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VOUCHING OF CASH AND TRADING TRANSACTION

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VOUCHING OF CASH AND TRADING TRANSACTION

The main objects of the audit of the cash book may be summarized thus:-

- To ensure that all receipts are accounted for;
- To ensure that no fraudulent payment have been made;
- To ensure that all receipts and payments have been proper recorded;
- To verify the cash in hand and in bank.

VOUCHING DEBIT SIDE OF CASH BOOK

Vouching receipts is always more difficult than vouching payments, since, in many Cases no direct evidence as regards regularity and correctness of the amount received, would be available. The system of internal check as regards receipts should be carefully enquired into.

The entries in the cash book should be compared with the office copy of the receipt issued to the party and it should be seen that the following particulars tally:

- Date of receipts;
- Name of the person paying in the amount and name of the person on whose behalf remittance is made;
- Amount received mentioned in both in words and figures;
- Mode of remittance i.e. by check, cash etc.
- Head to which credited.

Different types of receipts of a society are to be checked & verified as under:

1. Share and entrance fees: Printed receipts and counterfoils of certificates to be checked with entries in the Share Register, Share ledger, Member's register. If entrance fees and share money are collected prior to actual admission of a member, the amount thus collected should be credited to a suspense account first and subsequently adjusted to the share and entrance fee account.

2. Receipt of Government Share capital, loan, subsidy: Copy of order sanction loan or subsidy is to be inspected in order to verify whether the terms and conditions of the loan/subsidy have been complied with. The amount should have been properly utilized for the purpose for which it was sanctioned. Auditor may point out non-compliance of any of the conditions in his report.

3. Deposits: For fixed and call deposits, counterfoils of the receipts issued should be compared with the entries in the cashbook and deposit register.

4. Receipts of loans: Bank loans are to be checked with the advice of the bank and entry in the passbook crediting the proceeds of the loan. For repayment of loans by members counterfoils/copies of receipts issued should be checked with cashbook. Individual passbooks of borrowers may also be checked at random with the respective ledger account.

5. Capital receipts: Receipts through sale of fixed assets are to be verified with resolution of Board/Committee authorizing the sale. The amount received should also be reasonable. Auditor may also check that no officer of the society had any direct or indirect interest in any property sold or purchased by the Society.

6. Cash sales: Cash Memos should be checked and verified with entries in daily sales register.

7. Interest received: Interest received on amounts deposited with bank should be checked with entries in the passbook. Interest on fixed deposits with banks or other investments are to be verified by checking the calculations on the amount of deposit (rate recorded on deposit receipts) or the nominal value of securities. In case of dividend on shares, the counterfoils of the dividend warrants will have to be checked. If the number of investments is large, a separate Investment register/Ledger should be maintained. Interest received on loans and advances to members will be checked from the counterfoils of receipts issued. Interest calculations should be checked while checking the postings in the loan ledger.

8. Rent: Agreement executed by tenants should be seen. It should be ensure that all money received on account of rent has been duly accounted for. Enquiries should be made about arrear of rent and action taken for recovery, and if action taken appears to be inadequate, then to suggest step to be taken to gear up recovery.

9. Miscellaneous Receipts: Occasional receipts such as sale proceeds of fixed assets, scraps, unused stores and spare parts, discarded materials, waste papers etc. should be vouched from the receipts issued, correspondence, minutes and relevant documents.

VOUCHING CREDIT SIDE OF CASH BOOK

To vouch the cash payments, the Auditor should primarily satisfy himself that the payments have been actually made:-

- To the right person or parties;
- For the society/business itself;
- have been sanctioned by competent authority;
- have been properly recorded in the books of accounts.

The following points are required to be borne in mind while vouching the payment side of the cashbook:-

i) The voucher should have been addressed to the society itself and not in the individual name of the Managing Director, Chairman, Secretary or other officer. The nature of the transaction to which it relates should be one, which the society can be normally expected to carry on. For example, a society engaged in supplying seeds and matures is not expected to buy jewellery or cloth.

ii) Where it is known that official receipts i.e. printed receipts bearing the name of the payee are generally issued for acknowledging remittances, no other receipts or acknowledgement should be accepted as sufficient evidence of payment made.

iii) All vouchers should have been properly authenticated by the authorized officers of the society. This may be done by them by signing the original vouchers. This will ensure genuineness of the vouchers produced for audit.

iv) Where actual payment has been made to a person other than the payee himself, a letter of authority from the payee authorizing the person to received payment on his behalf has been obtained.

v) When payment has been made to a person in his official capacity, it should be seen that the rubber stamp of the institution showing the designation of the officer is dully affixed below the signature of the officer.

vi) If the signature of the payee is not in English or in a language not known to the Auditor, it should have been translated into English or language known to the Auditor. All thumb impressions should have been properly described and attested.

vii) Where the amount paid is in excess of Rs. 500/-, the voucher should be duly stamped.

viii) The vouchers should be properly checked as regards the arithmetical accuracy of the amount and the propriety of the payment by the Chief Accountant or other responsible officer of the society.

ix) All vouchers should be cancelled by the Auditor as soon as he checks them and passes the entries in his audit in order to prevent their production once again in support of a subsequent fraudulent or fictitious payment. Either a rubber stamp bearing his name should be used for the purpose or the voucher should be initialed by the Auditor in a prominent place, preferably in the middle.

Sanction for payment:

It is necessary that all payments should have been regularly sanctioned by the Committee or an officer properly authorized to do so, such as Secretary, Manager, Managing Director, etc. Where the Secretary, Manager or other officer has been authorized to sanction payments, it should be seen that the extent of his authority has been fixed and that he has not exceeded his authority. In order to be satisfied that all payments have been properly sanctioned, orders of the Chairman, Managing Director, Manager or other responsible Officer, competent to sanction payments should be seen. Where the Managing Director, Manager or Secretary is authorized to sanction payments or incur expenditure, it should be seen that these Officers do not exceed their authority. Resolution of the Managing Committee, Board of Directors or the General body will have to be seen in case of payments which are beyond the powers of the Chairman, Managing Director or other Officers. All extraordinary expenses or expenses, which are not incidental to the business of the concern or connected with any of its activities, should be sanctioned by the general body. Even in such cases, their legality and propriety will have to be further examined. Similarly, all purchases of immovable property and investment of funds outside the business of the society, which the Board/Committee is not competent to sanction, should have been sanctioned by the general body.

Where the secretary, Managing Director, or the Manager is authorized to incur the expenditure or disburse amount up to a specified limit, all expenditure incurred by him and all disbursement made by him should be placed before the committee or board periodically and his approval should be obtained.

Payment of Advances:

There is no objection for payments of advances provided the purpose is genuine, and payments of advances are necessary in the normal course of business of the society. The reasons for the payment of advances or the purpose, for which the advance is being paid, should be specifically mentioned in the body of the voucher and the advances should be adjusted within a reasonable time. Where advances are made against supplies to be received or services to be rendered or against running bills, these should be adjusted in the invoices or final bills. However, where advances have been given for no specific purpose or consideration, they should be objected to and where such advances are subsequently credited back in cash after some time, it should be noted that this would amount to misapplication of funds of the society. All such misuse of the funds of the society by its office-bearers by taking unauthorized advances themselves or giving advances to other persons, should be pointed out by the Auditors.

