by using standard, off the shelf, delivery books; care must be taken to pre-number them in advance to avoid any duplicate use of the same number.

3. Farmer Name

The farmers name should be entered in full and properly spelled so that payment cheques are drawn up correctly. It is also important that the farmer and pack shed use only one name for an individual member. This is important as an individual may be known by different names causing confusion. For example, in Swaziland, it is common for someone named Ndwandwe to be referred to as Nxumalo. This can create confusion for the accounting staff when posting transactions to an individuals account if the two names are used interchangeably. Use of farmer name and ID number helps avoid this problem.

4. date.

The actual date of delivery should be recorded. This allows transactions to be tracked easily and ensure that the member is paid at the correct time.

5. Farmer Location.

The farmer location identifies the area in which the farm is located. This information is used in determining transport charges to be deducted from a members account when co-op transport is provided.

6. company.

The name of the co-operative society is written on this line.

7. Vehicle reg. No.

This is completed with the licence tag number of the vehicle collecting the produce. The vehicle registration number allows the accounting staff to identify lots of produce that have been transported in co-op vehicles for which transport charges will be assessed. The vehicle number is also useful in identifying the carrier in instances of problems or complaints.

8. Received by.

The name or initials of the person receiving the produce is recorded. This allows easy determination of the responsible party in the case of problems with a particular delivery or complaints by a member.

9. Farmers Signature.

The farmer or his agent supplying the produce signs here to signify his agreement with the information recorded on the delivery slip. The farmer's signature appears in two locations on the delivery slip. This is an error. The farmer is only required to sign in one place.

10. Field agents Signature.

Although a space is provided for the field agent's signature, this is not used at present.

11. Quantity, Units, and Commodity.

The type, amount, and units of produce delivered is initially recorded in the blank space under vehicle reg. no. and to the right of farmers signature. The top (white) copy of the delivery note is then given to the farmer as a record of his delivery to the pack shed.

After the delivered produce is received at the pack shed, it is tagged with the farmers ID number or delivery number. It is then graded as soon as possible under the principle of first in first out. The actual grade out is recorded in the boxes provided at the bottom of the form on the two remaining copies (pink and white).

The carbon copies remain in the delivery book and serve as the basis for payments to farmers. Therefore, it is essential that these books be kept secure. The numbers of books being used should be recorded and the bookkeeping staff must ensure that all books in use are accounted for and used in sequence.

A typical grade out record would appear as follows:

| QUANTITY | UNITS | COMMODITY | COMMENTS |
|----------|-------|-------------|----------------------|
| 5 | lugs | Gr. 1 Nema | - good quality |
| 3 | lugs | Gr. 2 Nema | |
| 5 | lugs | Gr. 4 Nema | - spider mite damage |
| 2 | lugs | reject Nema | - over ripe, no pay |

12. Comments.

An observation about quality, insect damage, stage of maturity, etc. should be recorded here. This enables the farmer to better understand the reason for a particular grade at a latter date. This column should be used not only to record problems but also to inform the farmer when his produce is of good quality.

Note: In addition to produce any empty lugs returned to the pack shed should be received and noted on a delivery slip so that the members account may be credited with the return of the lug boxes.

Since the delivery note forms the basis for payments to farmers and several other accounting records, it is extremely important that this information be documented promptly and accurately. Failure to record the particulars of each delivery precisely at the time of delivery invites error into the accounting process. Any voided or spoiled slips should be marked void and left in the delivery book. They are under no circumstance to be torn out and discarded.

The information from the delivery slips is summarised in the weekly sales analysis in calculating the prices paid to farmers for each commodity and grade. The information from the delivery slips together with the prices calculated in the weekly sales analysis is also posted to member's creditor account in the creditor (accounts payable) ledger.

The receipt book is used to document the receipt of all cash from whatever source. The co-operative may receive cash for sales of produce or other supplies, from members for joining fee or shares, from customers paying on account, etc. No matter what the source, any cash received by the society must be documented in the receipt book. Note: the term cash is taken to include cheques, Swazi Bank PA's, and other negotiable instruments as well as actual currency.

The receipt book should be in duplicate, with pre-numbered pages. A non-repeating number series is used to provide a unique reference number for each

particular transaction. This allows easy tracking of any transaction through out the accounting process.

A typical receipt appears as follows:

| | | | |
|---------------|-------------|----------------|---|
| No | 0001 | | |
| | | _____ 19 _____ | |
| Received from | _____ | | R |
| | _____ | | c |
| the sum of | _____ | | |
| | _____ Rand | | |
| | _____ cents | | |
| for | _____ | | |
| | _____ | | |
| | With Thanks | | |
| Signed: | _____ | | |

The following important information must be included on the receipt:

1. Receipt Number.

This is a unique reference number specific to this transaction. It is used to track the receipt through the accounting process and will be included under description column when this transaction is posted to the income cash analysis book. In some instances, off the shelf stationary may not provide non-repeating, consecutive numbering system. In such cases, the bookkeeping staff must take care to use a system of letter prefixes to create a unique number system. The system of letters and numbers to create a unique numbering system is described in the previous section.

2. Date.

The exact date of the transaction must be written on the receipt. This is necessary for the daily cash control, chronological posting to the cash analysis book, and tracing a particular transaction.

3. Name.

The name of the person or company from whom the cash is received should be written on the receipt. In the case of persons or companies, which

maintain accounts with the society, it is important that the exact name be recorded so that the proper account may be debited. Where the buyer has no account with the society and the society has no interest in tracking the identity of the buyer, the receipt may be made out to cash or vendor for convenience sake.

4. Sum.

The exact amount of cash received must be indicated. The entire amount should be written out in long hand on the left side of the receipt and the numerical amount should be indicated on the right side of the receipt. This is done to guard against numbers being easily changed and is a precaution against fraudulent activity. If the transaction is for the receipt of a cheque or bank PA voucher, the cheque number or PA number should be included as well.

5. Description.

A description of the transaction is indicated. This may be as follows: two (2) lugs grade 1 Nema, two hundred (200) 10 kg pockets of onions, R. Gastaldi on account, 200 litres diesel fuel, one share, etc.. The description must be concise, but accurate enough to allow the bookkeeper to know what the cash is being received for so that the proper account(s) may be debited. This is critical as the receipt like the delivery slip is an original document and errors at this level will perpetuate themselves throughout the entire accounting process.

6. Signature.

The individual completing the receipt will either sign or initial the receipt. This allows responsibility for any errors to be established.

As the cash receipt forms the basis for payments to farmers and many other accounting records, it is extremely important that this information be documented promptly and accurately. Failure to record the particulars of each cash transaction precisely at the time of receipt invites error into the entire accounting process. Any voided or spoiled receipts should be marked void and left in the receipt book. They are under no circumstance to be torn out and discarded.

At the end of each the day, the bookkeeper tallies the receipts for the day and checks this against the cash received by the sales clerk. Total receipts should equal total cash. The results are summarised in the daily cash control report. Any discrepancies may indicate a problem and should be reported to the manager immediately.

The sum of all cash receipts for the day is posted to the income cash analysis book. The total amount is posted to the cash column. The subtotals for each income account are calculated and posted across under the appropriate income account column.

In addition, the information from the cash receipts is summarised in the weekly sales analysis used in calculating the prices paid to farmers for each commodity and grade. It is also used to provide information needed in the weekly and monthly sales analysis and trading profit and loss reports. The information from the cash receipts is also posted as a credit to individual debtor account in the debtor (accounts payable) ledger.

The invoice book is used to document all credit sales. The invoice book should be in triplicate with pre-numbered pages. The invoice book used by the co-operatives is available off the shelf at most local stationers. The cost is E 7.20 each. The invoice books are pre-numbered 1- 50 and 51-100. This requires the bookkeeper to prefix each invoice books with a letter series to provide a unique reference number for each particular transaction. This allows easy tracking of any transaction through out the accounting process. This procedure has been described in previous sections.

Like the delivery slip and the receipt, the invoice is a document of original entry. As the invoice forms the basis for many accounting records, it is extremely important that this information be documented promptly and accurately. Failure to record the particulars of each credit transaction precisely at the time of sale invites error into the entire accounting process. Any voided or spoiled invoices should be marked void and left in the invoice book. They are under no circumstance to be torn out and discarded.

Since the invoice records credit sales, any inaccuracy may result in the society being unable to collect the money owed for goods supplies on credit. Therefore, it is extremely important to complete the invoice fully and accurately. The original invoice is supplied to the person or company receiving the goods on credit. The copies are retained by the co-op as proof of the transaction.

2. Name

The purchaser's exact name and address should be recorded. This ensures that the transaction is debited to the proper ledger account. Since the invoice represents goods supplied on credit and is a legal document, it must be completed correctly.

3. Bought Of.

The exact name and address of the society should be entered. This allows the purchaser to know who is supplying the goods, i.e. who is owed and the correct spelling of to whom the payment check should be drawn. A stamp bearing the name and address of the society is useful to avoid error and save time.

4. Amount.

The exact amount or number of units supplied is entered in the first invoice column.

5. Units.

The unit in which the goods are supplied, i.e. 20 kg lugs, 6 kg boxes, 10 kg pockets, etc., is entered in the second column.

6. Description.

A concise, accurate description of the items being sold is recorded in the third column. This entry would be something like: Grade 1 Nema tomato, Grade 2 Floradade tomato, large green peppers, etc..

7. Unit Price.

The price per unit supplied is written in the fourth invoice column.

8. Total Price.

The total price per each item is extended and recorded in the fifth and sixth invoice columns.

9. Total Invoice Amount.

The total amount of money owed for all items is added down the last two columns and is written at the bottom of the invoice.

10. Salesman

The signature or initials of the co-op employee completing the invoice is written on the invoice. It is also a good practice to draw a diagonal line across the unused portion of the invoice to prevent any later alterations. The name of the salesman is useful if any problems or queries regarding the invoice arise.

