

CHAPTER - ONE

INTRODUCTION

1.1 General Background

Nepal is a land-locked country situated in between two countries china on the north and India on other three sides. It is categorized as one of the least developed countries of the world where about 31.8 percent of the population live below absolute poverty line (annual report of CBS, 2064). Topographic variations have generated problems on the settlement patterns of the people and socio-cultural settings.

Nepalese economy basically depends upon agriculture. About 81 percent people depend upon agriculture. It is the major source of employment, national income, food, fodder, industrial raw materials, and exportable items, basis of trade and commerce and major investment sector. 86.1 percent of the total population lives in rural areas. The annual per capita income is around US \$ 350 (annual report of CBS, 2064) and literacy rate is only 54.1 percent (Ibid). Forty percent of the people have no access to the physical facilities i.e. road, water, health, education, and other services. Women who constitute other half of the population are outside the main stream of development of the country. Alarming trade deficit and migration of people towards urban area, open boarder, increased population and rising unemployment problem have created numerous challenges which hinder the socio-economic development of the country. Various donors have assisted Nepal for socio-economic upliftment, especially of the rural Nepalese providing various programmes at lower level. After the restoration of multi-party system in 1990, Nepalese government has announced liberal economic policy in the country. However, active involvement of the rural mass is essential for the all-round socio-economic upliftment of the country. In its absence every effort from government side, aid of the foreign donor agency and any other programmes would be meaningless for the national development. Thus, to make the people conscious at the grass-root, Cooperative could be an effective instrument or reliable channel for the rapid, and sound socio-economic upliftment.

Co-operative society is a business organization. Co-operative organizations have two entities such as business enterprise and social institution. Cooperative organizations have to compete with private as well as public sector organizations. The prime objective of co-operative organizations is to serve the members to their best ability and responsibility. Although, it is a business enterprise, the force that governs its activities is not maximization of profit but the maximization of service to members. Co-operative organizations cannot go beyond the Cooperative values and expansion. At the same time profit is also necessary for its existence, growth and expansion. Profit is also taken to be one of the criteria for measuring its success. It should ensure its financial viability. So Cooperative organizations have to satisfy twin objectives i.e. service as well as profit. The conference of International Co-operative Society defined that: "A Co-operative is an autonomous economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise."

1.2 Focus of the Study

The grass root level institution like Cooperative is quite essential for uplifting the socio-economic conditions of rural masses. Cooperative society plays a significant role in the structural transformation of the village economy and state economy and its study assumes greater significance now-a-days. Cooperative development could also become an effective media for Nepalese socio-economic development from lower level. It has been agreed in the world that it helps the people especially for the poor of the society and is a midway of capitalism and socialism. In another word cooperative is a double edged axe, which sticks the same time at the dead abstractions of the socialistic state and at the sterility of individualism"

This research study basically focused on the following aspects:

-) Analyse existing accounting practices in the cooperative organization.
-) Finding out the problem faced by the book keeper at the time of maintaining books of account.
-) Finding out the application of different accounting tools in the process of recording transaction.

-) Analyzing the differentiation in the way maintaining account in between cooperative organization and other business organization.
-) To provide appropriate suggestion and to give accounting model as per the necessity of present world wide scenario.

In conclusion the main focus of this study is to get the idea about the existing accounting practices in co-operatives and to suggest the concerned parties about how to improve it.

1.3 An Overview of Accounting System in Cooperative Organization

Cooperative organization, like individuals, wish to increase their ability to acquire and hold goods and services and in general seek to maintain higher level of economic power as possible. The basic motive of cooperative is mutual benefit and to earn reasonable level of profit. Short run goal as well as long term goal should be harmonized. Accounting is a mean of providing information to the managers to achieve these goals.

Accounting is helpful to justify their existence by pointing out to the management what should have been done after cooperative organization have failed to achieve past goal. In addition, accounting is useful in so far it assists in improving future performance. Accounting report provides the true picture of cooperative organization. On it can find that the strong aspects and short comes. And suggest the right way to be adopted by the cooperative organization.

Basically, these two factors i.e. revenue and expenditure which affect the profitability or earning capacity of the cooperative. Accountants analyze these revenue and expenditure by applying different accounting tools and suggest the appropriate model. In short run, profitability can be maintained easily, but, that will have an effect in long term. So, for the long run success accounting is the indispensable aspect of the cooperative organization.

In the context of cooperative organization after the restoration of democracy formal accounting practices have been started. As per the necessity different changes have been done time and again come to the present stage which the cooperative organization use at present.

1.4 Statement of the Problem

In the present day's business, cooperative organization have been facing many problems like lack of proper and update accounting training, lack of awareness concerning the accounting tools and techniques. There are numerous financial limitations which are major problem faced by them. This study focused on the problem faced by cooperative organization in the respective area. The common problems which have been identified are as follows:

-) Lack of proper knowledge about the accounting practices.
-) Absence of uniformity and homogeneity in application of accounting system in cooperative organization.
-) Applied accounting system is not as per modern accounting system and principle.
-) There is no proper regulatory provision regarding accounting practices in cooperative organization.

Success is not the matter of chance. For getting long term success each and every organization need to prepare proper planning and decision making. For this purpose require proper financial information and that will provide by proper accounting system. Lastly the problem toward which this study is directed to identify the existing accounting practices of co-operatives in Nepal. To what extent the present accounting practices of co-operatives is effective as compared to the global scenario of accounting practices.

1.5 Objectives of the Study

The main objectives of this study are to identify the prevailing accounting practices and accounting problems faced by the co-operative organization in Nepal. This study also aims to suggest appropriate accounting model to those organization. Besides that, the other objectives of the study are as follows :

-) To examine the existing accounting system followed by co-operative organization.
-) To identify the major problems faced by cooperative organization in maintaining the account.
-) To examine the efficiency and effectiveness of accounting system of co-operative for providing financial information to the management for planning, policy making and decision making.

1.6 Significance of the Study

Nepal is a developing country and most of the people depend in agriculture sector. Majority of people are below the poverty line. Cooperative organization is such a organization which is establish by economically poor people for the mutual benefit. In the context of world-wide scenario most of developed countries are being able to get success by the help of co-operative organization. Therefore it need to make our industrialization process dynamic and consolidated by developing and expanding cooperative organization in keeping with our limited markets, place of technical know-how, position of transportation and the geographical structure of the country. Cooperative sector is the backbone for the developing countries like Nepal. To develop and strengthen the cooperative sector financial aspect should be strong. It is impossible to take correct (action) decision in the absence of proper information. Because of that they are losing benefit. Even they do not know properly about the sources of income and expenditure.

This study helps to examine the existing accounting system used by cooperative organization and identify the accounting problem faced by cooperative organization. Besides that, this study also helps to identify how the supporting institutions (government and Non-government) have been providing the accounting knowledge for cooperative. Similarly, it also helps to suggest the appropriate accounting system which will sufficient to provide the information to management for decision making appropriate in term of cost, effectiveness for display or present the entire transaction of cooperative lastly, it provides literature to the researchers who want to carry out further research in this field.

1.7 Limitation of the Study

The following are the major limitation of the study :

-) This study based on primary as well as secondary data. Although, majority based on primary data. So, the limitation of primary data may exist.
-) The time frame and resources are also constrained in this study.
-) This study takes only some of cooperative establish in Chitwan as sample and draw conclusion. So the conclusion drawn may suggestive rather than prescriptive.
-) This study focuses only on accounting system of cooperative organization.

1.8 Theoretical Framework

The research framework is the basis or foundation upon which the study is established. It is within the framework of this theory that the entire study proceeds. It reflects the variable or characteristics selected for inclusion in the investigation. This research work has been based on the following variables :

-) Double entry book keeping
 - The journal
 - The ledger
 - Trial balance
 - Final account
-) Four Account
-) Record keeper
(Secretary, Accountant, Others)
-) Record keeping system
(Manual, Computerize)
-) Annual general meeting
-) Internal reporting system
-) Depreciation provision
-) Accounting system
(Cash, Accrual, Hybrid)
-) Management accounting
 - Budgeting
 - Capital Budgeting
-) I have selected accounting practices of cooperative organization as the dependent variable and the entire above mentioned variable are independent for research work. The above independent variables having effect on accounting practices.

1.9 Organization of the Study

The project study is divided into the following five chapters:

Chapter one : It entitles "Introduction chapter", The reading materials in this chapter are general background of the study, a brief introduction of the services firms and their background, statement of the problem, objectives of the study, significance of the study, limitations of the study and organization of the study.

Chapter two : This chapter is concerned with literature review. The reading materials in the chapter are conceptual review and review of previous related studies.

Chapter three : This chapter consists of research methodology adopted for the study and includes research design, data collection procedures and data analysis tools.

Chapter four : The chapter comprises data presentation and analysis and findings.

Chapter five : This chapter is concerned with the output of the study in the form of summary, conclusions and recommendation.

CHAPTER - TWO

REVIEW OF LITERATURE

The present chapter depicts upon the existing literature and research related to the present study for the purpose of finding out what had already been explained, and how the present research adds to this dimension. In this regard, conceptual aspect of cooperative, pertinent issues and growth of cooperatives under various planning period in Nepal, review of related thesis works and introduction of concerned cooperatives.

2.1 Meaning of Co-operation

Generally speaking, co-operation means living, thinking, and working together. In its technical sense it denotes a special method of doing business. In its formal sense, co-operation existed even before the Latin word "co-operari". Co means together and operari means to work (P.C. Dhal, p. 1). Thus in ordinary sense cooperation means working together for a common goal or objective. In broader perspective, it means self-help, mutual help and assistance. The motto behind co-operation is "each for all and all for each". It is a system of people voluntarily associated working together in terms of equality to get rid of their economic exploitation by intermediaries.

Thus co-operation is associated with human being in all walks of life. It may be compared with the economy of birds, and insects etc. It teaches us to maintain disciplined life and coordination among each other. From "Ant Community" we get the indication of instinctive cooperation. The story 'Doves and the Hunter' teaches us that life can be saved when we are united. The age old story of old father and three sons' teaches us "united we stand, divided we fall." In this sense, cooperation means unity, strength and coordination. Community life and social life is fragmented in the lack of cooperation. Cooperation brings unity among nations, creates good will and strengthens understanding in the national and international sphere.

The term cooperation thus, it can not several meanings and it difficult to convey the correct meaning of cooperation. Its mean has varied from thinker to thinker and from one sphere of human activity to the other. To the sociologists, it is a socio-economic movement; for the socialist, it is a social order in which man is free from class struggle. According to Economists, it is a form of business organization in which there is no scope of being exploited by middlemen, and lawyers take it to be an organization in whose membership one enjoys "the special privileges and concessions conferred by law (T.N. Hajela, p. 1)."

Calvert defines cooperation as "a form of organization wherein the persons voluntarily associate together for a common economic need and try to lift themselves and others out of weakness into strength, through business organization, conducted for the common benefit of all who join it (P.C. Dhal, p. 2)."

In the words of Herrick, it is "the act or poor persons voluntarily united for utilizing reciprocally their own forces, resources or both, under their mutual management to their common profit or loss (P.C. Dhal, p. 2)."

The international cooperative alliance's (ICA) continental meeting held at Manchester, England in 1995 (Sahakari Prabaha, p. 75) was defined cooperative as follows :

"A cooperative is an autonomous economics, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise."