A list of all outstanding advances on the date of audit should be obtained and it should be seen that only temporary advances recently granted for specific purposes are outstanding. Where advances have been outstanding for more than 60(sixty) days, the reasons for not recovering the advances or adjusting them should be ascertained.

While examining documentary evidence in support of a transaction, particulars entered in the cashbook and those mentioned in the body of the voucher or order document should correspond in respect of the following:-

Date of payment;

Name of the payee;

Name of the person receiving payment on behalf of the payee, in case the payment is made to a person other than the payee against his letter of authority;

Supporting documents like invoices, statements of accounts, cash memos, bill for expenses, service charges etc. should be attached to the voucher or reference to such documents made therein;

Amount paid should be mentioned both in figures and words;

Head of the account to which debited- If the amount paid has been debited under different heads of account, an analysis should be prepared. This should be checked by the auditor and the total agreed;

Mode of payment- Whether the payment has been made in cash or by cheque or whether the amount has been remitted to the payee by bank draft, postal order, money order or insured post or the payee Unusual and irregular items- While checking vouchers, careful notes should be taken of all unusual items or items requiring further clarification or explanation and also items which call for addition information or authority or where further evidence, such as inspection of the minutes, contracts, lease-deeds agreements, orders, etc. is necessary. Notes should also be taken of all payments, which require to be apportioned or adjusted. A list of all missing vouchers should be drawn up and explanation as to the circumstances of their loss or non-availability of reasons for failure to obtain regular vouchers at the time of making payments should be ascertained. All subsidiary evidence in support of the payment, such as entry in the statement of accounts confirmed by the party, reference in correspondence etc. should be seen with a view to be satisfied about its genuineness and correctness. In a number of cases, it will be noticed that only the debit slips have been kept on record without the payment having been actually acknowledge by the payee. Sometimes, it might be explained that the amounts have been merely adjusted or credited to the payee's account and, hence, no regular voucher was necessary. The Auditor should carefully examine all such contra entries and insist that in all cases, payee's acknowledgements should be obtained.

Payment of dividend and bonus- The discharged dividend or bonus payable should be checked with the entries in the dividend or bonus paid register. If dividend or bonus warrants are not issued, separate vouchers specifying the number of shares held, the rate and amount of dividend or bonus should have been obtained. As regards payment of bonus or rebate on purchases from or sales made through the society, a register showing particulars of purchases made from the society or sales made through it by members and rate at which bonus or rebate is paid and the total amount of rebate or bonus should be Maintained. If acquaintances of the shareholders or constituents are obtained on the dividend/bonous paid register itself, the individual items will have to be called over in the cashbook.
e's account with the society has been credited and a credit note issued in his favour.

Repayment of Bank loan, cash credit and overdraft

Repayment of bank loan would be checked with the counterfoils of paying-in-slips receipts issued by the bank, which would also show separately the amount, credited to principal and interest account. Entries in the bank passbook should also be seen. Advices received from the bank in cases where amounts are paid directly for credit to the account of the society and entries in the passbook should be seen.

Some cash credit and overdraft accounts are operated by cheques. Repayment of cash credit, overdraft and other advances obtained from bank would be checked with the counterfoils of the paying-in-slips issued by the bank and entries in the passbook or the statement of accounts.

Stationery and printing charges

Where large quantities of stationery articles are to be purchased or printing work on a substantial scale is to be got executed, it should be seen that before making purchases of stationery or placing orders for printing, the normal canons of financial propriety, such as calling for tenders, inviting quotations and acceptance of the lowest tender or quotation are being duly observed or these are purchased from other Coop. Societies trading in these goods. If lowest tenders are not accepted reasons for the same need be recorded. It should seen that large advances are not given to the printers before any printing work is executed. Payments should be made only against completed jobs and delivery of printing material. For payment of printing charges for printing forms, letter heads, registers, notes, reports etc. bills received from the printing press specifying the printing work executed, quantities, rates, dates of delivery etc. should be seen. Proper accounts of receipts and issued of all forms, letter pads, books, ledgers, registers, and other printed material should have been maintained. It is necessary to maintain an inward register for receipt of printing and stationery. The stock register may be posted from the inward register. Issues and consumption of stationery articles should have been properly controlled. Quantity accounts of stationery articles and printed materials should have been maintained and checked by a responsible officer at frequent intervals.

Expenses which should be objected to in audit

The following expenditure, though duly sanctioned by the committee or other authority should be objected to by the Auditor:-

• Expenses, which are not incidental to the business conducted by the society and expenditure, incurred which cannot be said to be for the purpose of the society, e.g. personal expenses of the Directors, Officers or employees.

• Expenses, which were not necessary and should in ordinary course, have been avoided.

• Expenses, which are considered heavy or disproportionate, considering the size of the institution and importance of the occasion.

• Abnormal expenditure over publicity, propaganda and advertisement.

• Infructuous expenses, i.e. expenses which would yield no results.

• Fraudulent, false or fictitious expenses.

• Other irregular or improper expenses such as illegal commission or allowance, black money etc.

Detailed notes of all expenses objected to should be taken. These should be discussed with the management and suggestions made to recover the amount involved from the persons responsible. If no action is taken, specific mention thereof should be made in the audit report. A list of all expenses, which have been objected to and which in the opinion of the Auditor should not have been paid from out of the funds of the society, should be contained in the schedules to be attached to the audit memo.

VOUCHING TRADING TRANSACTIONS

Purchase procedures:

The system of internal control relating to purchases should be very carefully evaluated. Proper buying procedures require that there is a clear-cut definition of functions and authority between; (a) requisition of supplies (b) placing of orders, (c) inspection and recording of goods when received, (d) checking and recording of invoices and (e) payments to suppliers and other creditors. Only the storekeeper or other specified Officer should be authorized to issue requisitions. The buying section should then take steps to invites tenders or quotations. A comparative table of quotations received should be prepared and normally the lowest quotation should be approved. When lowest quotations or tenders are not accepted, reasons for the same should be recorded. Where on account of small value of the purchase to be made, non-availability of the goods in the open market or other reasons, regular quotations cannot be called for; proper enquiries as regards rates should have been made before placing an order. All orders for purchases should be issued from the printed order book/file, which should contain all the terms and conditions subject to which supplies are to be made.

In particular, prices and terms of delivery and payment should have been specifically mentioned. The officer authorized to issue purchase orders should be clearly specified and the extent of their authority defined. As far as possible, officials who are required to submit requisitions for supplies should not themselves issue purchase orders.

Goods when received should be immediately inspected as regards quantities, condition etc. Goods received should be entered into the "Goods Inward Register". The storekeeper should also prepared a "Goods receipts Note", copies of which should be sent to the buying section and the Accounts Section. The goods receipts note should be issued from the printed goods receipt note book with pre-numbered folios.