11. Purchaser.

The signature of the purchaser or his agent is written at the bottom of the invoice. This signifies acceptance of the goods provided.

12. Cash Paid.

A notation of any cash paid toward the invoice price is recorded and deducted from the total invoice amount. If nothing has been paid, it is good practice to write OWED across the invoice to remind the customer that the goods are being supplied on credit. If the payment is in the form of a cheque, the cheque number should be recorded as well.

Just like the delivery slips and receipts, the information contained on the invoice is data of original entry. Therefore, accuracy is of crucial importance in the maintenance of proper accounting records, as this information is used to calculate farmer payments and forms the basis for other journal and ledger entries. The information recorded on invoices and other records of original entry must be safe guarded against loss and should be stored in an orderly fashion for future reference.

As previously stated, the invoice is a legal document. It may be required if legal means become necessary to pursue unpaid debtor accounts. It is critical that the invoice be written out completely and accurately for it to be able to stand up in court. An invoice made out to Doc or Jay may be thrown out as insufficient evidence and the co-op may find itself unable collect unpaid accounts.

The invoice is used along with receipts and delivery slips in calculating farmer payments in the weekly sales analysis report. It is also used to provide information needed in the weekly and monthly sales analysis, debtors and trading profit and loss reports. Invoices are posted in chronological order to the sales journal. They are also posted as a debit to the individual debtor accounts in the debtor accounts ledger.

The payment voucher book is used to document all payments, for whatever reason, made by the society. The payment vouchers used by the co-ops are available from the Central Co-operative Unit for E 15.00 each. They are pre-printed in colour coded triplicate. They are pre-numbered using a non-repetitive number series to provide a unique reference number for each payment. A payment voucher is prepared for each purchase made by the society.

The payment voucher records the following information:

1. Purchase voucher number.

This is a unique number used to track the purchase transaction through the accounting process.

2. Date

The date of the purchase.

3. Name.

The name of the person or business making the purchase. This will always be the name of the co-operative society.

4. Amount.

The Emalangeni value of the purchase is recorded both in written and numerical form. This is a precaution against fraudulent activity.

5. Description.

A concise narration of the item or service being purchased is recorded. This should be descriptive enough to allow the bookkeeper to be able to post the transaction to the proper expense account, as well as providing a clear explanation of the purchase in the future..

6. Prepared by.

The signature or initials of the person preparing the payment voucher is recorded here. This allows determination of responsibility in the advent of problems or queries.

7. Approval.

The signature or initials of the person (generally the manager) is written here. This provides a control mechanism for the review and approval of each purchase and allows determination of responsibility as well.

8. Cheque number.

If the payment is made by cheque, the cheque number is recorded here. This allows cross reference with the cheque stub, the current account journal, and the cash analysis book.

A payment voucher is prepared for each payment, whether by cash or cheque, made by the society, for whatever purpose. The payment voucher provides a more detailed description of the transaction than is possible in the cash analysis or cheque books. Information from the payment voucher is posted to the expenditure cash analysis book. The information recorded on the payment voucher should match that posted to the cash book.

Payment voucher books, which have been completed, should be filed away in an orderly manner for future reference. Like all other books of account, they should be kept secure to prevent any fraudulent activity or misuse.

The cheque book is used to pay expenses without the necessity to resort to cash. Where ever possible, it is recommended that cheques be used in lieu of cash. The use of cheques assists in creating a more detailed paper trail which aids the accounting process. In addition, the use of cheques is more secure than cash, and is less conducive to theft and fraud.

Cheques are prepared by the bookkeeper on the direction of the manager. The by-laws of both co-operative societies require the signature of the secretary and two committee members to be valid. Each cheque should be carefully reviewed by the manager and signatories to avoid possible error.

It is important to fill in the cheque stubs as completely as possible to provide accurate records for the accounting process. Payment voucher numbers should be quoted on the cheque stubs. Cheque and payment voucher numbers should be referenced when posting transactions to the cash analysis book.

The cash analysis book is a modification of the simple cash book.. In the cash book, the cash and current accounts are combined in one book for ease of accounting. The cash book is used to record all money received or paid out in chronological order.

The cash analysis book provides space to the right of the typical cash and bank account columns for a number of account columns. When a transaction is posted in the cash analysis book, the amount of the transaction is posted as normal to the cash or current account columns. In addition, it is broken down and entered again under the appropriate account column. These account columns correspond to the ledger accounts maintained by the society. This facilitates the accounting process in that at the end of the month or other accounting period, each account columns can be totalled downwards and the totals posted to the proper ledger account as a debit or credit.

Cash analysis books normally contain 26, 32, or 42 account columns. The size of the book used will depend on the complexity of the society's business and the amount of detail desired. The greater the number of income and expense accounts used will allow finer analysis of the performance of a particular sector of the society's business. For example, if the purchase and sale of all produce is recorded to the produce account, it will be difficult to assess the performance of tomatoes to the overall produce account. In general, the committee and manager should create an

3. Folio.

The folio is used to help locate the account book in which the corresponding entry appears. For each account and book being used, a folio column is shown. In this column the name and page of the other book where the entry appears is written in abbreviated form. For example, CB 1 - cash book, page 1, L 2 - ledger, page 2, etc. This method allows cross reference and speeds up location of the book where the double entry is completed. In addition, the folio column is filled in after the double entry has been completed. This allows errors in posting to be readily detected.

4. Cash.

The cash column details income received in cash (including cheques and Swazi Bank PA's and payments made in the form of cash (not including cheques).

5. Bank.

The bank column details payments made by cheque and money received and paid into the bank (current) account. The current account statement received at the end of the month from the bank is checked against the bank column for errors.

6. Accounts.

The receipt or payment is further broken down into the appropriate account(s) and posted again under the proper account(s) column(s). One entry may be broken down and applied to several accounts. For example, the entry farmer payment for the amount of E 1000.00, may consist of E 500.00 under the tomato purchases account, E 300.00 under the green pepper purchases account, and E 200.00 under the onion purchases account. A typical co-op business will maintain between 26 and 42 separate ledger accounts depending on the level and complexity of business conducted.

Account totals from the cash analysis book are posted at the end of each month to the appropriate ledger accounts. Column totals from income cash analysis book are posted to the ledger accounts as a credit. Column totals from expense cash analysis book are posted to the ledger accounts as a debit.

The sales journal is a chronological listing of all credit sales. The journals used by the co-operatives are commercially available at most stationers. They are made by Croxley and carry the order number JD 445 J. Working from the copies of the invoices in the invoice book, each invoice is entered into the sales journal. The sales journal appears as follows

| Date | Detail | Debit | Credit |
|------|--------|-------|--------|
| | | | |

The sales journal is simply a list recording the following information:

1. Date.
 Is posted exactly as it appears on the invoice.

2. Name.
 The customer's name is recorded as it appears on the invoice.

3. Invoice number.
 The reference number is copied from the invoice.

4. Amount.
 The total amount of the invoice is taken from the invoice.

No further detail is needed in the sales journal. This can be obtained from the copies of the invoices in the invoice book.

From the sales journal, the credit sales are posted to the individual accounts in the debtors (accounts receivable) ledger. An individual debtor account must be opened for each customer and co-op member, who purchases goods from the society on credit. Credit sales are posted to the debit side of each individual account. At the end of the accounting period, usually monthly, the total of the credit sales is posted to the credit side of the sales account in the assets accounts ledger.

When entries are posted from the journal to the ledger, the folio column is completed with the ledger page on which the ledger account to which the entry is posted can be found. This systems helps ensure that all postings have been made and allows an easy system of reference to locate and track a particular transaction through the accounting system.

When debtors make payments on account, the payment should be receipted and posted to the income cash analysis book. In addition, the payment is

posted as credit entry to the individual account in the debtors (accounts receivable) ledger. At the end of the accounting period, usually monthly, the total amount of payments on account is posted to the debit side of the cash account in the assets account ledger.

The purchases journal is a chronological listing of all credit purchases. The journals used by the co-operatives are commercially available at most stationers. They are made by Croxley and carry the order number JD 445 J. Working from the copies of the invoices received from suppliers, each invoice is entered into the purchases journal.

The purchases journal appears as follows

| Date | Detail | Folio | Debit | | Credit |
|------|--------|-------|-------|--|--------|
| | | | | | |

The purchases journal is simply a list recording the following information:

1. Date.
Is posted exactly as it appears on the invoice.
2. Name.
The supplier's name is recorded as it appears on the invoice.
3. Invoice number.
The reference number is copied from the invoice.
4. Amount.
The total amount of the invoice is taken from the invoice.

No further detail is needed in the purchases journal. This can be obtained from the copies of the invoices. All invoices for goods received on credit should be filed either chronologically or chronologically by creditor in a lever arch file for future reference. As credit invoices are paid, the bookkeeper should mark them paid with the .payment voucher number.

From the purchases journal, the credit purchases are posted to the individual accounts in the creditors (accounts payable) ledger. An individual creditor account must be opened for each customer and co-op member, from whom the society purchases goods on credit. Credit purchases are posted to the credit side of each individual account. At the end of the accounting period, usually monthly, the total of the credit purchases is posted to the debit side of the purchases account in the liabilities accounts ledger.

When entries are posted from the journal to the ledger, the folio column is completed with the ledger page on which the ledger account to which the entry is posted can be found. This systems helps ensure that all postings have been made and allows an easy system of reference to track a particular transaction through the accounting system.

When the society makes payments on credit accounts, the payment should be documented on a payment voucher and posted to the expense cash analysis book. In addition, the payment is posted as debit entry to the individual account in the creditors (accounts payable) ledger.