Thus, on the basis of foregoing explanation, the characteristics of cooperative can be listed as : (a) it is an association of individuals for the achievement of a common objective, (b) it embodies in itself certain ideologies such as self help, mutual assistance and team spirit, (c) it aims at common welfare, (d) it clearly indicates that there are certain task which cannot be performed at individual level, (e) it teaches us "Unity is strength", (f) it involves a spirit of dedication and hones service, and (g) it is a business organization.

2.1.1 Principles of Co-operative

Generally, principles refer to the code of conduct that governs the life and activity of human beings. Similarly, cooperative principles are the set of rules and regulations to regulate and govern the activities of cooperative enterprise. Every economic system is based on certain fundamental principles. Cooperation as an economic system is not an exception to these principles. Broadly speaking, there have been three types of cooperative systems which are based, more or less, on the same principles, but differ from each other in the mode of operation. The three systems are (T.N. Hejela, p. 5) Rochadale system (b) Reiffeisen system and (c) Schulze - Delitzsch system.

The first system was concerned with consumer, the second with the farmers and the third with traders. The Rochadate pioneers laid emphasis on cash transactions, whereas Reiffeisen and Schulze - Delitzsch organized cooperatives as credit organizations. Despite the operational difficulties of these systems, it is interesting to note that all types of cooperatives have the some philosophical basis.

The principles which have been commonly adopted all over the world are those which are laid down by Rochadale pioneers. These include (Ibid): (a) Democratic control, (b) Open membership (c) Limited interest on capital, (d) Patronage dividend, (e) cash trading (f) political and religious neutrality; and (g) promotion of education.

The international cooperative alliance prescribed the following seven principles of cooperation (Cooperative Training Center, 1995 : p. 30-31).

- (a) **Voluntary and open membership** : It is a voluntary organization. There is a provision of free entry and free exit of the members which is set by cooperative acts. A cooperative society does not discrimination anyone on the basis of caste, creed, colour or political and religious beliefs. All members are treated equal as principles of equality.

- (b) **Democratic control** : In this respect, differences of wealth, caste, colour or creed do not affect the status or position of individual members so far as organization and management of the society are concerned. All the members are eligible to participate in the policy making and division making of the cooperative organization. Members of primary societies should enjoy equal rights of voting (one member, one vote) and participation in decisions affecting their societies. The democratic control of all cooperative organization can be judged from : (a) the constitution of the society; and (b) equal voting rights.
- (c) **Economic participation** : All the member in the cooperative have equal right to participate in the economic activities. They posses a common capital. A cooperative organization makes provision for reserve fund, for cooperative development i.e. dividend fund, patronage dividend fund, employees bonus fund, cooperative education fund, loss compensation fund etc. Therefore, the members of cooperative have opportunities to participate in economic activities of the cooperative organization.
- (d) **Autonomous and self control** : Cooperative organization is a self reliant, self help, mutual help and democratically controlled organization. To ensure this principle, the people are united, work together with their existing resources and reap the benefit. As Kavre states, "self help through mutual help is the essence of cooperation", without this there is no genuine cooperation. It is free from direct government control.
- (e) **Education, Training and Information** : "Create cooperative before creating cooperative" is the watch word of cooperative movement. Without education cooperative would die. To enhance qualitative development of cooperatives, it should provide cooperative education, training and information, to the members based on cooperative value, principles and techniques.

- (f) **Cooperative among cooperatives** : The success of cooperative largely depends upon their coordination and integration. Mutual understanding and interdependence among cooperative help the process of development of cooperatives. It develops closeness, and affinity among them. Cooperative organization provides the service to members effectively. Cooperative is organized to each other to make the cooperative mission strong at the local, regional, national and international sphere.
- (g) **Concern to society** : Cooperative organization is concerned with the secure and sustainable development of the society. To ensure the development of society cooperative organization formulates the policy which helps the long term and continuous development of the society.

2.1.2 Types of Co-operative Societies:

The major Types of Co-operative are as follows:

-) Multipurpose Co-operative Societies
-) Cottages Industrial Societies
-) Consumers' Co-operatives
-) Milk Producers' Societies (Dairy Co-operatives)
-) Transport Cooperative Society
-) Credit and Saving Cooperatives
-) Other Cooperatives

2.1.3 Major Co-operative Movement in Nepal

The major events of cooperative movement have been summarized as follows :

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|-------------|---|----|--|
| 2010 (1953) | : | 1. | Setup cooperative Department under the Ministry of plan Development and Agriculture. |
| 2013 (1956) | : | 1. | Issue of executive order for the legal recognition of cooperative societies by the government. |
| | | 2. | Firstly, formation of loan cooperative society in Chitwan district. |
| 2016 (1959) | : | 1. | Cooperative Department transferred under the Ministry of food, Agricultural and forest. |
| | | 2. | Issue of Cooperative Act 2016 |

- 2018 (1961) : 1. Issue of cooperative regulation 2018.
2. First amendment of cooperative Act. 2016.
3. Establishment of cooperative development fund.
4. Establishment of Sajha Sanstha Ltd.
- 2019 (1962) : 1. Establishment of cooperative training centre (CTC).
2. Establishment of cooperative exchange and loan association.
3. Issue of cooperative bank Act 2019.
4. Cooperative department transferred under the Ministry of Panchayat.
- 2020 (1963) : 1. Establishment of Cooperative Bank.
2. Cooperative section kept under the District Panchayat
- 2021 (1966) : 1. Beginning of Agricultural reorganization program.
- 2023 (1966) : 1. Cooperative Department has been transferred under the Ministry of Land-reform, Agriculture and Food.
- 2024 (1967) : 1. Formation of Central Investment Committee FOE cooperatives.
2. Cooperative Bank transferred/amalgamated into Agricultural Development Bank.
- 2026 (1969) : 1. Cooperative Department has been transferred under the Ministry of Land Reform.
2. Operation of Coordinative Agriculture Development.
3. At first, Compulsory Saving (Anibarya Bachat) converted into share of Cooperative Societies Bhaktapur.
4. Cooperative Exchange and Loan Association changed into District Cooperative Association.
- 2027 (1979) : 1. Second amendment in Cooperative Act 2016.
2. Arrangement of central and District Cooperative Improvement Committee.
3. The management of cooperative societies transferred to the Agricultural Development Bank.

- 2028 (1971) : 1. First Amendment in Cooperative Regulation 2018.
- 2029 (1972) : 1. Operation of Regular Sajha Programme.
- 2033 (1976) : 1. Beginning of population education through Sajha.
2. Occurrence of Central Sajha Development Committee
3. Second Amendment on Cooperative Regulation 2018.
4. Compulsory saving converted into the share of Sajha.
- 2034 (1977) : 1. Fiscal Regulation 2034 issued for the Sajha society management.
- 2035 (1978) : 1. Management of cooperatives again transferred to operating committee from ADB/N.
2. Issue of fiscal and administrative regulation for cooperatives.
3. Emphasis upon Sajha societies' Qualitative Improvement rather than Quantitative Improvement.
- 2041 (1984) : 1. Issue of Sajha Society Act 2041.
- 2043 (1986) : 1. National Sajha Seminar Conducted.
2. Issue of Sajha Society Regulation 2043.
3. Cooperative Department changed into Sajha Development Department.
4. Cooperative Training Centre changed into Sajha Development Training Centre.
5. Regional Cooperative office changed into Regional Sajha Development Office.
6. Cooperative Branch changed into Sajha Development Branch.
- 2044 (1987) : 1. 17-members high level central coordination committee formed for the effective development of Sajha movement.
2. Sajha development department transferred under the Ministry of Agriculture.
- 2045 (1988) : 1. Announcement to return of compulsory savings to the severs.
- 2046 (1990) : 1. Formation of Adhoc Committee for the formation of Central Sajha society.

- 2047 (1991) :
1. Formation of 7 members central cooperative general association consulting committee and the committee submitted its report.
 2. Seminar conducted on national cooperative development.
- 2048 (1991) :
1. Sajha; central office dissolved.
 2. 11 members national cooperative development board established.
- 2049 (1992) :
1. Issued cooperative Act 2048.
 2. Formation of District Coordination Committee and Cooperative adhoc committee.
 3. Sajha Development Department transferred into cooperative department.
 4. Sajha Training Centre transferred into cooperative Training Centre.
 5. Regional Sajha Development Branch changed into regional cooperative office.
 6. Sajha Development Branch changed into District cooperative office.
- 2050 (1993) :
1. Issued cooperative society regulation 2049.
 2. Election have been conducted in nation wide of cooperative organization.
 3. Formation of National Cooperative Federation.
 4. Establishment of Central Cooperative Federation.
 5. Establishment of National Saving and Credit Cooperative Federation.
 6. Establishment of National Federation of Saving and Credit Cooperative Unions Ltd. (NEFSCUN)
 7. Establishment of Central Dairy Cooperative Federation.
 8. Consumer and saving and Credit Cooperative Societies are establishment at the large scale all over the country.

Thus, above list of development activities during the 46 years towards cooperative movement visualize that there is a high variation in the management of cooperative organization. The management of cooperative has been changed time to time according to the changed political system of the country. Therefore, high level of ups and down of the cooperative management stands as the main cause of slow development in cooperative history. Some times its management goes under the control of Ministry of Food, Sometimes to the Ministry of Land-Reform, Sometimes to the ADB/Nepal and now it comes under the control of Ministry of Agriculture. Even though the Nepalese government assigned the top priority towards cooperative development, it has not been able to progress as expected.

The restoration of democracy in 1990 brought changes in the sphere of cooperative movement in Nepal. It offered great expectation for the socio-economic development of the majority people. But it must be geared towards new direction with new orientation. In Nepal, cooperative concept/philosophy must be come with new orientation. Nepalese concept must be changed from the old concept of cooperative like Guthi, Parma, Bhakari, Mankajya, etc. Newest philosophy of cooperative management has changed the cooperative organization as a business organization. At the same time there also exists competition between cooperative and other forms of business organization. Cooperative business organization must earn reasonable profit to stand in the competitive business environment as well as satisfy its social objective. Moral objectives, Social objectives, service to the members, good quality, cheap pricing, reasonable profit, cooperative principle itself are the major challenges for cooperative business organization to maintain its philosophy and for the long run existence in the competitive market.

2.1.4 Current Issues of Co-operative

The current issues of cooperatives are as follows :

1. Structural Reforms.
2. Membership and Leadership.
3. Managerial Reforms.

4. Resources Mobilization.
5. Rehabilitation of the Weak Cooperative.
6. Trade and Techniques.
7. Government Support.
8. Sectoral Strategies.

2.2 Definition of Accounting

What is accounting? This basic question has never been answered precisely and many definitions of the term are available.

Back in 1941, the Committee on Terminology of the American Institute of Certified Public Accountants (AICPA) formulated the following definition, which was widely quoted for many years:

"Accounting is the art of recording, classifying and summarizing in a significant manner, and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the results thereof."

"In 1966, The American Accounting Association (AAA), in order to emphasize the broader perspective of accounting, provided the following definition of accounting."

"Accounting is a service activity. Its function is to provide quantitative information, primarily financial in nature, and about economic activities, that is intended to be useful in making economic decisions.

