

ACCOUNTING FOR CO-OPERATIVE SOCIETIES

Cooperatives are voluntary association of persons who work together to promote their economic interest. It is a form of business where individual belonging to the same class join their hands form the promotion of their common goals.

The philosophy of the cooperative formation is “all for each and each for all”. Cooperation work with the feeling of helping others.

Characteristics of cooperative society.

- Voluntary association.
- Open membership
- Democratic management
- Service motive.
- Utilization of surplus.
- Self-help through mutual cooperation.
- Fixed rate of return.

Main objectives of cooperative society.

1. Enhancing cooperation

Cooperative society aim to encourage complete cooperation between everybody involved with an organization. They are generally against the idea of any sort of hierarchy, and consider everyone to be equal.

This can improve relationship between staff members and senior management, as well as between service providers and customers.

2. High level of service.

Better working relationships naturally lead to higher productivity levels, so a better service is given to customers. This raises customer satisfaction levels, which is primary aim of many cooperative societies.

3. Higher profits

Many cooperative societies are essentially out to make a profit and believe that enhancing relationships will lead to high profit levels. Some charities also have benefited from operating as cooperatives, as charity members become more focused on their work, raising more money for the cause in question.

Role of cooperative society.

1. Creation of unit.

Unity is strength and the guiding principle of a cooperative society. In this purpose cooperative united the stronger and guide them to go ahead with mutual cooperation which helps to endure social relationship

2. Awaking working zeal.

Cooperative society helps to awake a new working spirit in the mind of those people who are defeated and spiritless in the struggle of life. Cooperative encourages people to dream new dream and work with new inspiration.

3. Bringing welfare for the members.

A cooperative society is established just for bringing the economic and social welfare for its members. In this purpose, cooperative society develops thinking working attitude as well as mental condition of the constituents.

4. Reducing inequality of wealth.

Capitalism creates inequality of wealth, and cooperative society helps to reduce this as well as helps the equal distribution of wealth. It creates self-employment opportunities and encourages the members to compete with others.

5. Establishing equal rights.

To establish equal rights, cooperative society fixed the limitation of purchasing shares. Besides this, democracy and equal voting rights are also followed. Equal right contributes to establishing social order and justice.

6. Improving skills.

Cooperative society leads a great role by providing a training program for improving the skills of uneducated poor and unskilled members.

7. Removal of middle man-

The cooperative society helps to protect the lower and middle class people of the society which have fixed income, from the greedy clutch of profiteering, capitalist, and the middle man.

8. Loan facilities-

Poor producers suffer from capital problems. Cooperative society lends money to those people at a very lower interest rate

9. Economic development.

By developing small scale traders and giving loans and financial counseling for small industries and cottage. It helps to remove poverty and ensure economic development of the country.

Merits/advantages of cooperative society

- Easy formation
- Open membership
- Democratic management
- Limited liability
- Stability and continuity
- Mutual help
- Mobilization of savings
- Government support
- Elimination of middle man profit.

Limitation of cooperative society

- Limitation of capital.
- State control
- Inefficient management
- Absence of business secrecy
- Lack of motivation
- Political interference
- Internal quarrel and rivalries
- Lack of public management

Types of cooperative society.

1. Consumers' cooperative
2. Credit cooperatives
3. Farming cooperative society
4. Producers cooperative society

Difference between Cooperatives and Companies

| Difference | company | cooperative |
|--|---|--|
| Formation | The formation of a company is more formal and complex. | It's easy to form co-operative society, although it is a low created organization. |
| Purpose | The main purpose of the company is to ensure the profit of the shareholder. | Its main purpose is improving the financial condition of members, not to earn a profit. |
| Number of members | The number of members in private company minimum 2 and max of 50 in public company minimum seven and maximum seven. | In a cooperative society, the minimum is 20 and the max is limited. |
| Transfer of shares | The shares of a public limited company are openly negotiable, but not in case of company. | The shares of a cooperative society can be negotiable to take permission from the authority. |
| Allotment of dividend | A dividend is given from reserve fund or earned profit. This decision is taken in a director's meeting. | In the case of a society, a small portion of the earned surplus is to be given as dividends. |
| Management | The directors who are elected by shareholders and appointed managers operate the company. | Elected directors operate the society, but they do not get any salary. |
| Relationship between owners and directors | In a joint company, there is a great divorce between owners and control and often a clash of interest | Cooperative enterprise makes for oneness of interest |

Factors responsible for the survival of cooperative organization.