The creditor accounts (accounts payable) ledger is used to maintain a separate ledger account for each individual creditor to whom the society owes money. The ledgers used by the society are commercially available from most stationers. They are made by Croxley and carry the order number JD 445 D/L..

The first twelve pages of the ledger book are referenced alphabetically with an indented tab system for ease of use. The accounts contained in the ledger are listed alphabetically in this section, with a notation of the page number(s) on which the particular account can be found. The remaining ledger pages are numbered consecutively. This system allows for rapid location of an individual account.

The ledger account appears as follows:

Account Name

| Date | | Detail | | Debit | | Date | | Detail | | Credit | |
|------|--|--------|--|-------|--|------|--|--------|--|--------|--|
| | | | | | | | | | | | |
| | | | | | | | | | | | |
| | | | | | | | | | | | |

The following information is recorded in the creditors account ledger.

1. Date.

The date is posted as per the corresponding entry in the purchases journal.

2. Detail.

A brief description of the transaction is written. This may consist of the a one or few word description, i.e. purchases, payment on acct., etc. and the invoice or cheque number.

3. Folio.

An notation indicating the journal from which the ledger entry is indicated.

4. Amount.

The amount of the transaction is recorded and posted to the debit or credit columns as appropriate.

Working from the purchases journal, credit purchases are posted to the credit side of the individual's account in the creditors account ledger. At the end of the accounting period, the total of the credit purchases is posted as a debit in the purchases account in the expense account ledger. Payments on account are posted to the debit side of the individual's account in the creditors account ledger. At the end of each accounting period, the total of payments is posted as a credit to the cash account in the assets account ledger.

The debtor accounts (accounts receivable) ledger is used to maintain a separate ledger account for each individual debtor who owes the co-op money. The ledgers used by the society are commercially available from most stationers. They are made by Croxley and carry the order number JD 445 D/L..

The first twelve pages of the ledger book are referenced alphabetically with an indented tab system for ease of use. The accounts contained in the ledger are listed alphabetically in this section, with a notation of the page number(s) on which the particular account can be found. The remaining ledger pages are numbered consecutively. This system allows for rapid location of an individual account.

The ledger account appears as follows:

Account Name

| Date | | Detail | | Debit | | Date | | Detail | | Credit | |
|------|--|--------|--|-------|--|------|--|--------|--|--------|--|
| | | | | | | | | | | | |

The following information is recorded in the debtors account ledger.

1. Date.

The date is posted as per the corresponding entry in the sales journal.

2. Detail.

A brief description of the transaction is written. This may consist of the a one or few word description, i.e. sales, payment on acct., etc. and the invoice or cheque number.

3. Folio.

An notation indicating the journal from which the ledger entry is indicated.

4. Amount.

The amount of the transaction is recorded and posted to the debit or credit columns as appropriate.

Working from the sales journal, credit sales are posted to the debit side of the individual's account in the debtors account ledger. At the end of the accounting period the total of the credit sales is posted as a credit in the sales account in the income accounts ledger. Payments on account are posted to the credit side of the individual's account in the debtors account ledger. At the end of each accounting period, the total of payments is posted as a debit to the cash account in the assets account ledger.

The order book is used to collect order for inputs from co-op members. Since the co-operatives are small and under capitalised, they can not afford to maintain large inventories. To overcome this problem, the co-op collects orders from members for those items that the co-op does not maintain in inventory. At the end of a given period, usually a week, the amount of each particular item ordered is tallied and an order placed with the appropriate input supplier.

The following information is recorded in the order book:

1. Date.

The date on which the order was placed. This assists in ensuring orders are processed in a timely fashion.

2. Name.

The name of the person making the order. This ensures that the correct party receives the goods ordered. It also allows the society to determine who has placed an order for a particular item, if it is ordered and not collected.

3. Quantity.

The amount of a particular item is recorded.

4. Description.

A concise explanation of the item being ordered is written, i.e. 25 kg. Mancozeb WP, or 5 litre Selecron, etc..

5. Signature.

The signature of the person placing the order is recorded in the event of dispute or failure to take delivery.

Use of the order book helps avoid confusion in the ordering process. The order book should also be used when placing order with suppliers to ensure that the goods ordered are actually supplied. At the end of a period, orders are tallied and placed with the appropriate input supplier. Upon receipt, the inputs ordered are distributed to the individual requesting the supplies. Supplies ordered must be invoiced before distribution to farmers, as is the case with any other credit sale. The procedure for credit sales is then followed with these invoices being posted to the sales journal and then as a debit to the individual accounts in the debtor accounts ledger. In a similar manner, the procedure for credit purchases is followed, with the invoice from the supplier for goods ordered, being posted to the purchases journal and then the suppliers account in the creditor accounts ledger.

In the case of prepaid orders, that is where a farmer pays for goods in advance of their receipt, a receipt is issued for the money paid. The income is recorded in the income cash analysis book. The advance payment is then posted as credit to the individuals account in the debtors account ledger. Upon delivery of the goods, the above procedure is followed and a debit entry posted to the individual's account.

The chequing account journal is a chronological record of payments from and deposits into the current (cheque) account. This is recorded in the bank column of the cash book. The bank column contains the details of payments made by cheque and of money received and paid into the current account.

At the end of the month, the bank will send it's copy of the current account to the society. This copy is known as the bank statement. The bookkeeper will balance the cash book and compare the bank statement balance with the balance from the bank column from the cash book. It will usually be found that the two will differ. The bookkeeper will then perform a bank reconciliation. This will show that the reasons for the difference are valid, i.e. uncleared cheques, credit transfer, etc., meaning that the differences are not due to errors by the bank or the society, or that there is no valid reason for the difference between the balances, indicating an error either on the part of the bank or the co-op.

The inventory book is used to keep inventory accounts for those items kept in stock that are traded or otherwise used up. The inventory account is not a true double entry financial account, in that it does not record monetary values of the items held in inventory. The monetary value of stock on hand is calculated at the end of each accounting period from actual physical stock taking records and posted to the appropriate account in the assets account ledger.

Inventory accounts are maintained to monitor and control the movement of stock. The use of inventory accounts allows management to track stock levels and make wise decisions regarding, sales, purchases, reorder levels, amounts to keep on hand, etc. It is also an important tool in controlling theft and unauthorised movement of inventory.

A typical inventory account will appear as follows.

ACCOUNT NAME

| Date | Detail | In | Out | Balance |
|------|--------|----|-----|---------|
| | | | | |

The following information is recorded:

1. Account name.

The name of the inventory item being tracked is used as the account name

2. Date.

The date on which a movement affecting inventory is recorded.

3. Detail.

A brief description of the transaction affecting inventory is written, i.e., Sale, purchase, spoiled.

4. In, out.

The amount of stock (units) is entered under the appropriate heading.

5. Balance.

The beginning balance is recorded on the first line, and then the actual balance, calculated by adding or subtracting stock as the case may be for each transaction, is recorded for each subsequent transaction affecting inventory.

Inventory transactions are tracked using sales receipts and invoices (stock out) and purchase records, such as purchase invoices, receipts, or delivery notes (stock in). For other movements, spoilage, discards, etc., a formal system of documentation should be used, i.e. condemnation certificate, dumping record, etc.. Periodically (weekly, monthly, etc.) inventory account balances should be compared to physical

stock taking records and reconciled. Reasons for any discrepancy must be determined by management and steps taken to correct the problem. Failure to properly control inventory can lead to financial disaster.

At the end of each accounting period, the actual stock on hand is determined and the total amount multiplied by the unit value

The stock card is used to catalogue major inventory items owned by the co-operative. These consist of items such as computer, fax machine, desks, staplers, etc.. Stock cards are sufficient for inventory items which are not traded or otherwise used up by the co-op business. For items which are traded or used, a stock card must be used in conjunction with an inventory account for proper control.

A typical stock card will contain the following information.

INVENTORY STOCK CARD

Date Entered: ____ / ____ / ____

Item Name: _____

Model/Style: _____

Stock Number: _____ Serial Number: _____

Item Location: _____

Description: _____

Quantity: _____ Unit Cost: _____

Pricing Information

Mark-up %: _____ Retail Price: _____

Supplier Information

Supplier: _____ Contact Person: _____

Supplier Phone: _____ Supplier Fax: _____

A stock card is completed for each item or class of items in inventory. Stock cards should be kept secure in one file. Periodically, the physical stock on hand

should be compared to that maintained on the stock cards and any differences reconciled. Any changes that occur in inventory, such as acquisition, sale, destruction, etc., must be updated on the inventory stock cards.

The member accounts ledger contains the debtor and creditor accounts of members. These are maintained in a separate ledger(s) for convenience and ease of accounting. They are handled like any other debtor or creditor account as described above. Since members do a great deal of business with the society, an adequate number of pages should be allocated for each member.

It should be noted that, in addition to being a good bookkeeping practice, the co-operative law of Swaziland (The Co-operative Societies Proclamation of 1964) requires that individual member accounts be maintained. These are used as the basis for the distribution of surplus at the end of the fiscal year. Surplus is distributed as a percentage of the amount of business done by an individual member during the year.

The lug box account ledger is simply an inventory account, used to track the movement of lug boxes. A lug box account is opened for each member and customer who borrows lug boxes (crates) from the co-op. A lug box account is also maintained for the pack shed. When lug boxes are signed out, the quantity is deducted from the pack shed lug box account and added to the members or customers lug box account. When lug boxes are returned to the pack shed, the quantity is deducted from the members or customers lug box account and added to the pack shed lug box account.

At the end of each month, balances are calculated for each individual lug box account and the individuals determined to be holding lug boxes are informed of the amount of boxes held and reminded that failure to return lug boxes will result in a penalty of E20.00 per lug box as per the society's lug box policy. See the POLICIES section of this manual for a more detailed explanation of the lug box policy.