Cash Sales

Cash Memos should be issued for every sale. In a number of cash memos, names of customers may not have been mentioned. However, description of goods sold, quantities, rates, the amount and sales tax when charged, are to be shown in the cash memos. The Auditor should compare the entries in the Daily Sales Register with the cash memos issued. The procedure for fixing selling price should be ascertained. The society should be advised to maintain a price register for showing details of calculations for fixation of selling price. The rates mentioned in cash memos should be checked with the price register.

Checking of cash memos and Daily Sales Register

Calculations, extensions and totals should also be checked on a percentage basis. The Auditor should carefully study the provisions of The Sales-tax Act. with particular reference to the schedule in which the commodities dealt in by the society are contained. It should be seen that the rates of sales tax charged are correct.

The total sales for the day according to the Daily Sales Register should be called over into the main Cash Book. The total sales according to the Sales Register should also be compared with the Cash received by the cashier according to his Rough Cash Book or Cash Diary. The accounts of sales tax collected should be maintained separately. The total amount of sales tax collected should be paid into Government treasury as per instruction.

VOUCHING LEDGERS

Ledgers: Posting from various subsidiary books is made in the respective accounts in the Ledger Book. The Ledger is usually sub-divided as personal Ledger and Impersonal or General Ledger. Personal accounts are related to person, and in a trading concern, usually to those persons from whom the goods are purchased or to whom the goods are sold. Impersonal accounts are related to the accounts effecting the business and not persons.

Personal Ledgers consist of purchases and Sales Register. This are to be vouched carefully after vouching the subsidiary books viz. Cash book, Purchase Book, Bill payable Book, Journal etc. The Auditor should compare the balances in the list of creditors with the balances in the purchase Ledger, for purchases effected on credit. If the two disagree, the same should be enquired into. The casting of the Sales Ledger should be examined carefully after checking the postings from various books of original entry. The correctness of the personal accounts can be verified by agreement of their totals with the balances of the concerned total or control account maintained in the general ledger.

The entries in the general ledger will all come from a book of prime entry, viz. the cash books or Journal. In most societies, which do not maintain a separate journal, the cash book is generally called the Day Book. The total of all subsidiary books, viz. purchase journal, Sales Register and other subsidiary cash book are first entered in the Day Book and posted into the general ledger from the Day Book, although in some societies, postings from the subsidiary books are directly made into the general ledger. However, it is more useful to analyze the transactions recorded in the subsidiary books according to their classes and post the total into the Day Book under heads so classified and then post them into the general ledger. In such cases, viz. where totals amounts have been analyzed and classified under various heads, the Auditor should check the analysis, reconcile the total amount and trace the individual items comprising into the general ledger.

It should further be seen that all transfers from one account in the general ledger to another account are passed either through the journal or the Day Book and no amounts are posted directly in any account in the general or personal ledgers without first being entered in the cash book or the journal.

The narration below the entry should fully explain the origin and nature of the transaction and the reasons for making the entry.

The Trial Balance: After checking the posting into the general ledgers and extracting balances, all the closing balances are entered in a sheet separately according to their character, i.e. debit or credit balances. This statement, which contains a classified summary or a list of all closing balance of general ledger, is known as the “trial balance”. Since the cash book is also a ledger account (it being the cash account), the opening and closing cash balances are also entered in the trial balance and if the totals of the two sides of the trial balance agree it signifies the arithmetical accuracy of the accounts. If the two sides of the trial balance do not agree, it means that either the posting have not been made correctly or the totals have been incorrectly taken. Hence, in order to trace the difference, the whole of the posting and totals, both of the general ledger and the cash book will have to be checked. The difference should be located and the trial balance agreed before drawing up the final accounts. However, the Auditor should not proceed to check the final accounts unless agreed trial balance is placed before him. In the smaller societies, particularly agricultural credit societies, instead of the trial balance, a receipts and disbursements statement is prepared from the cash book, which serves the same purpose.

Adjustment of nominal accounts: In every society, there are bound to be transactions the results of which may not be known on the date of the balance sheet. In order to show the correct position of the society, it is necessary that all such overlapping transactions should be taken into account and necessary adjustments made.

All nominal account must be checked carefully by the Auditor so that he should be satisfied that all transactions of the business have been correctly classified and included in the final accounts. In this connection the Auditor should take particular care to see that all accrued income as well as the expenditure incurred, but not paid and income received in advance are duly brought into account. While checking receipts of income or revenue, in addition to examining the entries in the books, the Auditor has to satisfy himself that all income, which should have been received, has been duly recorded in the books. In the case of consumers stores and other trading societies, it is necessary to see that all sales effected, particularly, sales made during the last few days prior to the closing of the accounts, have been duly recorded. For this purpose, it will be necessary to trace back the issue of despatches of goods to the related invoices or sales memos.

Adjustment of outstanding expenses: As regards outstanding payments, the Auditor should examine the “Goods Inward Book” or the “Invoice Register” for the last few weeks of the period and satisfy himself that all purchase made and included into stock have been duly brought into account and the amount of the unpaid invoices credited to the respective accounts of the suppliers of the goods. In addition to purchases not paid for, expenses incurred but not paid, are also required to be brought into account. In most of the societies, salaries and wages for March may not have been paid before the close of the year. All these items will have to be brought out as the outstanding expenses.

Interest: Interest on bank loans and other borrowings is generally debited to the account of society. However, in case of deposits and other temporary borrowings, interest accrued up to the date of the balance sheet, should be calculated and provided for. In particular, interest on fixed deposits accrued from the date of last payment of interest up to the date of the balance sheet should be calculated.

Interest on Savings Bank Account is ordinarily calculated and credited to the accounts of the respective depositors, before the close of the year.

Outstanding expenses: All nominal accounts in the impersonal ledger should be examined to see that all expenses and charges pertaining to the period under review have been included. There may be, for example, outstanding bills for repairs, fuel charges, electricity charges, water charges, and also transport charges, godown rents, subscriptions, advertisement etc. The Auditor should further inspect the ledger account, demand notes, receipts etc. noting the period covered by each payment and seeing that any accrued and unpaid proportion from the date of last memo to the date of the balance sheet noticed during the inspection of these documents is provided for. The amount paid under these heading should be compared with those appearing in the corresponding nominal accounts for the previous year so as to ensure that all rents, rates, taxes, etc. payable have been duly provided for.

Prepaid expenses: Just as there are outstanding liabilities on account of expenses, there may also be advance payments or prepaid expenses as they are called. Under this head, will be included rents, rates and taxes, insurance premium, advertisement charges, subscriptions, membership fee, etc paid for periods that extend beyond the date of the balance sheet. The Auditor should examine the nominal accounts and also the demand notices bills and receipts and ensure that correct calculation has been made the proportion of the accounts relating to the unexpired periods.

Income receivable: There might be various amounts due to the Society for which credit will have to be taken. These will include interest on loans and other advances made by the society, interest or dividend on investments, rent receivable for premises hired out, royalties, commission, etc. receivable. Interest on loans and advances accrued upto the date of the balance sheet should be calculated and brought into account, however, since dividend does not become due until it is declared, no credit should be taken for dividend on shares unless declaration of dividend has already been made. Sometimes, rebates and bonus are also receivable. However, these should not be taken as credit unless the society has been informed that they have accrued and would be paid in due course. All items in the general ledger relating to income should be scanned carefully and enquiries should be made as to whether any amounts are receivable. However, no credit should be taken of amounts, receipt of which is considered doubtful, unless adequate provision is made therefore.