The term, 'quantitative information' used in the above definition is wider in scope than financial or economic information. Both the definitions, AAA (1966), and ICPA (1970) emphasize on using the information for the purposes of decision-making. Modern accounting, therefore, is not merely concerned with record-keeping but also with a whole range of activities involving planning, control, decision making, problem solving, performance measurement and

evaluation, coordinating and directing, auditing, Tax determination and planning, cost and management accounting.

The managers within an organization and interested outside parties use accounting information in making decisions that effect the organization. Today's accounting focuses on the ultimate needs of those, who use accounting information, whether these users are inside or outside the business itself.

Others have also given their definitions of accounting, but none has succeeded in clearly establishing the nature and scope of accounting. Each definition has merit in that it describes essentially what accountants do, but the boundaries are fuzzy. Of the several available definitions of accounting, the one developed by American Accounting Association is perhaps the best because of its focus on accounting as an aid to decision making.

2.2.1 Evolution of Accounting

Accounting has evolved in a manner similar to law, medicine and other fields of human activity, in response to the social and economic needs of society. Book-keeping and accounting did not emerge as chance phenomena, but as a pragmatic response to a specific world need. This is true not only of the days of paciolo but also important for present-day accounting survival. Sieveking, one of the few historians who have paid attention to the subject, says that book-keeping developed as a direct response to the establishment of partnership on a large scale.

For centuries after the system of double-entry book-keeping appeared, accounting was practiced without a uniform methodology or any form of theory. It was only during the 19th century that a distinct move from book-keeping to accounting- a move from relatively simple recording and analysis of transactions towards a comprehensive accounting information system- was affected. The close of 19th century was marked by the most extraordinary expansion of business.

Company form of organization, a phenomenon which was incoming increasingly common in business world, grew at a great speed. Books about business transactions were written, conventions were followed and accounting was recognized as a system of analyzing and maintaining records of business transactions.

In part, the new significance of accounting gained recognition because of separation between ownership and control and also due to diversification in ownership. The increased reliance on capital as a factor of production necessitated extensive record-keeping and finally, in the 19th century, a theoretical framework began to evolve. This framework or methodology provided a technical means to measure, measure, evaluate, and communicate information of economic and financial nature.

Modern business is marked by continuity, a never-ending flow of economic activities. Therefore, accounting has grown to meet a social requirement and to guide the business and industry accordingly. Accounting is moving away from its traditional procedural base, encompassing record-keeping and such related work as the preparation of budgets and final accounts, towards the adoption of a role which emphasizes its social importance. Welsch and Anthony comment:

"The growth of business organizations in size, particularly publicly-held corporations, has brought pressure from stock-holders, potential investors, creditors, governmental agencies, and the public at large, for increased financial disclosure. The public's right to know more about organizations that directly and indirectly affect them (whether or not they are shareholders) is being increasingly recognized as essential. An open society is one that has a high degree of freedom at the individual level and typically evidences an effective commitment to measuring the quality of life attained. These characteristics make it essential that the members of that society be provided adequate, understandable, and dependable financial information from the major institutions that comprised it."

Profit calculation is no longer a simple comparison of financial values at the beginning and end of a transaction or series of transactions. It is now related to a complex set of allocations and valuations pertaining to the operational activities of a business enterprise. The concept of accountancy or accounting has broadened to include description of the recording, processing, classifying, evaluating, interpreting and supplying of economic-financial information for presentation of financial statements and decision-making purposes.

Further refinements in cost and management accounting followed later on in the 20th century along with large-scale production and high-capital investment, these developments created a need to allocate costs correctly over the units of production, and also to provide a measure of productivity and efficiency. Thereafter, cost accounting evolved naturally to meet recognized managerial requirements and decision-making purposes.

Traditionally, governmental accounting was linked to taxation and revenue control, and to the recording of, and accountability for, receipts and expenditures, Development in budgeting in the 20th century created a much larger scope for government accounting. The national budget became a managerial and policy-making instrument and developed into a mechanism for the forward planning of receipts and expenditures. Budgeting has now developed to from of the bases of- and is closely associated with-economic planning and programming.

The use of enterprise accounting for the purpose of macro (economic or national) accounting is largely a present-century development. For purposes of economic policy and economic planning, the national data-to a large extent derived from commercial data-have assumed greater significance. This, in turn, has given rise to the concept of macro accounting which has presented the professional with a new sphere of operation and perspective. Macro accounting has particular importance in helping build the bridge between economics and accounting, and thus offers accounting a significant scope to make a contribution towards macro economic policy.

Accounting, thus, has gone through many phases-simple double-entry book-keeping, enterprise, government, and cost and management accounting, and recently, social accounting. These phases have largely been a product of changing economic and social environments. As business and society have become more complex over the years, accounting has developed new concepts and techniques to meet the ever increasing needs for financial information.

2.2.2 Accounting Concepts and Principles

- (a) **Cost Principle** : The cost principle requires that assets be recorded at the exchange price, i.e., acquisition cost or historical cost. Historical cost is recognized as the appropriate valuation basis for recognition of the acquisition of all goods and services, expenses, costs and equities. In other words, an item is valued at the exchange price at the date of acquisition and shown in the financial statements at that value or an amortized portion of it. For accounting purposes, business transactions are normally measured in terms of the actual prices or costs at the time the transaction occurs, i.e. financial accounting measurement are primarily based on exchange prices at which economic resources and obligations are exchanged in amounts at which assets are listed in the accounts of a firm do not indicate what the assets could be sold for. However, some accountants argue that accounting would be more useful if estimates of current and future values were substituted for historical costs under certain conditions. The extent to which cost and value should be reflected in the accounts is central to much of the current accounting controversy.

The historical cost concept implies that since the business is not going to sell its asset as such there is little point in revaluing assets to reflect current values. In addition, for practical reasons, the accountant prefers the reporting of actual costs to market values which are difficult to verify. By using historical costs, the accountant's already difficult task is not further complicated by the need to keep additional records of changing market value. Thus, the cost concept provides greater objectivity and greater feasibility to the financial statements.

- (b) **Dual-Aspect principle** : This principle lies at the heart of the whole accounting process. The accountant records events affecting the wealth of a particular entity. The question is-which aspect of this wealth are important? Since an accounting entity is an artificial creation, it is essential to know to whom its resources belong to or what purpose they serve. It is also important to know what kind of resources it controls. e.g. cash, buildings or land. Accounts recording systems have therefore developed so as to show two main things: (a) the source of wealth, and (b) the form it takes.
- (c) **Accrual principle** : According to Financial Accounting Standards Board (US): "Accrual accounting attempts to record the financial effects on an enterprise of transactions and other events and circumstances that have cash consequences for the enterprise in the periods in which those transactions, events and circumstances occur rather than only in the periods in which cash is received or paid by enterprise. Accrual accounting is concerned with the process by which cash expended on resources and activities is returned as more (or perhaps less) cash to the enterprise, not just with the beginning and end of that process. It recognizes that the buying, producing, selling and other operations of an enterprise during a period, as well as other events that effect enterprise performance, often do not coincide with the cash receipts and payments of the period."

A business enterprise's economic activity in a short period seldom follows the simple form of a cycle from money to productive resources to product to money. Instead, continuous production, extensive use of credit and long-lived resources, and over-lapping cycles of activity complicate the evaluation of periodic activities. As a result, non-cash resources and obligations change in time periods other than those in which money is received or paid. Recording these changes is necessary to determine periodic income and to measure financial position. This is the essence of accrual accounting.

Thus, accrual accounting is based not only on cash transaction but also on credit transactions, barter exchanges, changes in prices, changes in the form of assets or liabilities, and other transactions, events and circumstances that have cash consequences for an enterprise but involve no concurrent cash movement. Although it does not ignore cash transactions, accrual accounting is primarily accounting for non-cash assets, liabilities, revenues, expenses, gains and losses.

- (d) **Conservatism principle** : This principle is often described as "anticipate no profit, and provide for all possible losses." This characterization might be viewed as the reactive version of the minimum managerial philosophy, i.e. minimize the chance of maximum losses. The concept of accounting conservatism suggests that when and where uncertainty and risk exposure so warrant, accounting takes a wary and watchful stance until the appearance of evidence to the contrary. Accounting conservatism does not mean intentionally understating income and assets; it applies only to situations in which there are reasonable doubts. For example, inventories are valued at the lower ends of cost or current replacement value.

In its application to the income statement, conservatism encourages the recognition of all losses that have occurred or are likely to occur but does not acknowledge gains until actually realized. The procedure of reducing inventory values when market has declined below cost but the failure to countenance 'write-ups' under reverse conditions can be attributed to conservatism. The early amortization of intangible assets and the restrictions against recording appreciation of assets have also, at least to some extent, been motivated by conservatism. Failure to recognize revenue until a sale has transferred is still another manifestation of conservatism.

Conservatism principle is very vital in the measurement of income and financial position of a business enterprise. The accountant avoids the recognition and measurement of value changes and income until such time as they may be evidenced readily. This concept may result in starting

net income and net assets at amounts lower than would otherwise result from applying the pervasive measurement principles. The concept is extremely difficult to standardize or regulate. It may vary from entity to entity, depending on the particular attitudes of the different accountants and managers concerned. This concept is defended due to the uncertainty of the future, which in turn, raises doubts about the ultimate reliability of unrealized value increments. It is argued that accountants are practical men who have to deal with practical problems, and so they have a tendency to avoid the somewhat speculative area of accounting for unrealized gains. They have also inherited role of acting as a curb on the enthusiasm of businessmen who want to report to the owners as successful story as possible. Also, traditional accounting reports are intended primarily for stewardship purposes, a function which incurs no legal obligation to report beyond the facts of realized transaction.

- (e) **Matching principle** : The matching principle in financial accounting is the process of matching (relating) accomplishments or revenues (as measured by the selling prices of goods and services delivered) with efforts or expenses (as measured by the cost of goods and services used) to a particular period for which the income is being determined. This concept emphasizes which items of cost are expenses in a given accounting period. That is, costs are reported as expenses in the accounting period in which the revenue associated with those costs is reported. For example, when the sales value of some goods is reported as revenue in a year, the cost of those goods would be reported as expenses in the same year.

Matching concepts needs to be fulfilled only after realization (accrual) concept has been completed by the accountant: first revenues are measured in accordance with the realization concept and then costs are associated with these revenues. Costs are matched with revenues, not the other way around. The matching process, therefore, requires cost allocation which is significant in historical cost accounting. Past (historical) costs are examined and despite their historic nature, are subjected to a procedure whereby elements of cost regarded as having expired service potential are allocated or matched against relevant revenues. The remaining elements of costs which are regarded as

continuing to have future service potential are carried forward in the historical balance sheet and are termed as assets. Thus, the balance sheet is nothing more than a report of unallocated past costs waiting expiry of their estimated future service potential before being matched with suitable revenues.

The most important feature of the matching principle is that there should be some positive correlation between respective revenues and costs. There is, however, much difficulty inherent in this exercise because of the subjectiveness of the cost allocation process which results from estimating the existence of unexpired future service potential in the historic costs concerned. A variety of allocation practices is available, and each one is capable of producing different cost aggregates to match against revenues (the main areas of difficulty affecting inventory valuation and fixed assets depreciation policies). Matching is, therefore not as easy or as straightforward as it looks, and consequently much care and expertise is required to give the allocated figures sufficient credibility to satisfy their users.