- Moral, social and educational benefits
- Open membership
- Democratic management
- Limited liability
- Stability and continuity
- Mutual help
- Mobilization of savings
- Government support
- Elimination of middle man profit.

Problem facing cooperative societies.

1. Management inefficiency
2. Illiteracy
3. Lack of unit and co-operation
4. Lack of planning.
5. Lack of sacrifice and sincerity
6. Deficiency of capital
7. Ignorance of principles
8. Corruption and nepotism

Solutions for problem of cooperative society.

1. Adoption of realistic plan.
2. Spreading of education.
3. Reduction of unequal competition.
4. Accuracy in accounting.
5. Widespread publicity.
6. Giving incentive to executives
7. Restrain corruption and nepotism.
8. Effective coordination

ILLUSTRATION 1

The following balances were extracted from the books of Evib Sacco society ltd as at 30 June 2020.

| | sh | Sh |
|---------------------------|----|-----------|
| Dividend from investments | | 47,400 |
| Accrued rent | | 495,000 |
| Sundry provisions | | 892,500 |
| Appropriation account | | 604,500 |
| Revaluation reserve | | 75,000 |
| Statutory reserve fund | | 1,374,000 |

| | | |
|---------------------------------|-------------|-------------|
| Entrance fees | | 30,000 |
| Members deposits | | 90,000,000 |
| Share capital | | 6,465,000 |
| Sundry creditors | | 340,815 |
| Bank overdraft | | 615,000 |
| Interest on loans to members | | 3,588,930 |
| Travelling expenses: staff | 8,030 | |
| :Committee members | 10,015 | |
| Bank charges | 20,000 | |
| Bank interest | 80,500 | |
| Salaries and wages | 228,600 | |
| Committee education | 100,000 | |
| Committee sitting allowance | 111,500 | |
| Printing and stationery | 205,000 | |
| Annual general meeting expenses | 50,000 | |
| Members education | 150,000 | |
| Entertainment | 5,000 | |
| legal fees | 40,000 | |
| Cash in hand | 54,000 | |
| KUSCCO deposits | 438,000 | |
| Cooperative bank Ltd account | 240,000 | |
| Loan to members | 97,524,000 | |
| Receivable (members) | 268,500 | |
| Investment in CIC | 540,000 | |
| Receivables (non-members) | 2,250,000 | |
| Investment I KNFC Ltd | 2,115,000 | |
| Office furniture and equipment | 90,0000 | |
| | 104,528,145 | 104,528,145 |

Additional information.

1. Audit fee of sh 613,650 (exclusive of 16% VAT) and supervisory fee are to be provided for.
2. The management committee has proposed the payment of honoraria amounting to sh 100,000.
3. Staff salaries amounting to sh 315,000 had not been paid as at 30 June 2020.
4. Members are to be paid a dividend at the rate of sh 10% per share.
5. Interest on members deposit is to be provided at sh 607,500.