THE PROFIT AND LOSS ACCOUNT

At the end of the year every business must ascertain its net profit (or loss). This is usually done in two stages; by finding out the gross profit (or loss): The usual way to ascertain gross profit is by means of an account called the Trading Account. The net profit (or loss) is shown through the Profit & Loss Account.

In the case of Cooperative bank and other institutions, the Profit & Loss account contains all the items relating to the income and expenditure of the institution. In case of Trading and Manufacturing societies the profit and loss account is divided into three sections viz. Manufacturing account, Trading Account and the Profit and Loss account.

Manufacturing Account: The object of the manufacturing account is to show the manufacturing cost of the goods produced. As such, the manufacturing or production account will contain only items relating to the manufacturing operations of the society. The main heads under which the manufacturing expenses are shown are as under:-

(1)The worker in progress or value of unfinished goods at the beginning of the year.

(2) Raw materials used (opening stocks plus purchases minus closing stock).

(3) Fuel, oil, Electricity and other power charges.

(4) Stores and spare parts consumed.

(5) Direct or indirect labour.

(6) Maintenance of factory building, plants, tools and other equipments.

(7) Insurance of factory building, plant and machinery and tools, store, etc.

(8) Depreciation of factory building, plant, machinery, loose tools and other equipment.

(9) Factory heating, lighting and water charges.

(10) Rent, rates and taxes of the factory premises.

(11) Salaries of the technical staff and officers including works manager, factory superintendent, etc.

(12) General administrative expenses strictly pertaining to the factory.

From the total of these items, i.e. the total of works in progress or unfinished goods in the beginning of the year and manufacturing expenses incurred during the year, the value of the work in progress at the end of the period is deducted and the results give the manufacturing cost of the goods produced or processed during the period, which are available for sale. This figure is brought down to trading account.

Trading Account: in the trading account, the opening stock (value of finished goods at the beginning of the year) appears as the first item. The cost of goods purchased, which would also include all expenses connected with purchases, or manufactured, appears as the next item and thereafter all trading expenses are debited to this account. In case of a manufacturing business, the cost of goods manufactured brought down from the manufacturing account takes the place of purchases. This account is credited with the net sale proceeds received (total sales minus returns) and the value of closing stock. The difference between the two sides, viz. net sale proceeds received minus cost of goods sold which would included selling expenses, will show gross profit. This gross profit is brought down to the credit side of the profit and loss account. Whereas the object of manufacturing account is to show the manufacturing cost of goods produced during the year, which are available for sale, the object of the trading account is to determine the gross profit which is the difference between the sale proceeds received and the cost of goods sold. In the trading account of trading societies, in addition to the invoice price of the goods purchased, direct charges such as carriage and freight, insurance, godown rent and other expenses connected with the purchase and storage of goods are included. In some of the societies, particularly in consumers stores rent of shop premises and also salaries of salesman and other staff directly engaged for selling goods are also shown in the trading account. Adjustments, however, will have to be made for the value of opening and closing stocks before arriving at the figure of gross profit.

Profit and Loss Account: The third section of the profit and loss account is the profit and loss account proper. This account is credited with the gross profit brought down from the trading account together with any miscellaneous income such as cash discount, interest, rent, dividend, share transfer fees, commission, etc. On the debit side, the various items of expenditure are grouped usually under the following heads:-

(i) Selling and distribution expenses.

(ii) Administrative charges including audit fees, legal charges, etc.

(iii) Financial Charges.

(i) Selling expenses: - The selling and distribution expenses include cost of packages and packing materials used, labour employed for packing goods, carriage freight, insurance and other charges incurred for dispatch and delivery of goods to customers where these are not to be charged to the customer, home or godown delivery expenses (in case of consumers' societies) expenditure incurred over advertisement and publicity, cost of samples, printing charge of catalogues, price lists and other publicity material, salesmen's salaries and commission and their expenses, bad debts and sundry trade expenses are also shown under this heading.

(ii) Administrative expenses: - Administrative charges include overhead expenses such as –

1) Clerical and accountancy charges.

2) Printing and stationery.

3) Postage, telegrams and telephone charges.

4) Office rent, rates, insurance.

5) Office lighting and heating.

6) Director's sitting fees and expenses.

7) Managing Director, Manager's salary and cost of requisite and allowances.

8) Audit fees and legal charges and other general expenses’

(iii) Financial charges include-

i) Cash discount.

ii) Interest on deposits, loans, bank overdraft and other borrowings.

iii) Bank charges including discount charged on bills collected or discounted.

iv) Provision made for payment of income tax is also sometimes included in the profit and loss account.

v) Depreciation on office furniture and equipment. Also depreciation on buildings, godowns, etc. Where these are owned by the society.

Revenue Account or Income and Expenditure Account:-

In case of non-trading societies, such as co-operative education Societies, hospitals, clubs and also federations, housing societies and similar other societies, which do not undertake trading activities, it is common to term the “Profit and Loss Account” as “Revenue Account” or the “Income and Expenditure Account”. However, the principles for preparing the Revenue Account or the Income and Expenditure Account are the same, the object being to disclose the excess of income over expenditure or the deficit incurred during the period.

Expenditure side of the Profit & Loss account:

(i) Interest payable – The amount to be debited to interest account will include interest actually paid as well as interest payable on deposit, loans and other borrowings. Interest payable has been specifically mentioned in order that the management may not fail to make adequate provision for interest payable on loans and deposits. The Auditor will have to checks all items of interest payable at the time of audit.

(ii) Bank charges – This are charges debited by Bank on account of exchange, commission, etc. charged for collection of cheques, remittance of funds, etc. cost of cheque books and pass books, postage and other charges for services rendered.

(iii) Contribution to staff provident fund – The Auditor will have to verify with reference to the Staff Provident Fund Rules that employer's contribution has been correctly made.

(iv) Salaries and allowance of the Managing Director – This point has been discussed elsewhere.

(v) **Traveling expenses and sitting fees paid to Director/Managing Committee members** – This has to be separately shown. The expenditure incurred under this head should include expenditure and allowance for journeys undertaken even outside the jurisdiction by the Directors/Managing Committee members for the purpose of the society. It should be seen that rates of traveling allowances, daily allowance, etc. paid to members of committees do not exceed the maximum rates as may be prescribe from time to time.

(vi) Traveling expenses of staff – All amounts payable need to be brought into account.

(vii) Rents, Rates and Taxes – These should not only include amount paid, but also the amount payable.

(viii) Postage, Telegrams and telephone charges.

(ix) Printing and stationary.

(x) Audit fees – Audit fees paid to Government for statutory audit as well as fees paid to certified Auditors should be included under this head.

(xi) Bad debts written off or provision made for bad debts – Bad debts actually written off during the year and also provisions required to be made for bad debts or the contributions to be made to the Bad Debts Funds should be shown under the heading.