- (f) **Consistency principle :** This principle requires that once an organization has decided on one method, it should use the same method for all subsequent transactions and events of the same nature unless it has sound reasons to change methods. If accounting methods are frequently changed, comparison of financial statements for one period with those of another period would be difficult. The consistent use of accounting methods and procedures over time will check the distortion of profit and loss account and the balance sheet and the possible manipulation of these statements. Consistency is necessary to help external users in comparing financial statements of a given firm over time and in making sound economic decisions.
- (g) **Materiality principle:** Materiality concept implies that the transactions and events that have immaterial or insignificant effects should not be recorded and reported in the financial statements. It is argued that the recording of insignificant events cannot be justified in terms of its subsequent poor utility to users.

There is no agreement as to the meaning of materiality and what can be said to be material or immaterial events or transactions. For prepare of accounts to interpret what is and what is not material. Probably the materiality of an event or transaction can be decided in terms of its impact on the financial position, results of operations, and changes in the financial position of an organization and on evaluation or decisions made by users.

- (h) **Full-disclosure principle:** The principle of full disclosure requires that a business enterprise should provide all relevant information to external users for the purpose of sound economic decisions. This concept implies that no information of substance or of interest to the average investors will be omitted or concealed from an entity's financial statements.

In some respect, above principles are exist in the accounting aspect of the co-operative organization. In another word the co-operative organization are being followed the above mentioned principles.

2.3 System of Accounting

There are two system of accounting in use. They are:

- i) Single entry system
- ii) Double entry System

2.3.1 Single Entry System

Under the single entry system on Book-Keeping only one aspect of every transaction is recorded in the books of account. This system usually adopted by firms having few transactions and professional man. In this system the main records kept are those Cash and personal accounts. Sometimes, subsidiary books may be maintained under this system but posting is made only those entries which affect personal accounts.

Single entry system of book-keeping is not any particular system of accounting, but rather it is the double entry system is an incomplete and disjointed form (C.M. Juneja, R.C. Chaula, K.K. Saxena. p. 317). Kohlet has defined single entry system as follows: "A system of book-keeping in which as a rule only records of cash and personal accounts are maintained, it is always incomplete double entry varying with the circumstances (Jain & Narayan).

Single entry system can be classified into two headings:

- i) Pure single entry
- ii) Single entry in the popular

Single entry in the popular sense

Single entry in the popular sense or quasi single entry are terms covering numerous systems of book-keeping which, through differing one from the other in detail (Pickals William, p. 237). It is also known as incomplete form of double entry system. Under this system some subsidiary books are maintained but only those entries are posted which affect personal accounts.

Single entry in the popular sense may consists of:

- i) Double entry for certain transaction such as cash received from debtors or cash paid to creditors.
- ii) Single entry in respects of some transactions such as purchase of fixed assets, payment of expenses, etc. and,
- iii) No entry in respect of some transactions such as bad debts, depreciation, loss of stock by fire etc.

Asserting profit under the single entry system

It is not possible to prepare regular profit and loss account under this system so the exact profit or loss for a particular period can not be ascertained. But some procedure can followed to ascertain the rough profit or loss made by the firm. When the single entry system is in use the profit or loss for a period can be ascertained by comparing the capital at the end of the period with that at the beginning, adjusting the effect of with drawls or introductions of capital during the period. If the closing capital exceeds the opening capital, such excess is considered to be profit for the period, and if the opening capital exceeds the closing capital, such excess is considered to be a loss for the period. Generally, capital is considered as the excess of assets over liabilities.

Two very important points in ascertaining the profit under single entry are:

- i) Withdrawals of capital; and
- ii) Introductions of capital.

The rule in regard to these adjustments:

- i) Drawings made by the proprietor during the period should be added to the amount of capital at the end of the period.
- ii) Similarly, capital introduced during the period should be deducted from the capital at the end of the period.

Further two steps should be made to ascertain net profit or loss.

- iii) Interest on drawings (If any) should be deducted from the interest on capital.
- iv) Then, interest on capital should be deducted either from the end capital or from the above ascertained rough profit.

In summary

Using these formula profit or loss can be ascertained.

i) Adjusted End

Capital = Capital in the beginning + Drawings - Fresh capital introduced

ii) For Profit or Loss

Profit or Loss = Adjusted Capital (at the end) - Capital (The beginning)

iii) For Capital

Capital = Assets - Liabilities \pm drawing/introduced

iv) For Assets

Value of fixed assets = Original cost - depreciation

"stock = Closing inventory is obtained by taking a Physical count. After physically count value can be found using this principle "cost or market price which is ever less"

Bank balance can be ascertain from pass book

Cash can be physically counted.

Debtors can be ascertained from the personal ledger.

v) For liabilities

Over draft can be ascertained from bank pass book creditors can be ascertained from the personal ledger.

According to research study it is found that the sample co-operative don't followed the single entry system.

2.3.2 Double Entry System

It is a accounting system under which every transaction requires two entries in the books. One against the party or account receiving is known as double entry system of accounting.

Luca Pacili, first propounded the principles of double entry system in 1494 AD. He described a method of arranging accounts in a way of the dual aspect that is known as double entry system of accounting today.

Every business transaction has two aspects i.e. when receives something, he gives something else in return. This method of writing every transaction in two accounts is known as double entry system of accounting. Of the two accounts one account is given debit while the other account is given credit with on equal amount. Thus, on any data, the total of all debits must be equal to the total of all credit because every debit has a corresponding credit.

"Double Entry system of book-keeping adheres to the rule, with out any exception, that for each transaction the debit amounts (s) must equal the credit amount (s). This is why this system is called double-entry.

Advantages of double entry system

The following are the main advantages which can be derived from the use of double entry system (K.L. Narayan, S.P. Jain) :

- a) It provides a complete record of every transaction whether it relates to the personal or impersonal accounts.
- b) It provides an arithmetical check on the records as the total of debit entries must be equal to the total credit of all entries.
- c) The amount owing to outsiders and the amount due to the business can be ascertained with the help of personnel accounts.
- d) The profit and loss account can be prepared with the help of nominal accounts which is helpful to the business to ascertain the operating results of the business.
- e) It helps to prepare the balance sheet of the business which is helpful to ascertain the financial position of the business on a particular day.
- f) It helps to reduce the occurrence of the errors and frauds and when occurred can be deducted easily. It can work well with the help of internal check system.

Factors Common to Every Business

To have a clear understanding of the double entry system, it is necessary to keep in mind the following factors which are common to every business.

1. The business form enters into business dealings with a number of person or firm. So, an account of each person or firm, with whom the business has business dealing, is opened such accounts are known as personal accounts.
2. The business must necessarily have some assets such as stock, cash, furniture etc. with the help of which the business may be carried on. Therefore, an account of each asset in the business is opened. Such accounts are classed as real or property accounts.
3. There must be certain sources from which the income of the business is derived. Similarly, certain expense must be incurred to earn the income. Therefore, an account of each expense and increase is opened in the books. Such accounts are known as nominal or fictions accounts.

Thus, three types of accounts namely, personal accounts, real or property accounts and nominal or fictions accounts are opened to keep a complete record of all the financial transaction of the business.

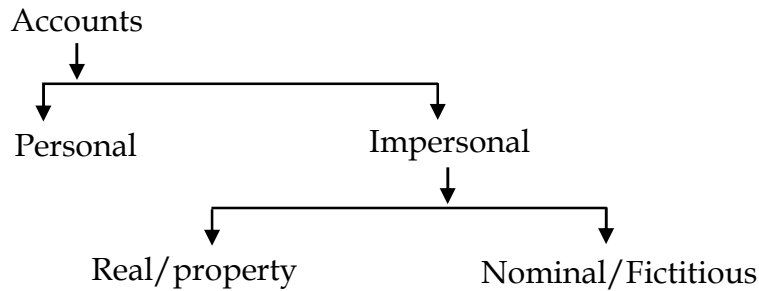
Rules of the Double Entry System

Account : An Accounting record in which the results of similar transactions are accumulated, shows increase decrease, and a balance.

Debit and Credit : An account is divided in two parts. Left hand side is known as 'debit side' and right hand side is known as 'credit side'. Amount entered on the debit side (left hand side) are called debits and amounts on the credit side (right hand side) credits. "To debit" means to make an entry in the left-hand side of a account and to credit means to make an entry in the right hand of an account. Abbreviation used for debit is Dr. and for credit Cr.

Rules of Debit and Credit

a) Account based (Classification based)



(i) **Personal accounts** : Accounts recording transactions relating to individuals or firms or company are known as personal accounts. The rule is: "Debit the receiver and credit the giver."

Personal accounts may be classified as (Juneja, Chawla, Saxena, p. 38) :

- a) Natural person's personal accounts i.e., Ram's a/c
- b) Artificial persons personal account i.e. A co. Ltds a/c
- c) Representative personal account

In certain cases (due to matching concept) of accounting the amount on a particular date, is payable to the individuals or recoverable from individuals. Such amount (i) relates to the particular lead of expenditure or income and (ii) represents persons to whom it is payable or from whom it is recoverable. Such accounts are classified as representative personal accounts eg. "Wages out standing account". Pre-paid insurance account etc.

(ii) **Real accounts** : These are the accounts of assets. The rule is: Debit what comes in and credit what goes out.

Real accounts may be classified as :

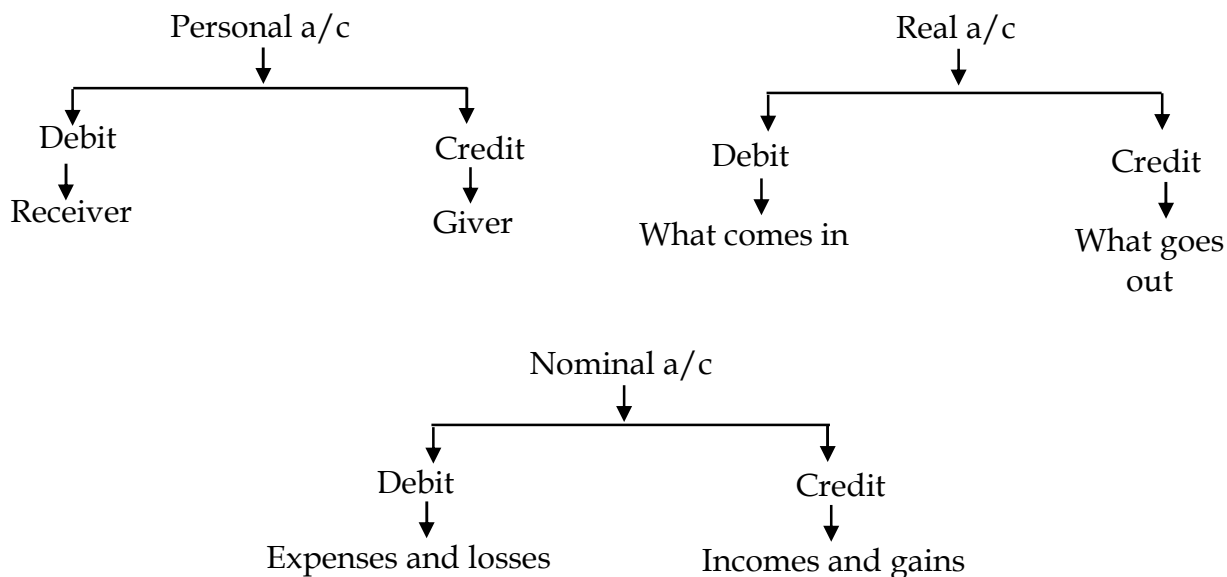
Tangible real account : The accounts recording transactions relating to tangible things such as good, cash, machinery etc.