The society's lug box policy calls for a recall and physical inventory of lug boxes twice per year. At this time lug box accounts are reconciled and penalties assessed for unreturned lug boxes. Lug box control is extremely important as the uncontrolled loss of lug boxes can quickly result in a major financial loss to the society. It is estimated that the two co-operatives, which the project is assisting, have lost over E30,000 worth of lug boxes in 18 months. The loss of one lug box requires the proceeds of 6 lugs of produce to pay for its replacement. It is recommended that lug boxes are used only between the farms and the pack shed, and that disposable packaging be used for sales. It is further recommended that each member be required to purchase his/her own lug boxes. These can then be exchanged with those owned by the society for the delivery of produce to the pack shed.

Income and expense accounts ledgers are used for the various income and expense accounts used in the cash analysis book. Some times, the income and expense accounts as well as the assets and liabilities accounts are kept in one ledger, known as the general ledger. Depending on the number of ledger accounts to be maintained, it is often more convenient to place these in separate ledgers by account category. The

ledger accounts complete the double entry for income and expenses recorded in the cash analysis book.

The total of each income account column from the income cash analysis book is calculated at the end of each month and posted as a credit to the appropriate ledger account. The folio number of each general ledger page is entered under each of the income accounts in the cash analysis book. Likewise, the total of each expense account column from the expense cash analysis book is calculated at the end of each month and posted as a debit to the appropriate ledger account. The folio number of each general ledger page is entered under each of the expense accounts in the cash analysis book. The balance of each ledger account at the end of each accounting period is used in the preparation of the balance sheet, trading account profit and loss report, and other financial reports.

Accounts are balanced in the following manner:

- Both sides of the account are added to find their totals.
- The smaller total is deducted from the larger total to find the balance.
- The balance is entered on the side with the smallest total, so that the totals are equal.
- The totals are written across from each other.
- The balance is again entered on a line below the totals. The balance below the totals should be on the opposite side of the balance shown above the totals.
- Against the balance above the totals, is written the date of the last day of the period and the detail is given as balance carried down. Against the balance below the totals is written the date of the first day of the next period and the description is given as balance bought down.

If the total of the debit side originally exceeded the total of the credit side, the balance is termed a debit balance and vice versa. The account balances at the end of the period are used in the preparation of the various financial reports to be produced.

Asset and liability accounts are normally kept in the general ledger, but may be kept separately for convenience. Assets refer to those moneys and things owned by the business. Liabilities refer to the amounts owed to people and firms for the assets held by the business.

Assets consists of properties of all kinds, such as buildings, machinery, motor vehicles, and goods held in inventory. Debts owed to the society by customers and the amount of money in the bank are also considered to be assets.

Liabilities consists of money owed to others for goods supplied to the co-op and for expenses. Loans made to the society and shares held by co-op members are also included in liabilities.

The whole of accounting is based on the fact that assets equal liabilities. It is always true that the total of one side will always equal the total of the other. This is

true no matter how many transactions there may be. The value of various assets and liabilities may change, but the total of each will always equal the total of the other. The relationship between assets and liabilities is expressed in the balance sheet. The balance sheet is a financial position statement for the society. It also acts as a check on the entire accounting process, since if assets do not equal liabilities, an error or errors have occurred in the accounting process and must be corrected.

Assets are generally divided into fixed assets and current assets. Fixed assets refer to those assets which are long lived, are to be used by the co-op, and were not bought for resale. Current assets are cash in hand, cash in bank, items purchased for resale at a profit, and other items of a short useful life.

Liabilities are separated into long term liabilities and short term liabilities. Long term liabilities are those liabilities which do not have to be paid for in the near future, such as shares, etc. Current liabilities are those liabilities which must be paid for in the near future, for example input suppliers and farmers delivering produce to the co-operative.

The amounts posted to the various general ledger accounts will come from the balances of the various accounts maintained by the co-operative society. For example, the total of all wages paid and posted to the wages expense account is tallied and posted as debit to the liability account in the general ledger entitled wages. The total of all credit sales posted to the individual debtor accounts in the debtor accounts ledger is tallied after each account is balanced and posted as a credit to the asset account in the general ledger entitled debtors. The amount of cash on hand and cash in bank is taken from the total of the cash and bank columns in the cash analysis book after these accounts have been balanced and reconciled at month end. These totals are then posted as credit entries to the assets accounts entitled cash on hand and cash in bank. The values of fixed assets are derived from the values listed on the stock cards for those items less periodic adjustment for depreciation. These are then posted as credit entries to the various fixed asset accounts.

The general ledger is the apex of the accounting process. After all the steps in the accounting process have been completed and entries have been posted to the general ledger, the accounting process has been completed and the final step is the preparation of various reports or summaries of the information contained in the co-ops accounting records. The different reports will be described in the next section, but all are essentially a concise summary of the financial information generated by the society's business activities and presented in a standard format that is easily understood and analysed.

The share register is required by the Co-operative Department in the Ministry of Agriculture and Co-operatives. It is normally provided by the co-operatives officer, attached to the society, upon registration of the society. The share register is a sort of membership roster for the co-op. In it is recorded the following information:

- The full name of the co-op member,
- The mailing address of the member

- The location of the members farm,
- The name and address of the member's designated beneficiary,
- The date and amount of joining fees paid, and
- the date and the amount of any shares purchased by the member.

In addition to being a legal requirement, the share register permits the society to determine whether a member has fulfilled his obligation toward the society to purchase a specific number of shares as outlined in the bye-laws. It provides information on the total amount of shares held by co-op members for reconciliation with the shares liability account in the general ledger. Lastly, in the event of the death of a member, it allows the committee and management to identify and distribute any payments and shares owing to the member at the time of his/her death.

The wages and salaries book is used to record the particulars of work done by employees and paid for by the society. The wages and salaries book is legally required by the Ministry of Labour. Inspectors from the Ministry of Labour are entitled to examine the wages and salaries book at any time and are empowered to impose stiff fines if it is not maintained.

Recorded in the wages and salary book is the following information

- The date,
- The full name of the employee and employee ID number if any,
- The numbers of hours worked at regular time each day,
- The number of overtime hours worked each day,
- The total number of hours at regular time for the period,
- The total number of overtime hours for the period,
- The monthly/daily/hourly rate of payment as applicable,
- The gross total payment,
- The itemised amount of deductions, including PAYE, Graded Tax, Provident Fund, etc.,
- The total deduction, and
- The total net pay.

The wages and salaries book provides a permanent record of wages paid by the society. In addition, it serves as a worksheet for the calculation of wages and salaries to be paid, which are then recorded on a payment voucher and then posted into the expenses cash analysis book, when they are paid. After the wages and salary book, wages are treated as any other expense in the accounting process.

E. Reporting Procedures

The ultimate purpose of accounting is to provide financial information about the co-operative business which can be used by the committee, manager, and members to evaluate the progress of the business. The information generated is generally presented in the form of financial reports. Some reports such as trading profit and loss and balance sheet are standard reports common to all businesses.

Other specialised reports may also be produced to meet specific business needs. All, however, are dependent on timely and accurate accounting to be of value.

Financial reports are also useful in planning, directing, and controlling the business operation. In terms of control, the information provided can assist in ensuring that no theft, fraud or mismanagement is occurring and if it is, will assist in identifying and correcting the problem.

Planning and directing the co-op business, is made easier with adequate financial information. Financial reports will indicate the current condition of the business and how it is progressing. The information found in the financial report provided baseline information for cost accounting and budgeting purposes.

Cost accounting is the application of accounting procedures to establish what a job or product costs. Costs are divided into direct costs and indirect costs. Direct costs are the costs of goods and materials directly involved in the production process. These items can be further divided into fixed and variable costs. Indirect costs are also known as overheads. These are costs which do not contribute directly to the production process. Indirect costs include such things as management salaries, telephone, plant maintenance, and other items. Cost accounting is important in determining selling price, may reveal areas where costs may be reduced, indicates productivity of labour and machines, and other applications.

Budgeting is another application of accounting techniques that is useful in decision making. Budgeting is a method of testing changes in business operations or production processes before they are initiated. Such changes can be in the cost of packaging, transportation, etc.. Budgeting assists in determining the effect on net returns to the business as a result of anticipated changes. Partial budgets are used for changes affecting only a small portion of the overall operations. Complete budgets are used to evaluate changes which have repercussions on all or most facets of the business. Budgeting is a practical means of economically evaluating prospective changes in operations. It does not indicate optimal levels or types of operations, but provides a means of selecting the better of a limited number of alternatives.

A cash flow budget is a method of looking ahead and seeing where funds are going to come from and when expenses will have to be met. The cash flow budget gives a clear idea of the actual cash requirements of the business and records cash movements into and out of the business. It will indicate how much cash is needed and when. The cash flow budget will indicate unexpected shortages and give time to raise the necessary funds.

This topic is covered more fully in Section 2.

The daily cash control report is used to ensure that the income reported in the receipt book equals the actual cash received. Cash control reports are prepared daily at the end of the business day by the manager or bookkeeper, to recap the daily business transactions. The cash control report records the origin of all cash and cheques received, petty cash disbursed, and deposits lodged into the association's

current account. The cash book can be used to record these transactions, however the cash control report has the added advantage of acting as a daily control on the movement of cash in the business. Use of a daily cash control report forces management to check cash against receipts daily, thereby arresting any potential problems at an early date.