However, if bad debts are actually written off against the Bad Debts Fund or the provision for bad debts, the amount written off should be shown as deduction from the find or the existing provisions and additional contributions made to the fund of provision made should be shown under this heading.

(xii) Depreciation on fixed assets – It is the duty of the Auditor to see that adequate depreciation is charged on all wasting assets. If he considers that the depreciation charged is inadequate, he should state so in his report.

(xiii) Land Income and Expenditure – If any agricultural land is held by the society, assessment and other expenses connected with the land should be shown under this heading.

Expenditure incurred over other property such as building plots, buildings, etc., should be shown under the heading “property income and expenditure account” and not under this head.

(xiv) Other items – All other items, which are not cover by the various head shown above, should be shown under this heading. All unusual items, such as contribution to sinking fund, deprecation in the value of investments, provision made for redemption of Government share capital and such other items may be shown separately under the appropriate heading and not under this head.

Income side of the profit and loss account:-

(i) Interest received and receivable from loans and advances to members and interest received and receivable from investments. These are required to be shown separately. As regards interest receivable on loans, all interest accrued or accruing in amounts, which are over due, is required to be excluded while calculating net profits for the year. As such, it is the responsibility of the Auditor to see that where interest receivable is taken into account, adequate provision is made for overdue interest. Overdue interest may be shown either as a deduction from interest receivable, or shown under the separate heading of “provision for overdue interest” on the liability side. Either way, it has to be deducted from the total amount of interest received and receivable. If any portion of the overdue interest is realised during subsequent years, it may be included in the profits in that year.

(ii) Overdue interest. - Interest account appearing in the profit and loss account includes both interest received and receivable. Interest received means interest actually realised during the year irrespective of whether it has accrued during the year or in previous years. Hence, interest overdue, which was excluded from the profit of previous years, if realsied during the year may be included in the profits for the year, in which it has been realised. Interest receivable would include both interest accrued due and also interest accruing. Generally, recovery of interest is made along with the principal and as such, when the loan account is settled, full interest up to the date of repayment by the borrower as calculated and recovered along with the balance of principal outstanding. However, in the case of medium term and long term loans interest on the full amount has to be paid and may be recovered separately or along with the installment of principal. Thus, in a loan account, interest would have accrued and would be accruing even when the principal has not become due forrepayment. Hence, unrealised interest on loans outstanding would consist of (a) interest, which has accrued and become due for payment and (b) interest, which has been accruing but has not become due for repayment. Where the date fixed for repayment of loan and interest extends beyond the date of balance sheet, the interest accrued during the period from the date on which interest has already been calculated to the date of the balance sheet, is termed as “interest accruing”. Both interest accrued and accruing may be taken to the profit and loss account, provided the accounts to which they relate are not overdue. An account is said to be overdue when the principal outstanding or the installment due has not been paid on due date.

(iii) Interest on investments. - As regard interest earned on investments, ordinarily only interest actually received is taken to profit and loss account and further interest, receivable up to the date of the balance sheet is not calculated and brought into account. Where income tax is deducted from interest, only the net amount after deducting the tax should be shown. Societies, which are not liable to pay tax on their income should obtain exemption certificate from the income-tax authorities.

(iv) Dividend received on Shares. - Only dividend actually received should be shown. Dividend declared, but not actually received may also be shown. However, since dividend does not become due until it is declared, no credit can be taken for anticipated income by way of dividend.

(v) Commission. - Commission received on purchases and sales made on behalf of members, commission earned on insurance business and other commission may be shown under this head.

(vi) Miscellaneous income. - Where the society has undertaken other activities, income received from these activities will be shown under appropriate heads. Thus, for example, if the society purchased and kept for hire costly agricultural machinery and equipments, such as oil engine, pumping sets tractors etc. hire charges received may be shown under this head. Similarly, rent received on property, refund of taxes and fees and other miscellaneous items may also be shown under this head.

(vii) Land income & expenditure account. - here the society has come into possession of agricultural lands belonging to defaulters during the process of recovery of its dues, a separate account styled ‘Land income and expenditure account’ has to be opened and all income received should be credited and all cultivation expenses including cost of seeds, fertilizers, etc., and also assessment, cess and other taxes and fees paid should be debited to this account. The net income received should be shown under this heading.

THE BALANCE SHEET

All the balances appearing in the ledger accounts which have not been closed by transfer either to the Trading Account or to the Profit & Loss Account are summarized in a statement called the Balance Sheet.. The Balance Sheet summarizes on one side, i.e. the right hand side – the assets of the business and, on the left hand side, the liabilities of the business including what the business owns to the proprietors(Share Holders) viz. Capital invested by them. The balance sheet, thus, summarizes the financial position of a business on a given date.

It is to be noted that the Balance Sheet is not a statement of assets and liabilities. It is merely a classified summary of the balances appearing in the books on given date.

Valuation

A comparison of the capital at the commencement of the year and at the close of the year, would no doubt, show whether any profit has been made or loss incurred by the business. Where profit has been made, there should be an increase in the capital and where loss has been incurred, the proprietor's capital would have been reduced. The profit and loss account merely amplifies the information disclosed the Balance Sheet and show how this profit or loss has been arrived at. Since the proprietor's capital represents the surplus of assets over liabilities, any increase or decrease of such surplus represents the profit or loss made during the year. The ascertainment of the profit or loss will, therefore, depend entirely upon the value put on the various assets. It is always possible to ascertain the amount of liabilities exactly, except in case of contingent liabilities, such claims under dispute, etc. However, although the assets belonging to the business can be ascertain, verified and valued, it is difficult in many cases to the business can be ascertain, verified and valued, it is difficult in many cases to arrive at the correct amounts at which such assets should be stated in the Balance Sheet.

The term 'valuation' in connection with the Balance Sheet can be differently interpreted as under:-

i) The value may be the estimated amount that the assets would realize, if sold or disposed off, in other words, realizable value.

ii) Value may mean the amount that is estimated the assets would cost to replace, in other words, the replacement value.

iii) The amount that an assets costs when purchased or acquired, less the provisions made for depreciation, since its acquisition. In other words, written down value or going concern value.

iv) The balance of revenue expenditure, which is being written off over a period of years. This item will be shown under the heading “deferred revenue expenditure” or “prepaid expenses”.

Although all the above basis for valuation may be used in connection with the various classes of assets appearing in the balance sheet, ordinarily, only the written down or going concern value is taken into consideration.

Classification of Assets: - The assets held by a society vary according to the type of the business conducted by it. Since the Auditor is required to certify that the balance sheet shows a true and fair view of the financial position of the society, it will be his duty to satisfy himself that the assets are not only in existence, but have also been valued correctly.

For purpose of valuation, all assets are broadly classified into fixed assets and current assets. There is also a third type of assets known as fictitious assets, i.e. assets which are not represented by any tangible assets, such as goodwill, deferred revenue expenditure, preliminary expenses, discount on issue of shares and debentures, etc. Current assets are those assets which are produced or acquired by a business in the course of or for the purpose of its trading and consist of cash, goods and such other assets as are held with a view to conversion into cash in the regular course of business. Examples of current assets are stock in trade, work in progress, debtors and other receivables, temporary investments and bank balance.