Required:

- a) Income statement for the year ended 30June 2020.
- b) Appropriation Account as at 30 June 2020.
- c) Statement of financial position as at 30 June 2020

| | |
|--------------------------------|--------------------|
| Investment in KNFK LTD | 2,115,000 |
| Office furniture's | 90,000 |
| Total assets | 103,519,500 |
| Capital and liabilities | |
| Share capital | 6,465,000 |
| Appropriation account | 881,351 |
| Revaluation reserve | 75,000 |
| Statutory reserve fund | 1,374,000 |
| Liabilities. | |
| Bank overdraft | 615,000 |
| Sundry creditors | 340,815 |
| Members deposit | 90,000,000 |
| Accrued rent | 495,000 |
| Sundry provisions | 892,500 |
| Audit fees | 711,834 |
| honoraria | 100,000 |
| Staff salary | 315,000 |
| Interest payable to members | 607,500 |
| Dividend payable to members | 646,500 |
| Total | 103,519,500 |

NB; for the asset arrange them based on their liquidity order stating with the most liquid asset

DEC 2022 Q2 .

Question Two [cooperatives]

(a) Safi Marketing account for the year ended 31 Dec 2021

| | | |
|-------------------------------------|---------|---------|
| Sales | 175x100 | 17500 |
| less: expenses - Marketing | 640 | |
| - Material | 860 | |
| - wages | 900 | (2400) |
| profit | | 15100 |
| payment due to members' 80% x 17500 | | (14000) |
| Retention 20% x 17500 | | 1100 |

(b) Nzuri Marketing account for the year ended 31 Dec 2021

| | | |
|------------------------------------|-----------|--------|
| Sales | 115.3x100 | 11530 |
| expenses - Marketing | 150 | |
| - Material | 320 | |
| - wages | 30 | (500) |
| profit | | 11030 |
| payment due to members 80% x 11530 | | (9224) |
| Retention | | 1806 |

(c)

Manula Farmers Cooperative Society
profit or loss account for the year ended 31 Dec 2021

| | | |
|--------------------------------|---------------|---------------|
| | <u>Shweco</u> | <u>Shweco</u> |
| Dividend from investment | | 470 |
| Entrance fee | | 300 |
| Interest on loan to members | | 35890 |
| Commission on marketing - Safi | | 1100 |
| - Nzuri | | 1806 |
| | | 39566 |

Expenses

| | |
|--------------------------------|------|
| Travelling expenses - staff | 80 |
| - Committee members | 100 |
| Bank charges | 200 |
| Bank interest | 810 |
| Salaries & wages (2290 + 3200) | 5490 |

| | | |
|-----------------------------|-------------|---------------------|
| Committee education | 1000 | |
| Committee sitting allowance | 1110 | |
| Printing & stationery | 2050 | |
| General meeting expenses | 500 | |
| Members education | 1500 | |
| Entertainment | 50 | |
| Legal fees | 400 | |
| Audit fees | 6000 | |
| Interest on members deposit | <u>6086</u> | (25376) |
| Net profit | | <u><u>14190</u></u> |

(d) Marula Farmers Cooperative Society
Statement of financial position as at 31 Dec 2021

| | |
|--|-----------------------|
| <u>Assets</u> | <u>Sh000</u> |
| <u>Non-current Assets</u> | |
| Office equipment | 900 |
| Investments | 26550 |
| <u>Current Assets</u> | |
| Receivables - members | 2690 |
| - non-members | 22500 |
| Wakulima Bank Savings | 6780 |
| Cash in hand | 540 |
| Loan to members | 972340 |
| Unpaid coffee (revenue) cash (17500 + 11530) | <u>29030</u> |
| | <u><u>1061330</u></u> |
| <u>Equity & liabilities</u> | |
| Ord share capital | 900000 |
| Statutory reserves (13740 + 20% x 14190) | 16578 |
| Revaluation reserves | 750 |
| Retained revenue (6050 + 80% x 14190) | 17402 |
| <u>Liabilities</u> | |
| Members deposit | 64650 |
| Sundry creditors | 3410 |

| | |
|--------------------------------------|------------------|
| Bank overdraft | 6150 |
| Accrued rent | 4950 |
| Sundry provision | 8930 |
| Audit fees | 6000 |
| Interest on members deposit | 6086. |
| Accrued salaries & wages | 3200 |
| Payment due to member (14000 + 9224) | <u>23224</u> |
| | <u>1,061,330</u> |