The cash control report appears as follows:

| | | |
|--------------------------------------|--------------|---------|
| PETTY CASH AND DEPOSIT CONTROL SHEET | DATE _____ | |
| | CASH | CHEQUES |
| Cash receipts retail | _____ | _____ |
| Cash receipts farm supply | _____ | _____ |
| Cash receipts wholesale | _____ | _____ |
| Cash accounts receivable | _____ | _____ |
| Cash over (short) | _____ | _____ |
| Cash receipts other | _____ | _____ |
| Beginning cash | | _____ |
| Sub-total | _____ | |
| Less cash disbursements | _____ | |
| = total receipts | _____ | |
| Less beginning cash | _____ | |
| = deposit amount | _____ | |
| Total deposit (checks and cash) | _____ | |
| Signed _____ | signed _____ | |

All receipts for cash disbursements and deposit slips should be attached to this sheet

| Name | cheque # | amount | order/folio |
|-------|----------|--------|-------------|
| _____ | | | |
| _____ | | | |

The following information is recorded on the cash control sheet:

1. Date.

The date for which the sheet is prepared.

2. Total cash and cheques received from retail produce sales.

The total is taken from the receipt book for produce sold at the pack shed.

3. Total cash and cheques received from farm supply sales.

Taken from the total of farm supply sales as recorded in the receipt book for the day.

4. Total cash and cheques received from wholesale produce sales.

This is taken from the total of paid invoices in the invoice book for the day.

5. Total cash and cheques from customers paying on credit accounts.

This total is extracted for the receipt book for the day.

6. Any other cash or cheque received.

This is extracted from the receipt book and recorded with a notation indicating the source of the other cash or cheque.

7. Cash over or short.

After tallying the above items, the total is checked against the actual cash and a record of any cash over or short is made. note, the amount of cash over or short must also be posted to the income or expense cash analysis book and a cash over/short ledger account.

8. Beginning cash/cash float.

the amount of any start up cash in the till is entered. this is normally a fixed amount determined by the manager or committee.

9. Sub - total.

The total of all the above is calculated and entered here.

10. Cash disbursements.

This is taken from the total of all paid receipts, petty cash vouchers, etc., which were paid from the cash in the till. any cash that is paid out from the till must be documented and the receipt or petty cash slip placed in the till to replace the cash expended until the cash is checked at the end of the day. this total is deducted from the sub total above to give total receipts.

11. Total receipts.

This amount should equal the cash and cheques in the till.

12. Beginning cash.

The amount of start up cash left in the till for the following days business is entered and subtracted from the from the total receipts above.

13. Deposit amount.

Total receipts less beginning cash gives the amount of cash to be deposited to the current account. the deposit slip for the day should correspond to the amount of the deposit listed on the cash control report. this deposit should also be recorded in the cash and bank columns of the cash analysis book.

14. Signatures.

The signatures of the person preparing the cash control report and the person verifying the totals are written here. These will usually be the bookkeeper and manager, or bookkeeper and clerk.

The section at the bottom of the report is used to record the particulars of all cheques received, including customer's name, amount, bank name and cheque number and the folio or page reference of the receipt book or payment voucher recording the transaction. After completion and verification, the cash control report should be filed in chronological order for future reference.

The weekly sales analysis report serves several functions. It serves as a worksheet for the calculation of farmers payments. It is a management tool, which acts as a partial budget, allowing the bookkeeper and manager to test various price scenarios and evaluate their effect on gross profit (produce sales less produce purchases), before fixing weekly payment prices. It provides an interim report to the committee and management which allows them to see weekly sales and purchases in advance of the monthly trading profit and loss report. In addition, it serves several other functions. It assists in inventory control, since total sales of a commodity should equal the total purchases of that commodity less stock on hand. It gives an indication of grading and marketing efficiency, in that the quantity of a particular grade purchased should closely coincide with the quantity of that grade sold. If this is

not true it indicates a problem with grading and or marketing. For example, the grading at the pack shed does not coincide with buyers standards or produce is not being sold off quickly enough allowing it to deteriorate before sale.

The weekly sales analysis report is calculated using a 16 column or larger analysis pad. These are available at local stationers for approximately E26.50 each.

At the end of each payment period (weekly), all the pink copies of delivery slips are taken from the produce delivery books in order by date. In the analysis pad, a sheet is entitled DELIVERIES at the top, and the payment period being calculated, e.g. Jan. 7 -13, 1996 is written below. The first column is given the heading DATE. The second column is designated FARMER NAME. The third column is designated DELIVERY NUMBER. The remaining columns are designated according to the type and grade of produce received during the period being calculated. Column titles for produce categories will normally consist of such headings as Floradade Gr. 1, Floradade Gr. 2, Floradade Gr. 3, Nema Gr. 1, Nema Ungr., beet root, cabbage, etc..

Once the DELIVERIES sheet has been laid out as described above. Each delivery slip is recorded in chronological order onto the analysis sheet with the above information being entered, DATE, FARMER NUMBER, DELIVERY NUMBER. Then the AMOUNT of each type and grade of produce on the pink slip is recorded under the appropriate column heading. This process is repeated until all the delivery slips have been recorded. In peak seasons, this process will take several pages. In order to facilitate the process, the first row of each analysis sheet is reserved for totals carried down (c/d) and the last row for totals brought forward (b/f). The column totals are calculated to arrive at the total amount of each type and grade of produce received for the payment period. These totals are then transferred to the DELIVERY column on the weekly sales analysis report on the row corresponding with the type and grade of produce delivered. Care must be taken to correctly report all deliveries on the analysis sheet as errors at this stage will result in errors in calculating farmers payments, and over or under payments being made. Practical experience with the co-ops has shown that this report has been prone to numerous errors if adequate attention is not given to the preparation of the report.

Once all the deliveries (purchases) have been recorded and the totals calculated and posted to the weekly sales analysis report, a similar process is repeated for sales. All receipt and invoice books for the payment period are collected. In the analysis pad, a sheet is entitled SALES and the dates of the payment period written below, e.g. February 4 - 10, 1996. The first column is given the heading DATE. The second column is designated CUSTOMER NAME. The third column is designated RECEIPT/INVOICE NUMBER. The remaining columns are designated according to the type and grade of produce received during the period being calculated. Column titles for produce categories will normally consist of such headings as Floradade Gr. 1, Floradade Gr. 2, Floradade Gr. 3, Nema Gr. 1, Nema Ungr., beet root, cabbage, etc., and should correspond to those appearing on the DELIVERIES sheets.

Once the SALES sheet has been laid out as described above. Each sales receipt and invoice for the period is recorded onto the analysis sheet in chronological order with the above information being entered, DATE, CUSTOMER NAME, and RECEIPT/INVOICE NUMBER. Then the AMOUNT and TOTAL SALE PRICE of each type and grade of produce on the sales receipt or invoice is recorded under the appropriate column heading, e.g. 10/185.00. This process is repeated until all the sales receipts and invoices have been recorded. In peak seasons, this process will take several pages. In order to facilitate the process, the first row of each analysis sheet is reserved for totals carried down (c/d) and the last row for totals brought forward (b/f). The column totals are calculated to arrive at the total amount and total sale price of each type and grade of produce sold during the payment period. These totals are then transferred to the SALES column on the weekly sales analysis report on the row corresponding with the type and grade of produce delivered. Care must be taken to correctly report all sales on the analysis sheet as errors at this stage will result in errors in calculating farmers payments, and over or under payments being made. Practical experience with the co-ops has shown that this report has been prone to numerous errors if adequate attention is not given to the preparation of the report.

For efficiency, deliveries and sales should be entered on the analysis sheet on a daily basis by the sales clerk. In this way, the bookkeeper can merely check the totals and proceed to the preparation of the weekly sales analysis report. The weekly sales analysis report is laid out as shown on the following page. The analysis sheet is labelled with the heading weekly sales analysis report and the date of the payment period written below. The first column is labelled PRODUCT and the types and grades of products received and sold by the pack shed listed on the rows below. The next column is labelled DELIVERIES. A blank column is left between each labelled

The weekly sales analysis report appears as follows:

WEEKLY SALES ANALYSIS REPORT
January 7 - 13, 1996

| | Product | 1 Del. | 2 | 3 Sales | 4 | 5 Diff. | 6 | 7 Ave. sale price | 8 | 9 Price paid | 10 | 11 Total Pay- ment | 12 | 13 | 14 | 15 |
|--|-------------|-----------|-----|------------|---|------------|---|----------------------------|---|--------------------|----|-----------------------------|----|----|----|----|
| | Flora Gr. 1 | 10 | | 9/90- | | 1 | | 10- | | 7- | | 70- | | | | |
| | Flora Gr. 2 | 8 | | 8/64- | | 0 | | 8- | | 6- | | 48- | | | | |
| | Flora Gr. 4 | 10 | | 8/40- | | 2 | | 5- | | 4- | | 32- | | | | |
| | Flora ungr. | 5 | | 5/35- | | 0 | | 7- | | 5- | | 25- | | | | |
| | Nema Gr. 1 | | | | | | | | | | | | | | | |
| | Nema Gr. 2 | | | | | | | | | | | | | | | |
| | Nema Gr. 3 | | | | | | | | | | | | | | | |
| | Nema Gr. 4 | | | | | | | | | | | | | | | |
| | Nema ungr. | | | | | | | | | | | | | | | |
| | Gr. Pepper | | | | | | | | | | | | | | | |
| | Gr. Beans | | | | | | | | | | | | | | | |
| | Beet root | | | | | | | | | | | | | | | |
| | Cabbage | | | | | | | | | | | | | | | |
| | Totals | 33 | 30/ | 229- | | 3 | | | | | | 175- | | | | |

column for ease of comprehension. Following deliveries, alternate columns are labelled SALES, DIFFERENCE, AVERAGE SALE PRICE, PRICE PAID, and TOTAL PAYMENT.

The totals for each variety and grade of produce delivered to the pack shed for the pay period are taken from the DELIVERIES analysis sheet and entered under the DELIVERIES column against the appropriate row listing for each variety and grade of produce. This process is repeated sales for the period. With the total amount and value of each variety and grade of each produce sold being entered under the SALES column against the row listing for each variety and grade of produce sold. The total sales value is added down the column and the total sales value written at the bottom of the column in the TOTALS row.