Intangible real account : The accounts recording transactions relating to intangible things such as good will, patents, copy right etc.

(iii) Nominal accounts : The accounts recording transactions relating to the losses, gains, expenses and incomes are known as nominal accounts. Eg. salaries a/c, Wages a/c, commission a/c, bad debt a/c etc.

The rule is "Debit all expenses and losses and credit all income and gain."

The rules of debit and credit are shown in the following chart.



Assets a/c	
Dr.	Cr.
Increase	Decease
+	-

Capital a/c	
Dr.	Cr.
Increase	Decease
-	+

Liabilities a/c	
Dr.	Cr.
Increase	Decease
-	+

Expenses/Losses a/c	
Dr.	Cr.
Increase	Decease
+	-

Revenue/Profit a/c	
Dr.	Cr.
Increase	Decease
-	+

Debit balance = Credit balance

All the co-operative organization which has been taken as the sample of this study has strictly followed the double entry book-keeping system.

2.4 Journal

Journal is a book of original entry because transaction is first written in the Journal from which it is posted to the ledger at any convenient time. "Journalizing means recording a transaction in the journal and the form in which it is recorded is known as a journal entry" (Jain & Narayan). "If two or more transactions of the same nature occur on the same day and either debit account or credit account is common, such transactions can be conveniently entered in the journal in the form of a combined journal entry instead of making a separate entry for each transaction. Such type of entry is known as a compound journal entry." (Ibid)

Journal entries in the book of ...

Date (1)	Particulars (2)	L.F. (3)	Debit Rs. (4)	Credit Rs. (5)

Rule for Passing Opening Entry

Opening Entry : In the case of a continuing business we are required to pass an entry in the journal for bringing in the new books all assets and liabilities appearing in the books on the last day of the previous year. This entry is known as "Opening entry".

Rule for passing opening entry is to debit each asset account, credit each liability account. Excess of debit over credit represents capital balance.

Journalizing Some Common Cases

1. Treatment of Cash/Credit purchases

- a) Cash Purchase
Purchase account Dr.
To cash account
(good purchased from)
- b) Credit purchases

Purchases account Dr.
To supplier's a/c (Name of supplier)
(Goods purchased on credit)

2. Treatment of Payment on personal/expenses account

a) Personal payment

Person's a/c Dr.

To cash account

(Payment made to)

b) For expenses

Expenses a/c (eg. salary a/c) Dr.

To cash a/c

(Salary paid for the month)

3. When amount is received from a person

Cash a/c Dr.

To person's a/c

(Amount received from)

4. When amount received represents business income

Cash a/c Dr.

To income a/c (eg. commission a/c)

(Commission received from.....)

5. Treatment of Trade discount

Trade discount is not recorded in the books. The transaction is recorded with only the net amount i.e. (list price-trade discount).

6. Treatment of cash discount (Full settlement)

a) Cash discount received

Person's a/c (eg. A co. Ltd. a/c) Dr.

To cash account

To discount received a/c

(Payment made to with cash discount)

b) Cash discount allowed
Cash a/c Dr.
Discount allowed a/c Dr.
To person's a/c
(Cash received with discount allow)

7. Treatment of bad debts (Debtor becoming insolvent)

Bad debts a/c Dr.
To person's a/c
(Bad debt written off)

8. Treatment of bad debts recovered

Cash a/c Dr.
To bad debts recovered a/c
(Bad debts recovered from)

9. Treatment of drawing (Personal expenses of the owner)

Owner's drawing a/c Dr.
To cash a/c
(Mr. draws Rs.)

10. Treatment of exchange of new asset with old one plus cash payment.

Asset a/c (diff. amount i.e. new - old) Dr.
To cash a/c
(New asset exchange with old one and paid cash for excess.)

11. Treatment of depreciation charged on fixed assets

Depreciation a/c Dr.
To asset a/c
(Depreciation charged)

12. Treatment of payment/received of representative personal accounts.

a) Expenditure incurred but remained unpaid which is known as
"Outstanding expenditure"
Expenses a/c Dr.
To out standing expenses a/c

(Expenses eg. salary out standing)

When payment made

Out standing expenses a/c Dr.

To cash

(Out standing expense eg. salary paid for previous month)

- b) Income accrued due but not received is known as "Income accrued due"

Income accrued due a/c Dr.

To income eg. divided a/c

(Divided accrued but not received)

When received

Cash a/c Dr.

To income accrued due a/c

(Income eg. divided received for previous year.)

All the co-operative have been maintained the record of journal as per the rules.

2.5 Ledger

The first step in the procedure of recording transactions is to journalize and the second step is to post the transaction in the ledger. Ledger is known as the principal or chief book of accounts. In ledger the financial information is classified by its nature and relevance.

"The statement which records the transactions at one place relating to a particular subject is known as account. The book which contains all the accounts is known as ledger and the procedure of writing up the accounts is known as posting."

"A ledger account may be defined as a summary statement of all the transactions relating to a person, asset, expense or income which have taken place during a given period of time and shows their net effect (Juneja, Chawla, Saxena, p. 70)"

Ledger is the principal book of accounts because it helps us in achieving the objectives of accounting. It gives answers to the following pertinent questions (Jain & Narayan).

- (i) What are the total sales to an individual customer ?
- (ii) What are the total purchases from an individual supplier ?
- (iii) How much amount is owed by others ?
- (iv) How much amount is owed to others ?
- (v) What is the amount of profit or loss made during a particular period?
- (vi) What is the financial position of the firm on a particular date ?

How to write ledger/Ledger posting of journal

In ledger we maintain accounts. Each account is allotted one or more pages depending upon the requirement (Ibid).

Dr.				Name of account				Cr.			
Date	Particulars	Folio	Amount Rs.	Date	Particulars	Folio	Amount Rs.				

Record the relevant amount on the left-hand side of the account which, according to the journal is to be debited and record the amount on the right hand side of the account which, as per journal, is to be credited. In ledger account each entry on the debit (left hand) side with the word "To" and on the credit (right hand) side with the word "By" in the particulars column. In the "Folio" column would be entered the page of Journal from which entry has been posted and in the folio column of journal, the page number of the ledger is written on which the relevant account appears.

Balancing the accounts

Various accounts in the ledger are balanced with a view to preparing the final accounts. The procedure of balancing accounts is as follows (Juneja, Chawla and Saxena) :

- a) Take the total of the two sides of the account concerned.
- b) Ascertain the difference between the totals of two sides.

- c) Enter the difference in the amount column of the side showing less total; writing against the difference in the particular column "To balance c/d (c/d means carried down) on the debit side of the account and "By balance c/d" on the credit side of the account. In this way, the totals of sides will equal.
- d) The balance is brought forward at the beginning of the next period. If "To balance c/d" is written on the debit side before balancing, it is brought forward on the credit side and "By balance b/d" (b/d means brought down) is written against the balance in the particular column and vice versa.

An account is said to have a debit balance if the total of its debit side is more than the total of its credit side n the other hand, an account is considered to have a credit balance if the total of its credit side is more than the total of its debit side.

Personal accounts : Debit balance as per personal account signifies that the person is the debtor of the business i.e. person owes an amount equal to the firm or the amount represented by the balance is "due to" the business by the person. Similarly, credit balance as per personal account signifies that the person is the creditor of the business i.e. business owes an amount equal to the balance to the person or the amount represented by the balance is "due by" the business to person.

Real Account : On these accounts all incoming to be recorded on the debit side and out goings on the credit side. Thus on any particular date these accounts should have "debit balance" representing the worth of the item covered by the account. At the end of particular period balances of these accounts are shown on the assets side of the balance sheet these accounts do 'debit balance' which signifies the book-value, or written down value or "going concern value" of the assets of the business as on that relevant date.

Nominal Accounts: These are the accounts showing the various head of expenses and sources of income. At the end of the specified period these accounts are closed by transfer to the final accounts i.e. trading or profit and loss account.

For getting individual result co-operative organization have prepared ledger account.

2.6 Subsidiary Books/Sub-Journal

The system of book keeping originally envisages that all the transactions must be recorded first in the book of original record i.e. journal and then they are posted to the respective accounts in the ledger. Subsequently it was experienced that the labor of recording each transaction with narration in the journal and then posting each entry in two different accounts in the ledger was enormous. It was found to be convenient and economical to keep separate books to record each particular class is the book of original or prime entry. It is also known as sub-journal or subsidiary book. "The system under which transactions of similar nature are entered in the relevant subsidiary book and on the basis of which ledger is written is known as the 'Practical system of book-keeping'. This system reduces labor and time of recording the transactions as impersonal accounts, viz, sales account, purchases account etc. receive the posting of totals and not of individual transactions. How ever, this system also conforms to the basic rules of the double entry system (Juneja, Chawla and Saxena, p. 88).

Generally the following subsidiary books are used in the business (Ibid).

- a) *Cash book:* To record cash receipts and payments including transactions relating to bank.
- b) *Purchases book:* Record purchases of goods meant for sale or for conversion into finished goods. It is also known as bought book or Invoice Book.
- c) *Return outwards books (Purchase return book):* Records return of goods to the suppliers due to several reasons.
- d) *Sales book:* Records credit sales of the goods dealt in by the business.

- e) *Returns inwards book or Sales return book*: Records the return of goods by the customers to the business.
- f) *Bills receivable book*: Records the receipts of bills of exchange, promissory notes and hundies of various parties.
- g) *Bills payable book*: Records the issue of bills of exchange, promissory notes and hundies to the various parties.
- h) *Main Journal*: Records the transactions for which no sub-Journal is maintained.

2.6.1 A Cash Book

The number of transaction relating to cash are usually large because most of the business dealing ultimately reserve themselves into cash transactions, so it is necessary to keep a separate book for cash transactions. It is convenient to have a separate cash book to records the cash transactions. Maintaining of cash book removes necessity of having cash and bank accounts in the ledger. This enables us to know the balance of cash in hand and at bank at any point of time.

"Cash book is the only book which serves the dual purpose of the journal as well as ledger (Juneja, Chawla and Saxena, p. 89)".

Receipts of cash are entered on the debit side and payments of cash on the credit side of the cash book.

The following are the three types of cash book:

- (a) Simple cash book.
 - (b) Cash book with discount columns.
 - (c) Cash book with Bank and Discount columns.
- (a) Simple Cash Book :** Simple cash book makes a record of all receipts and payments of cash. All cash received in form of coin, notes, cheques, postal orders, bank draft or treasury notes will be recorded on the credit side. Simple cash book is useful in small industries. Generally small industries do not keep cash register as a complex form. The format of simple cash book is.

Simple Cash Book

Receipt

Payments

Date	Particulars	R.N.	L.F.	Amount Rs.	Date	Particulars	V.N.	L.F.	Amount Rs.