Verification of fixed assets: - Verification of fixed assets by the Auditor would be carried out by examination of the documents relating to their acquisition. A schedule of fixed assets at the beginning of the year and fixed assets acquired during the course of the year should be obtained and checked with the entries in fixed assets register. It should be seen that all articles scrapped, destroyed or sold have been duly brought into account and their written down value adjusted. As regards physical examination of plant and machinery and other fixed assets, the Auditor should see that this is carried out periodically. A certificate should also be obtained from the management that all items scrapped, destroyed or sold have been duly recorded in the books.

Classification of current assets:-

Current assets are ordinarily classified under the following main heads for purpose of balance sheet:

1. Interest accrued on investment and loans.

2. ‘Stock in trade in case of trading concerns.

3. (i) Stores and Spare parts.

(ii) Loose tools.

(iii) Semi-finished goods, work in progress and finished goods in case of manufacturing concerns.

(iv) Loans outstanding and sundry debtors.

Cash and bank balance:

Interest accrued on investments should be shown separately in the balance sheet and the basis of its computation should be ascertained. While computing interest receivable, overdue interest should have been excluded or if taken, adequate provision should have been made for the same. Physical verification of all stocks in hand and also work in progress will have to be carried out. For verifications of loans outstanding and sundry debtors, ledger accounts and balance confirmations will have to be seen. Cash inn hand should be counted and balance certificates will have to be obtained for all bank balances.

Depreciation

Deprecation means a fall in the quality, or value of an asset. The net result of assets deprecation is that sooner or later the assets will become useless.

Provision for depreciation is necessary firstly, for ascertaining true profit, secondly, for retaining funds in the business so that the asset can be replaced at the proper time and thirdly, for presenting a true Balance Sheet.

For calculating deprecation the basic factors are:-

i) The cost of the asset.

ii) The estimated residual or scrap value at the end of its life.

iii) The estimated number of years of its life.

No such deprecation has to be provided as will reduce the value of the asset to its scrap value of the end of its estimated life. Deprecation of current assets is taken care of by valuing them for Balance sheet purposes of cost or market price whichever is less. Deprecation of fixed assets is generally provided for by various methods viz. fixed percentage/straight line method, reducing instalment method, revaluation method, insurance policy method etc. It is not the intention of this manual to explain these in details. Readers are advised to refer to academic books on Accountancy/Auditing for a detailed treatment. Whatever method is adopted, Auditor should ensure that adequate deprecation has been charged. Thus, fixed assets would appear in the Balance Sheet at their historical cost less deprecation to date. For Cooperative Societies charging 10% deprecation annually over the written down cost of the asset is recommended.

The following are the methods adopted for valuation of various types of assets:-

i) Trade marks: - Verification of trademarks can be made by inspection of certificates of registration and/or of any assignment of the trade marks.

ii) Freehold lands and buildings: - Verifications is by way of inspection of title deeds. It should be seen that the title deeds are in order. The sequence of the conveyances should be examined to ensure that the last conveyance is in the name of the society. Also, extracts from the land records such as village record of rights or the city survey or the Municipal records should also be seen to ensure that they still continue to be in possession of the society. The title deeds should be in the possession of the society, unless the lands and buildings are mortgaged in which case a certificate to that effect should be obtained from the mortgagee.

As regards valuation, the cost of the lands and buildings can be ascertained from the sale-deed or the architect’s certificate. Contractor’s accounts and the certificate of completion should also be seen where buildings are constructed by the society.

As regards expenditure incurred over construction of roads, digging of wells, planting trees, etc. the same should be verified from the vouchers. Expenditure incurred over the maintenance of roads, gardens, playgrounds, etc. should be debited to revenue. Only the cost incurred over their original construction should have been capitalized.

As regards deprecation, it has to be noted that freehold land does not generally deprecation in values. As such, the question of charging deprecation to freehold lands does not arise. As regards leasehold lands, the valuation can be ascertained from the lease-deed, or the assignment thereof, which should be inspected by the Auditor during the course of his audit. It should be seen that all the terms and conditions laid down in the lease agreement such as insurance of property and payment of insurance premium, rent, rates and taxes, proper maintenance of the property etc. are complied with. The valuation will be made with reference to the original cost so that every year an adequate amount is written off so as to bring the value to 'nil' at the end of the life of the lease.

iii) Plant & machinery: - Purchase of new plants and machinery will be vouched during the course of audit. In addition to invoices and receipts the correspondence regarding the purchase and also contracts with machinery manufactures and engineer's certificates will have to be seen. As regards physical verification where there are only a few machines inspected and identified personal by the Auditor. However, where the number of machines is large and also where it is not possible to identify individuals items of machinery. Auditor should obtain a schedule of plant and machinery. A certificate of their existence and efficient working should also be obtained from responsible officer. The mode of valuation should be the original cost less deprecation. Where the machinery or other equipment is purchased under a higher purchase agreement or an agreement to pay by instalments (deferred payment system) the deprecation should be calculated on the full price of the machinery and not the amount of installments paid to date.

iv) Loose tools & tackles: - The expenditure incurred over additions will be verified from the vouchers. At the end of the year fresh valuation of all the tools should be made every year and the difference between the opening balance plus additions during the year less closing balance should be written off as deprecation. The basis for valuation should not be the current or realizable value, but the estimated cost less an adequate allowance for wear and tear.

v) Dead stock: - furniture and fixture, installations and fittings:- Dead stock and furniture, including office equipment should be dealt with as in the case of plant and machinery and adequate deprecation should be written off every year, based on the working life different items. Items, such as safe, cupboards, tables, etc. have a long working life, but fixtures and fittings, such as electrical installations, partitions etc. has a short working life. In case of fitting upon leasehold premises, the entire cost should be written off during the period of the lease or their estimated working life, whichever is shorter. A list of dead stock articles and office equipment should be obtained the total agreed with the amount appearing against the item in the balance sheet.

vi) Library books: - Cost of newspapers, periodicals and even books is generally debited to the profit and loss account under the heading “trade expenses” or “miscellaneous expenses” and do not appear as an asset in the balance sheet, unless the amount invested is considerable. However, purchase of costly books, particularly, reference books and technical books, may be capitalized and shown under the heading “Library Books”. A register of library books should be maintained irrespective of whether the cost of the books has been debited, to revenue account or capital account. The register of library books should be inspected at regular intervals and the physical existence verified. A list of library books the cost of which has been capitalized, should be obtained and agreed with the amount appearing on the balance sheet. It should be seen that cost of old out-book, in particular, law books, is written off.

vii) Motor vehicles: - The cost of new vehicles purchased should be vouched at the time of checking purchases. Registration books should be examined. All vehicles should be identified by their registration number in the accounts and in the list of motor vehicles, which should be necessarily obtained at the time of audit. Where a fleet of vehicles is owned by the society, it will be necessary to keep separate account of each vehicle. The expenses incurred over repairs and maintenance should be charged to revenue and only the cost of major repairs carried out should be allowed to be carried over for one or two years so as to spread over the benefit of the expenditure over the period for which it is availed of. As regards valuation, the method adopted is original cost less the aggregate deprecation. In special circumstances, such as accident, etc. a special deprecation will have to be charged.