The difference between the total amount of each variety and grade of produce delivered and sold is calculated by subtracting the total sold from the total delivered. This amount is entered under the DIFFERENCE column. Ideally, this amount should be zero or close to zero. Positive differences indicate unsold produce. This should be reflected in inventory accounts or dumping records. If the difference can not be reconciled, a problem is indicated and should be investigated. This may result from many factors, including inaccurate recording of sales, theft of stock, acceptance of unsaleable produce, etc. Negative differences indicate more produce being sold than received from members. This should be reflected as carry over stock in inventory account records. Again, if the difference can not be reconciled, a problem is indicated. Negative differences usually result from inaccurate recording of deliveries, which will result in farmers not being paid for produce delivered. In the case of negative differences, the produce delivery books should be checked for unreported delivery slips.

Under the SALES column, the total amount of goods sold and the total sale price are recorded. This is written as 88/1130.00, by way of example. The total sale price is then divided by the total amount sold to yield the average sale price for the goods sold. For example, $E1130.00 \div 88 \text{ units} = E12.84$ per unit, gives the average sale price. After calculating the average sale price for each variety and grade of produce sold, the average is recorded under the AVERAGE SALE PRICE column against the appropriate row listing.

When this is done, the pack shed commission is deducted from the average sale price to yield the unit price paid to farmers. At the Khulumela Kwenta Vegetable Growers Co-operative, the pack shed commission is currently E3.00 per unit for unit sales prices of E10.00 or above, and E2.00 for unit sale prices between E6.00 and E9.99. When the unit sales price falls below E5.99, the pack shed takes a commission of E1.00 or less depending on what the farmers will tolerate.

At the Hhohho Fruit and Vegetable Marketing Co-operative, a flat 25% commission is taken from the average sale price, with a E5.00 maximum charge allowed. Since the commission charged actually represents the co-operatives gross margin on produce sales, both co-ops need to examine the commission rate charged to ensure that the gross margin is adequate to cover expenses.

Deducting the commission has been deducted from the average sale price yields the unit price paid to members for produce delivered. This is recorded under the PRICE PAID column against the appropriate row listing for the variety and grade being paid. When this has been done, the total payment for each variety and grade of vegetable is calculated by multiplying the price paid times the total quantity delivered and recorded under the DELIVERIES column. The total payment is then recorded under the TOTAL PAYMENT column against the pertinent row listing. The sum of the total payments are added down the column and the total recorded at the bottom of the column in the TOTALS row.

At this point, the manager should compare the total sales for the period against the total payments to ensure that the co-op has achieved an adequate profit margin. If not, the price paid may have to be adjusted downward to arrive at a comfortable margin. While this is not the ideal method of determining price paid for produce, it often becomes necessary to prevent gross losses to the co-operative. The main factors causing payments to be greater than sales are unsold produce and improper grading. When produce remains unsold at the end of the pay period, the co-op is still obliged to pay members for the produce delivered during the period. Given the perishable nature of most vegetable commodities handled by the co-operatives, most produce that remains unsold may not be sold or will have to be sold at discount prices resulting in losses. Improper grading often occurs when the pack shed staff designates produce delivered at a higher grade than at which it is finally sold. For example, the pack shed staff may call 200 lugs of tomatoes grade 1, yet only 50 lugs are sold at grade 1 for an average of E13.00/lug, 50 lugs at grade 2 for an average price of E10.00, and 100 lugs at grade 3 for an average price of E8.00. The result is that the co-op achieves an average sale price of E9.75/lug for produce, which it is obliged to pay E13.00 less E3.00 commission equals E10.00. The co-op, therefore realises a gross loss of E0.25 per lug of produce purchased before any other costs are deducted, so that the net loss is actually much higher.

Once the manager and bookkeeper reviews the weekly sales analysis report and sets the prices paid to farmers, the bookkeeping staff takes this information to prepare member's payment statements.

3. The member's payment record accompanies each payment made to co-op members and others who have sold produce on consignment through the co-operative. The payment record provides detail as to which deliveries are being paid and at what rate, and how the total payment was arrived at. The payment record is prepared in duplicate using carbon paper, on a payment record form developed by the CAPM project. The member receives the original payment record along with all the pink copies of produce delivery slips for which payment is being made. The carbon copy of the payment record is signed by the member when he collects his payment record to signify that he has received payment and been provided with a payment record statement. After the member receives payment, a notation of the cheque number is written on the carbon copy of the payment record and the carbon copy of the payment record is then filed in the society's offices for future reference. These should be filed in chronological and alphabetical order in lever arch files for easy

PAYMENT RECORD

FARMER NAME & NO.: _____

DATE OF PERIOD: _____

| DEL NO. | QTY RCVD | DATE | ITEM & GRADE | TOTAL |
|------------------------|----------|------|--------------|-------|
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| Cheque Total: _____ | | | | |

PRICES PAID FOR PERIOD

| NEMAS | | FLORADADE | | OTHER ITEMS | |
|----------|--|-----------|--|-------------|--|
| Gr. 1 | | Gr. 1 | | | |
| Gr. 2 | | Gr. 2 | | | |
| Gr. 3 | | Gr. 2 | | | |
| Gr. 4 | | Gr. 4 | | | |
| Ungraded | | Ungraded | | | |
| | | | | | |
| | | | | | |

reference as members frequently make inquiries regarding payments.

The payment record appears as shown on the previous page.

Using the prices paid for the payment period as calculated on the weekly sales analysis sheet and the pink copies of the produce delivery slips, the bookkeeper prepares a separate payment record for each member, who has delivered produce for the period. The FARMER NAME and NUMBER is recorded at the top of the payment record. The DATE of the payment period is indicated below the farmer name. Working from the pink slips, the delivery number indicated on the pink delivery slip is written under the first column titled DEL NO. The number of units being paid for is indicated on the second column labelled QTY RCVD. The date of the delivery is written on the third column labelled DATE. Under the fourth column entitled, ITEM and GRADE, the type of produce and grade is listed. Lastly, the total price is calculated by multiplying the quantity received by the price paid from the weekly sales analysis report, and indicated under the last column labelled TOTAL.

A separate line on the payment record is used for each type and grade of produce appearing on the delivery slip. This process is repeated until all items appearing on all the delivery slips for which a farmer is being paid are listed. In some cases, this may take more than one payment record sheet. Once all the items for which the payment is being prepared, the total per item is added down and the grand total is written at the bottom of the sheet in the cell designated CHEQUE TOTAL. In some instances, the co-op may deduct money from produce payments to pay debts owed to the co-op. In this case, the amount of deduction is written below cheque total and a new total indicated.

At the bottom of the payment record form, there is a section labelled PRICES PAID FOR PERIOD. The unit price paid for each commodity and grade is indicated in this section. Since the main items sold by the co-ops are Nema and Floradade type tomatoes, spaces have been reserved for these commodities. For other crops, the variety and grade, as well as unit price are listed under the columns labelled OTHER ITEMS. Once the entire payment record form has been completed, the pink copies of the produce delivery slips are attached to the original, which is given to the member to provide details of the payment being made.

In addition, to the payment record form, payments made to members are treated like any other payment. A payment voucher is prepared and entries posted to the expense cash analysis book. In addition, since the member is treated as a creditor in regard the delivery of produce to the co-op, entries must be posted to the member's creditor account as well. If any deductions for goods supplied to the member on credit have been deducted from the payment, this must be treated as a payment on account. In this instance, a receipt is prepared as for any other income and entries posted to the income cash analysis book and the member's debtor account as well. This procedure has been explained in detail in previous sections.

4. The debtor (accounts receivable) report is simply a listing of who owes the society money at the end of an accounting period. The debtor report is compiled at the end of

each monthly accounting period. This report serves as a means of determining the status of each of the societies debtor accounts. This report allows management to determine how much money is owed by each debtors and the length of time that these amounts have been outstanding. It is known that the longer a debt is owing, the greater the likelihood that it will not be paid. Although bad debts are a normal business risk and are generally written off after a period of time, any business which sells goods on credit should keep a close check to ensure that debtors pay their accounts on time. If this is not done properly, the amount of debtors may grow to an amount that will cripple the business. The monthly debtors report is a tool that helps management monitor debtors status.

The following procedures should be implemented with regards to debtors. A limit should be set for each debtor. They should not be allowed to surpass this limit. The amount of the limit will depend on several circumstances. Such things as the size of the firm and the amount of business done with the society, as well as references and past payment record, will assist in setting the credit limit fixed. As soon as the payment date set for debtors has been reached, it should be seen whether payment has been made or not. Failure to pay on time may indicate problems and the necessity of refusing to extend any further credit unless payment is made quickly. Where payment on over due accounts is not forthcoming, it may be necessary after investigation, to take legal action to pursue the payment of the debt. This will depend on circumstances. It is essential that a customer be made aware of what will happen if he does not pay his account by the correct date, before any credit is extended. It is equally important that the co-op vigorously enforce it's credit policy without exception.

At the end of each month, each debtor account is balanced and the account balance used to prepare the debtor's account report. Each individual debtor account is listed on the report and the amounts owing listed as to the amount of credit extended in the current period, the amount owing for over 30 days, the amount over 60 days, the amount over 90 days and the total amount owed. Any amounts owing over 30 days may indicate a problem account, over 60 days a definite problem, and over 90 days may indicate a debt which will be collected only with difficulty.

The debtor account report assists the management in tracking and controlling moneys owing the society and helps the committee determine how good a job the manager is doing in issuing credit and collecting debts.