Maintaining, Posting and Balancing of Cash Book :

Opening balance are written as "To balance b/d" on debit side.

- (i) Receipt side of the cash book (Dr. side) is used to record all receipt both in cash and by cheque as also to record the discount allowed to our debtors while receiving the payment. Cash receipts are entered in the cash column where as amounts received by cheques are entered in the bank column.
- (ii) Posting from the debit side of the cash book is to the credit of the respective accounts in case or personal account credit is to given for cash or cheque received plus discount allowed. At the end of the period discount column will be totaled and postal to the debit side of "Discount allowed" account in the ledger.
- (iii) Payment side of the cash book (Cr. side) is used to record all payments both in cash and through cheques as also to record the discount received or availed by the firm to the creditors while making payment to them.
- (iv) Posting from the credit side of the cash book is to the debit of the respective accounts in case of personal accounts debit is to be given for the total of the payments made and discount received. At periodical intervals the discount column will be totaled and posted to the credit of "Discount Received Account" in the ledger.
- (vi) Balancing : The cash column are balanced in the same manner was as ledger account. Cash balance must always be a debit balance. Bank columns are also balanced just like cash columns.

quantity and price of goods sold, discount allowed and other terms and condition regarding the sales of goods, delivery of goods and mode of payment.

Format of Sales book

Sales book contains six columns i.e. date, particular, invoice number, ledger folio, details and amount which is as below :

Sales Book of

Date	Particulars	Invoice No.	LF	Amount	
				Details	Total
	Total				

Posting of Sales Book :

Each customer's account is individually debited in the ledger with the amount of goods sold to him as he is the receiver of goods. The periodical total of the sales book is posted to the credit of sales account with the words "To sundries as per sales Book."

2.6.4 Purchase Return Book or Return Outward Book

Goods purchased may have to be returned to the suppliers for various reasons such as not up to sample, goods delivered without order, goods damaged in transit, goods priced differently than the catalogue etc. Purchase return book is prepared to record all the goods returned to suppliers. Purchase return book states the quantity and price of goods returned to suppliers due to the particular cause. Like purchase book and sales book, purchase return book also contains six columns i.e. date, particular, debit note number, ledger folio, details and amount which is as below :

Purchase Returns Book of

Date	Particulars	Invoice No.	LF	Amount	
				Details	Total
	Total				

While returning the goods to the suppliers a letter is sent to him for their information and stating to him there in that we have debited your account by this amount on account of goods being returned herewith for the reasons stated.

2.6.5 Sales Return Book or Return Inward Book

Sales return book or return inward book is prepared to record all the goods returned from the customers. Sales return book states the quantity and price of goods returned from debtors due to different causes.

The specimen of sales book is as below :

Sales Returns Book of

Date	Particulars	Invoice No.	LF	Amount	
				Details	Total
	Total				

Credit note : "When a debit note is received along with the goods returned from the customer, it is a claim on us. If claim is accepted then credit note, usually printed in red ink, with full details is sent to the customer signifying our acceptance of the goods and customer's account being given the required credit (Ibid)".

Posting : Credit the personal account of the customer who returned goods. Debit the periodical total to "Sales Returns" or "Returns Inwards Account".

It is found that in the sample study, some of the co-operative have been prepared the subsidiary book.

2.7 The Journal Proper

Subsidiary books are prepared in the business to record the repetitive transactions like credit, purchases, credit sales, sales returns, purchase returns, cash transactions, etc. In the business organization, there are some other transactions, which are occasional or unusual and are not recorded in specially classified books. To record these unusual and occasional transactions, a separate journal is to be prepared which is termed as journal proper. For example, last year's balance of assets and liabilities, outstanding expenses, prepaid expenses, income receivables advance received income, credit purchase of assets, credit sales of assets, drawing of goods and kinds by the owner for his personal use, interest on capital, etc. are such transactions which are recorded in journal proper. Thus, journal proper may be defined as a journal in which unusual and occasional transactions of the business are recorded systematically in a chronological order. The transactions, which are not recorded in any subsidiary book, are recorded in journal proper. Following transactions are still recorded in the journal (Ibid) :

- (i) Opening entries : At the beginning of the year the opening balances of assets and liabilities are journalized.
- (ii) Closing entries : At the end of the year final accounts are prepared. For preparing these accounts various accounts are to be transferred to the trading and profit and loss account which is done by means of journal entries.
- (iii) Rectification entries : When any error is detected in writing up the books then it is rectified by means of suitable journal entry.
- (iv) Adjustment entries : Since accounting follows "accrual concept : therefore adjustment has to be done at the end of the year regarding."
 - a. Expanses incurred but not paid;

- b. Expenses paid but benefit to be available in the next period.
- c. Income becoming due but not received.
- d. Income received in advance; and
- e. Charging depreciation on fixed assets etc.

The adjustments are incorporated in the account books by means of journal entries.

- (v) Transfer entries : If any amount is to be transferred from one ledger account to the other, then it is done by means of journal entries.
- (vi) Miscellaneous entries :
 - a. Purchase and sale of fixed assets on credit.
 - b. Writing off of losses due to bad debts, fire, accidents etc.
 - c. Any extra concession to be allowed to any customer or any change to be levied after the issue of the invoice; and
 - d. Any other item for which no subsidiary book has been maintained.

2.8 Petty Cash Book

Under New Accounting System of Government of Nepal, it is obligatory for every government office to make all transactions relating to revenues and expenditures, as far as possible through bank. All receipts should be deposited into bank and all the payments should be made by cheque only. There may be some relaxation for those offices, which are located at a place where no banking facilities are available even. In modern times, banking facilities are available even in remote areas. That is why almost all transactions are carried through cheques. However, when small payments of Rs. 5 or 10 are to be made, it may not be convenient to issue a cheque for such petty amounts. So in order to facilitate small payments in cash directly, an amount is set aside under the charge of an employee. The amount thus set aside is called 'petty cash fund'. The beginning of fiscal year, reimbursed time and often on the basis of expenditure incurred out of this fund and is closed at the end of the fiscal year. All the petty expenses are paid through this fund and recorded in the petty cash book. Generally petty cash fund is created to cover on the basis of past experience. All the petty expenses are met out of the petty cash fund at the end of the period for

which this fund is created; all expenses so far expended will be at the beginning of each period.

According to study it is found that there is the provision of petty cash fund in co-operative organization for making payment of small amount of expenditure.

2.9 Imprest System

Under this system, a round sum necessary for the possible needs of the business to meet petty cash expenses for the week or month is drawn by a cheque and handed over to the petty cashier. The petty cashier finds out the amount spent during the period and gets a cheque for the exact amount expressed by him so that he may start the next period with the same amount as in the beginning of the period (S.P. Jain & K.L. Narayan).

At the end of balancing period the petty cashier is given fresh cheque of amount equal to his payments during the same period. Thus in the beginning, every time, he will start with the amount fixed i.e. imprest or float (Juneja, Chawla & Saxena).

Accounting Treatment

(i) Opening the petty cash book

The periodically cheques drawn for petty cash are entered on the credit side of the cash book and debited to petty cash a/c in the ledger.

(ii) Closing the petty cash book

Each expense account or nominal account will be debited and petty cash a/c will be credited.

Petty Cash Book

Cash received	Date	Particular	LF	Total payment	Analysis of payments					
					Postage & Telegr.	Cartage & Camag	Printing & Adver.	Wages	Stationery	Sundries

2.10 Trial Balance

The fundamental principle of double entry system of accounting is that for every debit, there must be a corresponding credit. The dual aspect concept lays down that every transaction has two sided effects to the extend of same amount. Thus, for every debit or a series of debits given to one or several accounts, there is a corresponding credit or a series of credits of an equal amount given to some other account or accounts and vice versa. The trial balance is a list of all account balance. It is a work paper for the accountant.

A trial balance maybe defined as a statement of debit and credit totals or balance extracted from the various accounts in the ledger with a view test the arithmetical accuracy of the books.

-) It the totals agree-what does it mean ?
-) It provides a reasonably reliable check and proves the arithmetical accuracy of the book keeping entries.
-) If the total don't agree what does it mean ?
-) It shows that there is definitely something wrong either in the passing of the double-entry or in the extraction of balance.

Objectives : The following are the main objectives preparing the trial balance:

- i) To have balances of all the accounts of the ledger in order to avoid the necessity of going through the pages of the ledger to find it out.
- ii) To have a proof that the double entry of each transaction has been recorded because of its agreement.
- iii) To have arithmetic accuracy of the books of accounts because of the agreement of the trial balance.
- iv) To have material for preparing the profit and loss account and balance sheet of the business.

Preparation of Trial Balance

A trial balance can be prepared by the following two methods (Juneja, Chawla & Saxena) :

- i) Total method:** If the total of debit sides of all the accounts in the ledger is placed in one column of the list and similarly total of credit sides of all the accounts in the ledger is placed in another column of the list then this list of total (trial balanced) will be known to have been prepared with totals method.
- ii) Balance method:** Second method of preparing trial Balance is to find out the difference of the sides of every account. If debit side of the account is bigger, then insert the difference on the credit side of the account. It is known as "debit balance." If credit side of an account is bigger, then insert the difference on the debit side of the account it is known as "credit Balance." Now prepare list of Balances (trial Balance) by putting all debit balances in one column and credit balance in another column. Such method is known as Balance method.

A specimen of trial balance is given as follows:

Trail Balance of

As on

S. N.	Name of the Account	Dr. Balance (or Total) Rs.	Cr. Balance (or Total) Rs.

Errors revealed by trial Balance:

If trial balance does not agree, the disagreement may be due to (Ibid) :

- i) **Omission to post an amount in to ledger:** If an item is not posted from journal or subsidiary book to ledger, two sides of trial balance shall not agree.
- ii) **Omission to post an amount in trial balance:** It is natural if balance of an account is not recorded in trial balance the two sides of trial balance shall not agree which is an indication of error in accounts.
- iii) **Posting of wrong amount:** If wrong amount is posted in one of the two accounts while posting, it would immediately cause disagreement of trial balance.
- iv) **Posting on the wrong side:** When an item is by mistake posted on the wrong side of the ledger account it would cause disagreement in the trial balance.
- v) **Wrong totaling of subsidiary books:** If the total of any subsidiary book is wrongly cast, it would cause a disagreement in the trial balance.
- vi) **Wrong totaling or balancing of ledger accounts:** If any account in the ledger is wrongly totaled or balanced, then also the trial balance shall not agree.

Errors not revealed by Trail Balance

Although, two sides of Trail balance will agree, even then accounts may not be free from errors. Such errors are (Ibid) :

- i) **Errors of omission:** If a transaction is not recorded in books of original entry, then both debit and credit effects of the transaction will be united and trail balance, shall not be effected.

- ii) **Errors of commission:** These errors are the results of carelessness of accounting staff and in some of the cases such errors do not affect the totals of trial balance.
- iii) **Compensating error:** Such errors the total of trial balances but in the mean time another error of opposite effect is counted which neutralizes the effect of earlier error.
- iv) **Error of principle:** Whenever any income, or expenditure is not properly allocated between capital and revenue, the mistake so made is called a mistake of principle.

According to study it is found that, all co-operatives have been prepared trial balance for checking the arithmetical accuracy in the process of journal and ledger. It also found that they have proper knowledge of trial balance.