viii) Live stock: - A register of live stock showing date of acquisition, identification marks or name, price paid, deprecation charge, etc. should be maintained. Every animal should be identified by its registration number or by its name, where there are only a few animals. The basis of valuation should be re-valued at the end of each year. In case of animals, such as working bullocks, milch cattle, etc., their working or useful life and their usefulness to the society should be taken into consideration. It has also to be noted that calves, heifers and other young animals appreciate in value, as they grow old. It should be seen that necessary adjustments are made on the death or disposal of any of the animals

Verification and valuation of current assets:-

i) Investment: - An investment ledger should be maintained recording all transactions relating to individual investments. At the top of each ledger account, necessary particulars regarding date on which interest or dividend becomes payable, scrips and right issued attaching to the investments, etc should be duly recorded. There should be separate columns to show the gross interest or dividend received, tax deducted at source and net amount received. Where no income is received during the year in respect of any investment, enquires should be examined. Arrangements made for the physical control of the securities should be examined. Physical control over the securities and other investments should be with a responsible Officer other than the Officer who is authorised to sanction purchases and sales of the securities. All securities should be preferably lodged with the bank for safe custody.

ii) Verification of securities: - Where securities line in the custody of the society the Auditor should examine scrip carefully. The title to the securities should be carefully examined to ensure that the security is held in the name of the society itself. The certificates, warrants or the securities themselves should be examined carefully to see that they are complete in all respect and prima facie in order and are duly registered in the name of the society. Where securities are lodged with the bank for safe custody, the Auditor should directly call for the certificates from the bank. The certificate received from the bank should specifically state that the securities have been held for safe custody free from any line. If they are held for any specific purpose, the certificate should specify the purpose for which they are held. Where shares and securities purchased have not been delivered by the broker or the bank through whom the purchases have been made, a certificate should be obtained from the broker or the bank concerned to the effect that the share certificates or securities have been held by them on behalf of the society and that they have no lien over them. As on the date of balance sheet the Auditor should obtained a schedule of investments held by the society. The list (for schedule) of investments should give the full description of the investment, i.e. its serial number, face value, whether fully paid, the extent of uncalled liability if not fully called, etc. These particulars should be compared with the particulars entered in the register or ledger of investments.

Where securities have been kept with the bank for safe custody or as collateral security for financial accommodation granted by the bank, this schedule of investments should be compared with the certificate issued by the bank. Where securities are kept with bank for safe custody, this schedule should be checked with the safe custody certificate issued by the bank.

iii) Valuation of securities: - In the case of securities, which are quoted in the market, quotations on the date of the balance sheet should be obtained and the mean between the higher and lower prices should be taken for purposes of valuation. The list or schedule should show the market value of the quoted and unquoted securities on the date of the balance sheet. Aggregate book value and market value of the quoted and unquoted investments should be shown separately in the statement. Investments should be stated in the balance sheet at cost or markets value whichever is lower. Market values may becompared with the costs either by comparing the cost of each investment separately with its market value and providing for any fall the value below cost. However, any appreciation in the market value of the securities should not be taken credit of. Another and more useful method adopted is it to compare the aggregate cost of all the investments with their aggregate market value and provide for the net shortfall in the market value of the securities. Treasury bills should be shown as current assets and shown at cost or at their face value discounted at the market rate if this is less.

Stock in Trade:

The correctness of the profit and loss account of a concern depends, to a great extent, upon the correctness of the value of the stock of goods in hand at the close of the period. In case of consumer stores, marketing and processing societies, and manufacturing societies, and manufacturing societies, the verification of the physical existence and valuation of trading stocks, stocks in hand of raw materials, stores, party finished goods or goods under process, works in progress and finished goods are of considerable importance, in as much as, unless they are correctly shown, the balance sheet will not show the true and fair view of the financial position of the society and the profit and loss account will not give the correct results of the working of the society.

The Auditor has, therefore, not only to verify the existence of the stock in hand but he has also to see that it is valued according to certain accepted principles of accountancy. Though Auditors are not expected to carry out stock taking he should ensure that the stock taking method followed by the society is correct. If possible, he must prepare a rough stock accounts, showing the quantity at the beginning of the year, purchases/sales during the course of the year and the balance. He should get a certificate from the society that the quantity of stock as mentioned in the stock sheets is correct.

Valuation of stock-in-trade

Stock is a floating asset and is meant for resale. The accepted basis principle of accounting is to value floating assets at cost price or the market price, whichever is the lower.

The different goods are valued as under:-

a) Raw materials. - Such materials must be valued at the net invoice price i.e. the cost price plus a reasonable proportion of freight duty etc. in connection therewith.

b) Semi manufactured goods. - They are valued at cost price of the raw materials used, plus a proportionate amount of wages and a percentage to cover establishment charges relating to manufacture.

c) Finished goods. – The cost price of the finished goods which have been purchased is the purchase price i.e. the invoice price and the direct expenditure e.g. carriage inwards etc.

d) Stores. – Stores are not held for sale in the original form. Such goods are oil, fuel, grease, dye etc. These should not be included in the stock in hand but shown separately. Those stores, which have been consumed during the process of manufacture, must be put on the debit side of the manufacturing account to arrive at the correct cost of production. Stores are generally valued at cost price.

Sundry Debtors: - A very important item appearing on the assets side of the balance sheet of almost all types of societies is "loan outstanding" or "sundry debtors". In case of cooperative bank and credit societies, the item of "loans and advances" or "loans due from members" is perhaps the most important item on the assets side. In case of consumers societies, marketing societies and other societies conducting trading activities, there would be sundry debtors for credit sale.

The amounts shown under "Sundry Debtors" should include all amounts due in respect of goods sold on credit, services render or in respect of other contractual obligations, but should not include any amounts which are in the nature of loans or advances which should be shown under the separate heading of "loans and advances" or "loans due from members".

a) Outstanding advances. - The item is ordinarily included in "sundry debtors" but many times it is shown under a separate heading and is mostly composed of advance made to directors and employees which are yet to be accounted for. Advances should have been made only for specific purposes and the director or employee to whom the advance is given should be asked to render accounts as soon as the purpose for which the advance has been given, has been served. The

Auditor should make a note of all such cases and obtain explanations of the management and also of the director or officer concerned and if the explanation given or the clarification furnished is not considered satisfactory he should not hesitate to include such payments in his schedule of irregular payments. If the amounts involved are large and no satisfactory explanation is forthcoming, a case of temporary misappropriation should also be made out. In all cases, the purposes for which the advances have been made, should be ascertain.

A statement showing particulars of the various items appearing under the heading "sundry debtors", "advances outstanding" etc. should be obtained and agreed with the figure appearing in the balance sheet. Schedules of different types of advances outstanding at the close of the year should be obtained and checked with the personal ledgers and other records and the total agreed with the amount shown against the items in the balance sheet. In case of trade debtors, it should be seen that control accounts are maintained up-to-date and reconciled with the totals of the personal ledger balances at regular intervals. Statements of accounts should be sent regularly to all debtors and other customers who have regular dealing with society. Differences reported by them and the manner in which they have been dealt with should be ascertained. Items under dispute should receive particular attention.