The debtors account report is laid out as follows:

DEBTORS ACCOUNT REPORT
January 31, 1996

| Acct. Name | Last Paid | Current | 30-60 Days | 60-90 Days | Total |
|---------------|-----------|---------|------------|------------|-------|
| | | | | | |
| | | | | | |
| | | | | | |
| Totals | | | | | |

The co-operative business should strive at all costs to keep debtors to a manageable level. While the extension of credit is a requirement of doing business in the modern world, the co-op should limit credit and leave the extension of credit for the banks where possible. When a debt has been determined to be bad, the asset represented by the debtor's account is deemed worthless and must be eliminated. This is done by crediting the debtor's account to cancel the asset and increasing the expense ledger account of bad debts by debiting the amount. This is also reflected in the debit side of the profit and loss account. The account is still retained in the debtors account ledger in the hope that it may be repaid some day.

The creditors (accounts payable) account report is a listing of suppliers to whom the society owes money. It is prepared at the end of each monthly accounting period and lists the creditor accounts with which the co-op maintains an outstanding balance due. The creditors account report is useful to the committee and management in determining the future cash flow needs of the society. It also provides a means of gauging the health of the business and its ability to pay its debts. The co-op like any other user of credit must be careful not to let the amount it owes to its suppliers grow to an unmanageable amount.

The creditors account report is similar in appearance to the debtors account report. Credit accounts are balanced at the end of each accounting period and these amounts are used to prepare the creditors account report. Each individual creditor is listed with the amount of credit received during the current period, 30 -60 days, 60-90 days, and the total amount of credit owed. A strong business should strive to service all its credit accounts in the current period and to avoid accepting more credit than it can easily pay back within the prescribed time.

The profit and loss statement provides a measure of the profits or losses achieved by the co-operative through its various business activities. The calculation of profits and losses is probably the most important objective of accounting. Profit and loss statements are generally prepared on a monthly basis. A yearly profit and loss statement is produced at the end of the fiscal year in which the results of the year's trading profit and loss is summarised.

In the case of a co-operative business, which is mainly concerned with the buying and selling of goods, the grouping of revenue and expenses to compute profit, is done in an account called the trading profit and loss account. The trading profit and loss statement is a report which shows how much profit has been earned or what loss has been suffered. In addition, to providing a measure of the profit or loss incurred by a business, the trading profit and loss statement has several other uses. One of the most important is to provide a comparison of the results obtained with the results expected from business operations. The profit and loss statement shows how much profit has been made before deducting expenses (gross profit) as well as the amount of profit after all expenses have been covered (net profit). The profit and loss statement also assists in business planning, generating information required by banks for obtaining loans, developing a portfolio to be used in selling or promoting the business, and calculating profits for tax purposes.

For easy analysis, the trading profit and loss statement is split into two parts: gross profit and net profit. The gross profit, found by the use of the trading account, is the excess of sales over the cost of goods sold in the period. The net profit, calculated in the profit and loss account, consists of the gross profit plus any other revenue other than that derived from sales, less the total costs expended during the period. When the cost of goods sold is greater than sales, the result is a gross loss. When costs exceed the gross profit plus other revenue, the result is a net loss.

In order to draw up a trading profit and loss statement, the trial balance should be prepared first since it contains nearly all the information needed. As stated above, $\text{gross profit} = \text{sales} - \text{cost of goods sold (purchases)}$. However, this is only true if there is no stock on hand at the end of the accounting period. If stock remains in inventory, the $\text{cost of goods sold} = \text{purchases} - \text{closing stock}$. The closing stock is found by doing a physical inventory or stock count at the close of the accounting period. The unsold goods are then listed and assigned a value which is normally the cost price of the goods.

To calculate the profit and loss account using double entry accounts, the following entries must be made.

1. The balance of the sales account is transferred to the trading account by:
 - Debiting the sales account (closing it)
 - Crediting the trading account.

2. The balance of the purchases account is transferred to the trading account by:
 - Debiting the trading account
 - Crediting the purchases account (closing it).

3. Closing stock is entered in the accounts by:
 - Debiting the appropriate stock account with the value of the closing stock.
 - Crediting the trading account.

The trading and profit and loss accounts are usually presented under one combined report, with the trading account being presented in the first section and the profit and loss account being shown in the lower section of the statement. The balance of the trading account is shown as gross profit rather than being presented as a balance. Once calculated the gross profit is carried down to the profit and loss section of the account. The entry of the closing stock on the credit side of the trading and profit and loss account is actually a deduction from the purchases on the debit side. It is common practice to show the closing stock as a deduction from purchases in the trading profit and loss account and describe the amount as “cost of goods sold”.

Once this has been done, the profit and loss section of the statement can be drawn up. Any other revenue accounts, other than sales are transferred to the credit side of the profit and loss account. The costs or expenses of doing business for the period are transferred to the debit side of the profit and loss account. Depreciation of assets should be charged and treated as an expense charged to the profit and loss account reducing net profit.

The combined trading and profit and loss statement will appear as follows:

A Co-op
Trading Profit and Loss Statement
December 31, 199x

| | | | |
|--------------------------------|---------------------|------------------|---------------------|
| Purchases | 900,000.00 | Sales | 1,000,000.00 |
| Other revenue | | | 2,000.00 |
| Opening stock | <u>8,000.00</u> | | |
| Cost of goods purchased | 910,000.00 | | |
| Less Closing stock | <u>- 4,000.00</u> | | |
| Cost of goods sold | 906,000.00 | | |
| Gross profit c/d | <u>96,000.00</u> | | |
| | <u>1,002,000.00</u> | | <u>1,002,000.00</u> |
| | | Gross profit b/d | <u>96,000.00</u> |
| <i>Less Operating expenses</i> | | | |
| Salaries | 20,000.00 | | |
| P/T Labour | 5,000.00 | | |
| Utilities | 2,000.00 | | |
| Rent | 4,000.00 | | |
| Stationary | 1,000.00 | | |
| Fuel | 4,000.00 | | |
| Vehicle Maintenance | 2,000.00 | | |
| Committee expense | 2,000.00 | | |
| Travel | 500.00 | | |
| Bank charges | 500.00 | | |
| Misc. | 50.00 | | |
| Net profit | <u>54,950.00</u> | | |
| | <u>96,000.00</u> | | <u>96,000.00</u> |

Another method of presenting the trading profit and loss statement is the trading profit and loss statement by account. This approach provides a breakdown of the various trading accounts. This way is often more informative in that the performance of each profit generating activity may be evaluated independently. In this method each trading account is shown separately with its overall contribution to gross profit. This allows management to more easily determine which activities are profitable and which are not. It also allows the relative profitability of each account to be compared. This is extremely useful in planning as it permits identification of activities which should be expanded, and those that should probably be eliminated.

The trading profit and loss statement by account appears as follows:

A Co-op
Trading Profit and Loss Statement by Account
December 31, 199x

| | | | |
|-------------------------|---------------------|------------------------|---------------------|
| Floradade Purchases | 500,000.00 | Sales | 510,000.00 |
| Opening stock | <u>18,000.00</u> | | |
| Cost of goods purchased | 518,000.00 | | |
| Less Closing stock | <u>- 4,000.00</u> | | |
| Cost of goods sold | 514,000.00 | | |
| Gross loss c/d | <u>(4,000.00)</u> | | |
| | <u>510,000.00</u> | | <u>510,000.00</u> |
| | | Gross loss b/d | <u>(4,000.00)</u> |
| Nema Purchases | 450,000.00 | Sales | 510,000.00 |
| Opening stock | <u>8,000.00</u> | | |
| Cost of goods purchased | 458,000.00 | | |
| Less Closing stock | <u>- 2,000.00</u> | | |
| Cost of goods sold | 456,000.00 | | |
| Gross profit c/d | <u>54,000.00</u> | | |
| | <u>510,000.00</u> | | <u>510,000.00</u> |
| | | Gross profit b/d | <u>54,000.00</u> |
| Fertiliser Purchases | 250,000.00 | Sales | 280,000.00 |
| Opening stock | <u>10,000.00</u> | | |
| Cost of goods purchased | 260,000.00 | | |
| Less Closing stock | <u>- 2,000.00</u> | | |
| Cost of goods sold | 258,000.00 | | |
| Gross profit c/d | <u>22,000.00</u> | | |
| | <u>280,000.00</u> | | <u>280,000.00</u> |
| | | Gross profit b/d | <u>22,000.00</u> |
| Chemical Purchases | 382,000.00 | Sales | 402,500.00 |
| Opening stock | <u>500.00</u> | | |
| Cost of goods purchased | 382,500.00 | | |
| Less Closing stock | <u>- 2,000.00</u> | | |
| Cost of goods sold | 382,500.00 | | |
| Gross profit c/d | <u>20,000.00</u> | | |
| | <u>402,500.00</u> | | <u>402,500.00</u> |
| | | Gross profit b/d | <u>20,000.00</u> |
| Other revenue | | | 4,000.00 |
| Total gross profit c/d | <u>96,000.00</u> | | |
| | <u>1,798,500.00</u> | | <u>1,798,500.00</u> |
| | | Total gross profit b/d | <u>96,000.00</u> |

A Co-op
Trading Profit and Loss Statement by Account
December 31, 199x

| | | |
|--------------------------------|--------------------|------------------|
| | Total gross profit | 96,000.00 |
| | b/d | |
| <i>Less</i> Operating expenses | | |
| Salaries | 20,000.00 | |
| P/T Labour | 5,000.00 | |
| Utilities | 2,000.00 | |
| Rent | 4,000.00 | |
| Stationary | 1,000.00 | |
| Fuel | 4,000.00 | |
| Vehicle Maintenance | 2,000.00 | |
| Committee expense | 2,000.00 | |
| Travel | 500.00 | |
| Bank charges | 500.00 | |
| Misc. | 50.00 | |
| Net profit | <u>54,950.00</u> | |
| | <u>96,000.00</u> | <u>96,000.00</u> |

It can be seen by the example given above, that the trading profit and loss statement by account is much more informative, than when all the contributing accounts are grouped into sales and purchases accounts.