2.11 Final Account

Final accounts, as their names suggest, one the accounts, which are prepared on the final day of an accounting year. The preparation of final accounts is the final step in the accounting process. The final accounts are prepared to ascertain the true profit earned or loss suffered by the business during a particular year, end to reveal its financial position on the date ending that year. The final accounts refer to trading account, profit and loss account and the balance sheet. (Buddha 12)

Final accounts are the means of conveying to management owners and interested outsiders a concise picture of profitability and financial position of the business.

2.11.1 Trading Account

Trading account is the first component of final accounts. It is the account which shows the results of buying and selling of merchandise goods for a particular accounting period. It is prepared to ascertain trading results termed as gross profit or gross loss from business activities. When sales proceeds exceed the cost of goods sold, the excess amount is called gross profit or vice versa.

Trading Account of

Dr.

For the year ending

Cr.

Particulars	Amount	Particulars	Amount
To Opening stock	Xxxx	By Sales	xxxx
To Purchases <u>xxxx</u>		Less: Return inward <u>...xxx</u>	Xxxx
Less: Return outward xxx	Xxxx	By Closing stock	Xxxx
To Carriage inward	Xxxx	By Gross loss c/d	Xxxx
To Import duty	xxxx		
To Octroi charge	Xxxx		
To Custom duty	Xxxx		
To Direct expenses	Xxxx		
To Excise duty	Xxxx		
To Power expenses	Xxxx		
To Wages	Xxxx		
To Store consumed	Xxxx		
To Royalties	Xxxx		
To Factory insurance	Xxxx		
To Factory rent	Xxxx		
To Heating and lightning	Xxxx		
To Coal and coke	Xxxx		
To Gross profit c/d	Xxxxx		xxxxx

2.11.2 Profit and Loss Account

Profit and loss account is the second part of final account. Immediately after preparing trading account, this profit and loss is prepared with a view to see the net profit or the net loss of a firm during a given period of time.

Ruling Profit and Loss Account

Profit and Loss account ofFor the year ended

Dr.

Cr.

Particulars	Rs.	Particulars	Rs.
To salaries Exp.	xxx	By Gross Profit b/d	Xxx
To printing and stationery	Xxx	By Discount received	Xxx
To postage and telegram	Xxx	By commission received	xxx
To telephone charge	xxx	By rent received	xxx
To fax and email charge	Xxx	By interest received	xxx
To rent, rates email charge	xxx	By gain on sale of assets	xxx
To legal charge	Xxx	By depreciation on assets	Xxx
To audit fee	Xxx		
To carriage outwards	Xxx		
To export duty	Xxx		
To discount allowed	Xxx		
To commission paid	Xxx		
To interest paid	Xxx		
To depreciation	Xxx		
Machinery @			
Furniture @			
Building @	Xxx		
To loss on sale of assets	Xxx		
To net profit transferred capital	Xxx		
	Xxx		xxx

2.11.3 Balance Sheet

A statement of assets and Liabilities of the concern at a given date is known as balance sheet. It is prepared at a particular date to show the financial position of a non trading concern. It is prepared in the similar way of balance sheet of trading concern. It is prepared at the end of an accounting period.

Ruling of Balance sheet

Balance Sheet

AS on

Liabilities		Rs.	Assets		Rs.
Capital fund			Fixed asset		
Opening Capital Fund	xxx xxx		Building	Xxx	
Add: surplus and loss	xxx		Add: Purchase	Xxx	
Add: entrance fee (Capitalized)			Less: Depreciation	(xxx)	Xxx
Add: Capital Expenditure	xxx		Other fixed asset	xxx	
From special fund	xxx		Add: Purchase	xxx	
Add: other (capitalized)			Less: Depreciation	(xxx)	xxx
			Sport Equipment	xxx	
			Add: Purchase	xxx	
	xxx		Less: Depreciation	(xxx)	
Special fund	xxx		Furniture	xxx	
Un income from			Add: Purchase	xxx	
Special fund	(xxx)		Less: Depreciation	(xxx)	Xxx
Less: expenses		Xxx	Investment		Xxx
Advance subscription		Xxx	Sport materials		Xxx
Outstanding		Xxx	Outstanding subscription		Xxx
Other advance income/receipts		Xxx	Accrual interest rent etc		Xxx
Bank overdraft		Xxx	Prepaid expenses		Xxx
Greditors		xxx	Cash at bank		Xxx
			Cash in hand		xxx
		xxx			xxx

All co-operatives have been prepared final account to find out the profitability ratio and level of financial position of co-operative organization.

2.12 Meaning of Depreciation Accounting

Depreciation accounting is a system of accounting which aims to distribute the cost or other basic value of tangible capital assets less salvage (if any), over the estimated useful life of the unit (which may be a group of assets) in a systematic

and rational manner. It is a process of allocation, not of valuation. Thus the main objective of depreciation accounting is to absorb the cost of using the asset to different accounting periods in such a way so that profit and loss account may give true figure of profit or loss made by the business.

Basic Factors

The following basic factors are to be taken into consideration while calculating the depreciation expenses.

- (i) The total cost of the asset including all freight, insurance, carriage in, wages and other installation charges.
- (ii) The sacral value at the end of its life.
- (iii) Estimated number of years of its usefulness.

2.12.1 Method of Depreciation

Different method of calculating provision for depreciation are mainly accounting customs which may be used by different concerns taking into consideration their individual characteristics.

The following two methods are acceptable for tax purposes according to the Nepal income tax Act 1974 (2031 B.S) and rules of concerned act, 1982 (2039 B.S.) rule 10 (3).

- A) Fixed installment or straight line method
- B) Diminishing balance method

2.12.2 Fixed installment or straight line method

Under this method a fixed percentage of the original value of the asset is written off every year so as to reduce the asset account to nil or to its scrap value at the end of the estimated life of the asset. To ascertain the annual charge under this method all that is necessary is to divide the original value of the assets (minus its residual value, if any) by the number of years of its estimated life.

The formula is:

$$\text{Depreciation Rate (if not given)} = \frac{1}{n} \times 100\%$$

(where n = useful life of asset)

$$\text{Annual Depreciation (Amount)} = \frac{\text{Cost price of asset} - \text{Scrap value}}{\text{Estimated life of asset}}$$

The amount of depreciation charged during each period according to this method is constant or at a uniform rate.

2.12.3 Diminishing Balance or written down value method

Under this method depreciation is calculated at a certain percentage each year on the balance of the asset which is brought forward from the previous year. The amount of depreciation charged in each year is not fixed but it goes on decreasing gradually as the beginning balance of the asset in each year will reduce. The charges in initial year are higher than those in the later years. The rate used in this method is twice as great (double) that used under the straight line method so that it is also called double-declining balance method. Scrap value is not deduced from the cost in determining the annual depreciation under this method. However, the asset may not be depreciated below its reasonable scrap value.

The Formula is:

Depreciation Rate (if not given) - $2 (1/n)$

Where, n = useful life of asset

Annual depreciation amount = Remaining balance amount of asset × Depr. rate.

Asset Disposal Account

Sometimes a part of asset is disposed off or discarded, then it is better to open a asset disposal account the book value less depreciation of the discarded portion should be debited to this account and credited to the asset account. The following entries are passed in sale of an asset.

- A) Asset Disposal a/c - Dr
 To Asset a/c {with original cost of asset}
- B) Bank a/c - Dr
 To Asset Disposal a/c {with amount realized form the sale of asset}
- C) Provision for Depreciation a/c - Dr
 To Asset Disposal a/c {with accumulated depreciation on the asset sold}

D) Profit and loss a/c - Dr
To asset disposal a/c {for transfer of loosen sale of asset}
or

Reverse entry in case there in profit.

All co-operative maintain the record of depreciation. Almost all co-operative charge dep. under straight line method and diminishing balance method.

2.13 Inventory Valuation

Any stock that a firm keeps to meet its future requirements of production and sales is called "inventory". Merchandise inventory is the stock of goods held for resale. The basic reason for helping inventory is to keep up the production activities unhampered.

The principle type of inventories are:

- (i) Raw materials and supplies.
- (ii) Good in process (or work-in-progress)
- (iii) Finished goods.

The balance sheet of enterprises must show true and fair financial position of the concern for this purpose assets including inventory should be properly valued to exhibit a true and fair view. True profit or loss can not be calculated unless assets are properly valued. Thus valuation of inventory is an importance task on accounting procedure.

American production and inventory control society (U.S.A.) has summarized the relationship between the measurement of income and inventory valuation as follows:

"A major objective of accounting for inventories is the proper determination of income through the process of matching appropriate costs against revenues."

2.13.1 Methods Taking Inventories

There are two methods of ascertaining the value stock. They are:

- A) Periodic inventory method
- B) Perpetual inventory method

2.13.1.1 Periodic Inventory Method : Under this method of taking inventories, value of stock is determined by physical counting of the stock on the accounting date or the date of preparation of the final accounts. This method of ascertaining the value of stock at the end of the year is also known as annual stock taking. This method is based in a physical cont to determine the ending inventory. It is a simple and economical method of stock tang and can be adopted in small industries.

2.13.1.2 Perpetual Inventory Method : Perpetual inventory is defined as "a system of records maintained by the controlling department which reflects the physical movements of stocks and their current balance." Under this method stores ledger is maintained to keep a record of the balance in the stores similarly work-in progress ledger is maintained to give the value of its on hand and finished goods ledger is maintained to know the value of finished goods on band. Thus this system provides a running record or inventories on band at any time. To ensure the accuracy of perpetual inventory records, physical verification of the inventory is made by a program of continuous stock taking.

Finding the Cost of the Inventory (Method of Valuation of Inventory)

After the number of units is known, the next step is to determine the cost of those units, A problem may arise if identical units have been purchased at different prices at different times. What cost should be assigned to these units?

There are four possible methods of determining the value of the units.

They are:

1. Specific identification
2. Weighted average
3. First -in-first-out (fifo)
4. Last-in-first-out (lifo)

2.14 The accounting code no used in Co-operative organization are:

Co-operative are established under corporate act and in order to make uniformity in the financial transaction there is provision of some accounting code no. It make easy to check accounting system and make able to easily at the time of transfer of accountant. For that these is a provision of accounting code no from 10 to 170. the following details more clarify about different accounting code no.

10: Share capital: Share capital is the amount collected from member by selling the share to them. That share capital may transfer by member to their family member. Share capital is the liabilities so when the selling the share capital liability will increase and will be credited and while returning share capital it will be debited.

20. Fund: In it capital funds, provision funds, depreciation fund, loan fund and other fund are managed. In other fund share premium, provision capital, education development, baddeb, loss recover, women development and farmer bonus are kept:

20.1 Provision Fund: In this fund Co-operative organization use to make provision i.e.

20.1.1 General Provision Fund: In this fund Provision is made for general purpose.

20.1.2 Capital Provision Fund: In this fund 25% of net saving is made.

20.2 Other funds: Specially this funds is established to distribute share bonus to the shareholders out of this funds provided educational scholarship, sports development.

20.3 Loan risk provision funds: In this fund amount is made provision for expired loan for that: Date expire by more than 1 year = 100%

Date expire by 6 month to 1 year = 50%

Date expire by upto 6 month = 25%

For non- expired loan + 1%

This provision is made for deducting the risk of loss due to bad debt in future.