While checking ledger balances on the schedule, notes should be made showing the period during which the debt balance has been outstanding, whether it has been subsequently recovered and if not why it has been allowed to remain outstanding and whether any action has been taken for its recovery. Any other information, which will enable the Auditor to judge whether debt appears to be good and recoverable should also be collected. A list of all accounts, which are overdue, should be prepared and checked by the Auditor.

Loans Outstanding:-

Loans outstanding in Cooperative Societies except those doing banking business, are generally fixed loans repayable in one lump sum or in installments specified in the loan bond or agreement. The method of checking loans outstanding is described in the following paragraphs:-

Lists of loans and advances outstanding on the date of the balance sheet should be obtained and checked with the loan ledger and the total of the list of balances should be agreed with the balance appearing in the control account in the general ledger. While checking loan balances, the following points should be seen.

i) Amount outstanding. - The outstanding balances in any account should not exceed the maximum limits for individual loans, if any, prescribed for different types of loans in the byelaws. Where special loans or loans excess of the prescribed limits have been sanctioned to any individual or institution, authority for the same should be seen.

ii) The period for which the balance has been outstanding. – If the loan has become overdue, whether extensions have been granted properly. If the period of payment has not been extended, how long the loan has been overdue and what steps have been taken for its recovery. Whether notices have been promptly issued and legal proceedings instituted.

iii) The make-up of the balance. - It will have to be seen whether the balance consists of only advances made or also includes interest capitalized and amounts debited to the party on account of charges and expenses incurred, such as godown rent, insurance charges, etc. Legal expenses incurred for recovery, such as notice fees, court fees, Lawyer's fees, arbitration fees and expenses etc. will have also to be debited and included in the balances.

iv) Security for the loan. - The nature of the security and whether it is adequate and easily realizable are to be seen. If the loan has been sanctioned against personal security, whether sureties are alive and good for the amount, if secured by other security, whether the value of the security adequately covers the outstanding balances and also interest accrued and accruing, whether it can be easily realized should occasion arise, it should also be seen that condition is incorporated in the agreement where under the borrower undertakes to make up the margin in case the security becomes inadequate owing to price fluctuations.

v) Whether there are any other circumstances, which indicate the debts becoming irrecoverable, such as death or resignation or removal from service of the borrower or his sureties, insolvency of the borrower, attachment of his property or salary under an order or decree of civil court.

vi) Where the loan is repayable in instalments, whether all previous instalments have been promptly paid as and when they become due.

Confirmation of Debit balance:-

The outstanding balance in Sundry Debtors accounts should be checked with whatever evidence is available, viz. statement of accounts, record of payments, confirmation letters issued, balance confirmation letters received etc. Confirmation of balance by direct communication with debtors will have to be carried out, where the number of debtors is small and the outstanding amounts are large. However, it may not possible where the number of debtors is very large. In such cases direct communication with selected debtors with balances exceeding a specified amount (as per Bye-laws) will have to be made.

b) Issue of statement of accounts: - In cooperative banks and urban banks the borrowers are issued passbooks or periodical statements of accounts, monthly/fortnightly/weekly/daily. At the end of each accounting period, the closing balances in their accounts are communicated to them and they are requested to verify their accounts and confirm the correctness of the balances.

In all cases, however, irrespective of whether confirmations have been obtained or not, the system of follow-up of receivables, collection of debts and action taken against defaulters should be carefully examined.

c) Verification of Member’s Passbooks: - In agricultural credit societies and other rural societies and also the smaller urban societies, outstanding balances should be verified with the member’s passbook. This is necessary since members of these societies are illiterate and rustic people and have fully faith in the honesty and integrity of the Secretary and other office bears. They do not always try to check whether their transactions with the society have been correctly recorded or not. During the course of audit of these societies, the Auditor should try to conduct as many members as possible and check their passbooks.

d) Confirmation of accounts in Banks: - In cooperative banks and Urban Banks confirmation letters should be sent to all borrowers who have been sanctioned fixed loans, cash credits or overdrafts. The Auditor during the course of his audit should check exhaustively, confirmation slips received back from the borrowers. The system followed for issue of confirmation letters and securing confirmation of balances followed by the bank should be ascertained and it should be seen that confirmation letters have been sent to all borrowers and in respect of those borrowers, who have failed to return the confirmation slips issued to them, enquiries should be made to ascertain whether their non-compliance is due to any dispute with the society about the correctness of the balances or about any of the items debited to their accounts.

Verification of liabilities

Verification of liabilities is as much important as that of assets. Over-statement or under statement of liabilities has considerable effects on the final accounts of a concern. The Auditor should see that all the liabilities are included in the balance sheet and verify their correctness. Various liabilities are verified as under:-

Share Capital: The authorised Share Capital of the society should be ascertained from the byelaws. It should be seen that it is not exceeded except by an amendment of bye-laws. Govt. Share Capital contribution should be verified with the order of sanction. Reserves and provisions: Under the TCS Act. all cooperative societies earning profit are required to carry one-fourth of their net realized profits to the statutory reserve fund. The Reserve Fund is invisible and it can be used only for purposes permitted by the Act. Besides, the statutory Reserve Fund, other funds and Reserves may be created by a Cooperative Society. The provisions of TCS Act applicable to these may be scrupulously followed.

A provision is required to be made when a loss is anticipated, but the amount thereof cannot the ascertained exactly. Since the loss would have been incurred before the date of the balance sheet, the profit and loss account for the year will have to be debited with the estimated amount of the loss. So as to show correct position and a provision account created and shown on the liability side. It is duty of the Auditor to see that either such losses are written off or adequate provision is made to meet them.

Bad Debts:

Examination of overdue debts has been made a special responsibility of the Auditor under the Act and Rules. The extent of the bad debts of a society is to be ascertained in audit as per the provisions of the Act. Those may also be classified into good, doubtful and bad as per the guidelines appearing in Chapter – II (Audit of Cooperative Banks).

Having ascertained the extent of the debts and the amount of the provision considered necessary, the Auditor should checks the provision for bad debts accounts or bad debts fund account in the general ledger and see that the required entries have been made therein.

While writing off bad debts the provisions of the Act and Rules should be kept in mind. When the provision for bad debts is considered inadequate by the Auditor, he should discuss the matter with the management and persuade the committee to increase the amount to the extent considered necessary by him. If he fails to persuade the committee to increase the provision, he should qualify his report and also deal with it in his audit memo.

Contingent liabilities: - The duty of an Auditor is to see that all known and unknown liabilities are brought into account at the date of the balance sheet. There may be certain liabilities, which may (or may not) arise after the preparation of the balance sheet. It is, therefore, necessary that provision be made for such unknown liabilities. Such liabilities are called contingent liabilities. Ordinarily, unless the liability is definite, provision is not made in the accounts. However, the position is required to be made clear by means of a foot note below the balance sheet.