The trial balance is drawn up at the end of the accounting period to provide a check on arithmetical accuracy of the books. A trial balance is a listing of all the debit and credit balances extracted from the ledger and cash book accounts. Due to the principle of double entry accounting, for each debit entry, there is a credit entry, and for each credit entry, there is a corresponding debit entry. Therefore, all the items recorded into all the accounts on the debit side should equal in total all the items posted to the credit side of the accounts. To see if the two sides are equal or balance, a trial balance is drawn up. If the total of the debit balances is not equal to the total of the credit balances, there is certainly a mistake. In this case, the books must be checked until the error is found.

If the debit and credit totals of the trial balance do not agree, an accounting error is indicated and must be found. Even a small error must not be overlooked since, the magnitude of the error does not indicate the size of the problem, there may be

many mistakes in the accounts, the cumulative effect of which appears small. To discover the cause of an error in the trial balance, the following procedure is used:

- Check the additions in the trial balance itself.
- Check the entries in the trial balance from the ledger and the cash book in order to discover.
 - whether the balances are correct;
 - whether all the balances have been entered in the trial balance;
 - whether the balances are in the correct column.
- Calculate the differences between the two sides. The amount of the difference may help indicate the nature of the error.
- A difference of E10 or E100 is likely to be caused by a mistake in addition or subtraction.
- A difference of any even amount may be caused by an entry on the wrong side of the ledger. If the difference is an odd amount it can not be caused this way.
- Look through the subsidiary books for blanks in the folio column indicating unposted entries.
- Check the posting of all entries of exactly the same amount as the error in the trial balance.
- If the error can still not be found, it is necessary to check the totals and posting from the subsidiary books. Every item which is checked must be ticked. If this detailed check is carried out the error must be found.

Arithmetical errors which result from incorrect additions in an account, making an entry on only one side of the accounts, i.e. a credit but not debit or a debit with no credit, and entering different amounts on the debit and credit side, will cause errors in the trial balance. Certain types of accounting errors will not be revealed in the trial balance. Several examples of errors not revealed in the trial balance are listed.

- Errors of principle. This occurs when entries are made to the wrong account, the debits and credit may agree but the account total will be wrong. For example, E500.00 may be paid for furniture, but is entered as tomato purchases. The debits and credits will still agree but the tomato and the furniture accounts are wrong.
- Errors of omission. The complete omission of an entry from the subsidiary books can not be detected in the trial balance. A credit sale may be omitted from the sales journal. Both the customers account and the sales account will be wrong and to the same extent.
- A mistake in the subsidiary books. If a purchase of goods for E600 is entered as E60, both the purchases account and the creditors account will be wrong but the trial balance will seem correct.

- Posting to the wrong account. Posting to the wrong account as long as it is on the correct side of the ledger will not be revealed in the trial balance.
- Compensating errors. An error on the debit side may be offset by a similar on the credit side. If the wages account is totalled wrongly and the amount shown in the trial balance is E10 too much (debit) and the sales account is also totalled E10 too much (credit), the mistakes will compensate each other and will not be revealed in the trial balance.
- When these errors are discovered they must be corrected. The correcting entries are made in the double entry ledger accounts and a notation is made in the journal explaining the corrections.

If accounting errors revealed in the trial balance can not be found, the trial balance totals are made to agree by inserting an amount equal to the difference in amount between the two sides into a suspense account. If the errors can not be found before the preparation of the final accounts, the suspense account balance is included in the balance sheet. When the balance is a credit balance, it should be included on the capital and liabilities side of the balance sheet. When the balance is debit balance, it should be shown on the assets side of the balance sheet.

The trial balance appears as follows:

A Co-op
Trial Balance as on December 31, 199x

| | Dr. | Cr. |
|------------|-----------------|-----------------|
| Sales | | 5,060.00 |
| Purchases | 3,500.00 | |
| Wages | 1,300.00 | |
| Rent | 240.00 | |
| Utilities | 150.00 | |
| Stationary | 60.00 | |
| Furniture | 500.00 | |
| Debtors | 680.00 | |
| Creditors | | 910.00 |
| Bank | 1,510.00 | |
| Cash | 20.00 | |
| Shares | | 2,000.00 |
| Suspense | <u>10.00</u> | |
| | <u>7,970.00</u> | <u>7,970.00</u> |

It should be noted that not all the items contained in the trial balance are used in the preparation of the trading and profit and loss statement. The remaining balances will be assets or liabilities account balances, since the profit and loss statement will only include income and expense account balances.

The balance sheet is a statement listing the assets and liabilities in the business at a given date. The balance sheet is a summary of the account balances remaining in the ledger after the nominal accounts have been closed. Nominal accounts refer to accounts that exist in name only, i.e. not having a real existence. Examples of nominal accounts are those that show expenses or income. Purchases or sales accounts, rent accounts, and interest accounts are examples of nominal accounts.

The balance sheet is not a part of the double entry accounting system. In drawing a balance sheet, no entries are made in the various accounts. Balances are not transferred from the various accounts to the balance sheet. The balance sheet is merely a list of balances arranged according to whether they are assets, capital, or liabilities. Accounts are not closed to form the balance sheet. When the next accounting period begins, the accounts remain open and entries are made in them to add to or deduct from the amounts shown in the accounts in the normal double entry accounting methods. Since the balance sheet is not an account, the indications debit (dr.) and credit (cr.) are not used.

Balance sheets are laid out in a standard format. Assets appear on the left side of the balance sheet. Liabilities are listed on the right side of the balance sheet. Assets are usually shown under two headings: fixed assets and current assets. Fixed assets are listed starting with those that will be kept the longest, ending with those that will not be kept so long. For example, fixed assets would be listed in the following order: land and buildings, fixtures and fittings, machinery, and motor vehicles. Current assets are listed in order of the asset furthest from being turned into cash finishing with cash itself. For example, current assets would be listed in the following order: stock, debtors, cash in bank, and cash on hand.

The order on the liabilities side of the balance sheet is capital, long term liabilities, and short term liabilities.

The balance sheet is often presented in vertical form for ease of presentation. The balance sheet in vertical form appears as follows:

A Co-op
Balance sheet as at 31 December, 199x

| <i>Fixed assets</i> | <i>E</i> | <i>E</i> |
|-------------------------------------|--------------|-------------|
| Building improvements and equipment | 74,000.00 | |
| Field crates | 16,600.00 | |
| Misc. equipment | 1,000.00 | |
| Building materials | 570.00 | |
| <i>Current assets</i> | | |
| Stock | 22,000.00 | |
| Debtors | 53,000.00 | |
| Call account | 11,000.00 | |
| Savings account | 4,000.00 | |
| Current account | 8,000.00 | |
| Cash on hand | 600.00 | |
| Suspense account | 6,230.00 | |
| <i>Long-term liabilities</i> | | |
| Donor grants | | 80,000.00 |
| Share capital | | 25,000.00 |
| Retained profit | | 54,000.00 |
| <i>Current liabilities</i> | | |
| Creditors | | 82,000.00 |
| less Current Net loss | | - 44,000.00 |
| | 197,000.00 | 197,000.00 |

The trading profit and loss statement and balance sheet are normally the final output of the accounting process. The profit and loss statement as presented above provides a measure of the profitability of the business. The balance sheet tells several things about the business. The balance sheet states the kinds of assets owned by the business and their book values. It breaks down assets into fixed and current assets and gives the total value of each. The balance sheet therefore is a sort of financial position statement which provides a measure of the net worth of a business at a particular moment in time.

The balance sheet shows the ratio of current assets to current liabilities. Current assets should exceed current liabilities, if not the business is probably in

trouble. The balance sheet indicates whether or not a business is solvent. If the total liabilities exceed total assets, the business is insolvent. The capital account will have a credit balance if assets exceed liabilities. If the business is insolvent, capital will show a debit balance. Lastly, the balance sheet tells whether capital is increasing or decreasing. If net income is greater than money paid out for expenses and distributed to the owners (members), capital will increase. If payments for expenses and to the owners are greater than net income, capital will decrease.

With a properly organised set of accounts, many other reports may be generated to provide financial information of interest to the management, committee, and members of the co-operative business. The committee may wish to know the cost effectiveness of various types of transport being used. The manager and bookkeeper can generate this type of report by calculating from the books, how much was spent on each type of transport for a certain period, and compare this to the number of lugs of produce hauled to arrive at a cost per lug for each means of transport used.

The manager might want to compare his wage bill for a particular period to the amount or volume of produce graded and packed for a particular period. He could then compare this to another period of time to judge the efficiency of his workers. Is it improving or is it deteriorating? The amount of stock taken on credit could be compared to the amount sold in a month. This might indicate that inventory levels are too high and could be reduced easing cash flow problems the society may be facing. The committee may wish to review the debtor account of a particular client in order to reach an informed decision of whether or not to increase his credit limit.

A report showing the percentage of each grade of produce sold by the pack shed may indicate the need for increased technical assistance and training of members if the majority of the crop is falling into the lower grades. It might also mean that members are disposing of their higher quality produce to other buyers and dumping the lower grades on the co-operative.

In addition to the standard reports described above, an up to date, properly kept set of accounts can supply a wealth of information to the management and owners of the co-operative society. Informed use and examination of the information contained in the financial records generated by the business will greatly assist in the planning and decision making process necessary to successfully guide the business from strength to strength. Accounting may be compared to the pulse of the business, by monitoring the vital signs of the business, the committee and manager will be able to accurately judge the condition of the business and quickly determine whether it is showing progress or ailing in some way. It will further indicate what steps are required to reverse any negative conditions and/or accentuate positive signs. Attempting to run the co-operative business without good bookkeeping is like trying to drive a motor car blind-folded in that the attempt usually ends in disaster.