20.3: Non-distributed net saving: for special economy activities this provision is made from the net saving of respective year.

30: Member saving: According to corporative act 2048. The provision is made for to established saving funds of member. In this section account is maintained for each member.

40:Loan taking: In this heading the loan taken by corporative from member banks and other parties is made record. According to the objectives loan it may be classified in agriculture, industry, trade etc.

50: Grant related: The grant provided by the government of Nepal in terms of store construction, building construction, vechale purchase, etc. to the Co-operative is being recorded in this section.

60. Payment payable: The amount payable to firm a industry for credit purchase advanced taken from other, employees provident fund.

70. Other payable: In this heading those transaction except which are recorded in heading 60 are recorded.

80. Cash: In this heading account is made for cash transaction cash balance as well as petly cash fund both are recorded.

90 Bank: The transaction made by cooperative through bank are being recorded in it. only current account are open in this section but saving account is not considered open the current account in two or more then two bank their can further classify as below:

90.1 Rastriya Banijya bank:

90.2 Agriculture development bank:

90.3 Bank of Kathmandu Ltd.:

90.4 Nepal Bank Limited.:

100: Investment: The stock share purchase by corporative and the amount deposited by corporative and the amount deposited by corporative in the bank and saving and fixed deposit account.

110. Loan provided to the member: The loan provided by the corporative to the member is being recorded in this section. the loan have to divided into following i.e. Agriculture loan, Industry wan, service loan and trade loan. In another way loan can further classify as: Date expired and date none expired.

120: Record of receivable: In it the transaction related with credit sales and amount collected, Advanced given and cleared, outstanding interest in investment, the shortage of weight and value in the transaction made by employee. The amount of misuse by employee, the deposit amount made by corporative in other organization while getting services i.e. telecom, electricity etc.

130. Assets: The record of following assets is made in it they are furniture vehicle, land and building.

140. Other assets: Except the assets falls under section 130, other assets are recorded in this section such as: losing stock, Net loss, computer, Telephone, Fax, Photocopy, sign board {except flex print}, pump lets, Gas slender, refuel, printer, Radio, T.V., Noticed board, battery, etc.

Goods purchase and expenses account

150.1 goods purchase: The goods purchase by corporative for resale purpose is recorded in this sector. In it which method of inventory {life/fifo} is adopted wshpuld considered.

150.2 Carriage: The cost incurred for the carriage of goods is recorded in it. The cost of carriage is added in the price of good so it is separately recorded.

150.3 Salary and T.A.D.A: The salary, allowance, overtime pay paid to employee is recorded in it.

150.4 Rent paid for house and warehouse: The paid for house to run business and to store inventory is recorded in it. The cost paid by corporative to provide housing facility employee also recorded in it. If these is provision is tax in rent that have deduct and paid to land lord.

150.5: Purchase of office supplies: The office supplies purchase by corporative like: paper, ink pen, stamp, printing expenses, postal expenses, battery, carpet, towel, doormat, candle etc.

150.6 Repair and maintenance expenses: The expenses incurred fir the repair and maintenance of the assets is recorded in this section.

150.7 Current interest expenses: The interest payable to saving made by member to loan taken by corporative is recorded in it.

150.8 Miscellaneous expenses: The following expenses are recorded in it; they are expenses for general meeting, Audit fee, tea with snakes, (Tiffin exps) training expenses, provision made for risky loan, loss incurred in assets, the amount of loss incurred in sold goods.

150.9 Depreciation: The depreciation should be charge in the assets. Rate of depreciation is according to the provision made by law. The rate of depreciation of building is 2.5-6%, vehicle, 15% other 20% and if life is given then should be charged accordingly.

150.10 Fuel: the amount paid for fuel like petrol, diesel, kerosene, Gas, to run office, factory, vehicle etc. are recorded in it. Fuel expenses paid for factory is direct expenses and paid for office is indirect expenses.

15.11 Meeting allowance: The allowance is paid for the meeting of board of director. Account committee, saving committee, price determination committee is recorded in it.

150.12 Production expenses: The cost incurred for processing and production of goods is recorded in this section.

150.13: Trade discount: The discount provided for whole sale purchase is recorded in this section.

150.14 Telephone, electricity and drinking water charges: The amount paid by corporative for telephone charges, electricity charges, drinking water charges are recorded in it.

150.15 Employee dress: The dress provided by corporative to employee and that cost is recorded in it.

150.16 Examination conducting expenses: The amount paid for conducting different exam is recorded in this section.

150.17 Animal feeding and medicine: For the farming animal and poultry different cost incurred for feeding and medicine that is recorded in it.

150.18 Insurance payment: The insurance charges paid by corporative to insurance company for the insurance of property of corporative is recorded in it.

Sales and income account:

160.1 Goods sold account: The amount get for selling goods and services is recorded in it.

160.2 Interest receives in loan: The amount of interest taken from providing to member Rs other loan is recorded in it.

160.3 Interest in investment: The bonus takes in investing share, interest in debenture, interest in saving are recorded in it.

160.4 Miscellaneous Income: The amount taken in business transaction is recorded in it.

160.5 Trade discount receive: The discount and commission receive by corporative for purchasing goods is recorded in it.

160.6 Administrative Grant receive: The grant receive from donor institution is recorded in it.

160.7 Admission and monthly fee: The amount get by corporative from school, training program.

160.8 Exam free and library charges: The amount taken corporative educational institution for exam fee and library charges is

160.9 Hostel charges: The charge taken corporative school for hostel facility is recorded in this section.

160.1 T.S. commission: The amount taken by daily corporative for collecting and selling milk get commission for carriage and supplies, that is recorded in it.

160.11 Insurance charge receive: The amount taken insurance from member is recorded in it.

170: Income statement and allocation of net saving:

170.1 Trading account: Detail explain is given in next section .

2.15 The major four Account maintained by Co-operative are:

2.15.1 Assets Register

Date	Voucher No.	Particular	Cash			Bank			Investment			Fixed Assets		
			Dr.	Cr.	Balance	Dr.	Cr.	Balance	Dr.	Cr.	Balance	Dr.	Cr.	Balance

2.15.2 Capital and Liabilities

Date	Voucher No.	Particular	Share			Provision Fund			Miscellaneous Fund			Deposit			Loan			Outstanding Payment.		
			Dr.	Cr.	Balance	Dr.	Cr.	Balance	Dr.	Cr.	Balance	Dr.	Cr.	Balance	Dr.	Cr.	Balance	Dr.	Cr.	Balance

2.15.3 Income Register

Date	Voucher No.	Particulars	Interest from Investment	Int. From Bank A/C	Application Fee	Membership Renewal	Total

2.15.4 Expenditure Register

Date	Voucher No.	Particular	Salary	Rant	Supplies	Int. on won.	Meeting Expenses	General Meeting	Interest Discount	Total

2.16 Review of Related Thesis

Sufficient researchers in the area of accounting standards in Nepalese corporate companies have not been made. A few researchers have been conducted in the area of accounting practice in Nepal. As accounting is the foundation to accounting standards, researcher made on these areas have been taken in to consideration for the sake of review to examine what and how accounting practice is done in Nepal.

An attempt has made here to review some of researchers, which have been conducted in the periphery of accounting in the context of Nepal.

1. **Sharma Gokul Raj** had done research "Financial Analysis of Samjhana Multiple Cooperative Society Ltd. (SMCL) and Naba Kshitiz Cooperative Society Ltd. (NBCSL) (1997).

2. **Adhikari Ramji Prasad** has conducted research on "Accounting Practices of Small and Cottage Industries" in Nawalparasi and Chitwan. He has studied about the accounting tools used in practice. He has compared in sector wise as well as non-sector wise. The research has based on primary data. The study observes on Journal, Ledger, Trial balance, Subsidiary book, Final Account (1998). The major finding of this thesis are :
 -) Many small businesses however not always use the complete books keeping cycle and use a single entry book keeping system instead of the double entry system of journals and ledgers.
 -) They use a cash register because most of their transaction are recorded as cash basis, this means, they don't record the income until the cash is received expenses don't record until the actual cash pay out.
 -) Many small business firms prefer less detailed records, though less accurate, to save the expenses of a double entry system.
 -) Many small businesses don't prepare profit and loss account and balance sheet because they record of incomplete less detailed information.

3. **Sharma, Sagar** had conducted a research in the topic 'Management Accounting Practices in the Listed Companies of Nepal.' It is a survey study concentrated on examining the present practice of management accounting tools in the listed companies of Nepal and identifying the area where management accounting tools could be applied to strengthen the company. The research was concerned with management accounting. It did not consider the overall accounting practice of enterprise. All the data of the research were obtained through primary sources (2002).

4. **Neupane, B.P.** in his research 'Compliance of IASs in Nepal' has tried to find whether Nepalese corporate Companies with their accounting practices with IASs (2003). He aimed :
 -) To discuss the framework of IAS.
 -) To find out the methods of accounting followed by different institutions.
 -) To compare the requirements of IAS with the accounting system followed by these institutions.
 -) To make recommendations regarding IAS with the accounting system followed by these institutions.

5. **Bhattarai Ishowari Prasad** in a dissertation entitled "The Corporate Financial Reporting in Nepal : The effect of change in price level" attempted to examine the current status of price level change accounting practices in Nepal and to point out the major problems of practicing the price level change accounting in Nepal with their reminds. The study was conducted on the basis of survey research. The opinions of experts and partitions had been taken. The study focused on the corporate financial reporting practice in Nepal (2004)

6. **Pandey Devendra Bahadur** has conducted research on "Accounting Practices on Small Scale Industries in Nepal." With reference to Chitwan district (2008). The major finding of this thesis are :
 -) Most of the owner likes to keep the accounts themselves due to security.
 -) Very few firms 30% firm audit their accounts.

-) All entrepreneurs are literature.
-) Management of the small business mostly depends on the family member's decision some common characteristics observed in small business management.
 - Decisions are delayed without understanding problems.
 - Most of the decisions are taken by owner based on their hunch and likings.
 - No proper planning is setup, due to little knowledge of systematic accounting.
 - Due to salary structures and less facilities, employees are less motivated.
 - Good communications are not found among the firms environment.
-) It is observed that owners are not interested to prepare systematic accounts due to Compton of the tax officers.
-) Lack of awareness, why should we pay tax to the government.

2.17 Research Gap

Co-operative is one of the major sectors for the economic development of the country. The present government has also given priority on the development of cooperative sector. In order to develop this sector, Co-operative should be well managed. The development of cooperative has been started from Chitwan in 2013 B.S. as a first cooperative in Nepal. I didn't find any early study about the accounting system being practiced in cooperative organization in Chitwan district (Nepal too) the study lack review of previous related studies in this area. Despite this prefer to choose this topic for research.

In the advent of Nepal's entrance into WTO, it has been extremely necessary for Nepalese cooperatives to stand in parity with international accounting practices. The study is expected to complement this need. The study has also made an effort to raise general awareness among Nepalese cooperatives, explore the current issue and contribute to some extent its practice in Nepal.

CHAPTER - THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research is the prime source of knowledge generation, which opens new frontiers of knowledge and provides broader and deeper understanding of phenomena (Van Dalen, 1973, p. 2).

Research methodology is a way to solve the research problem. It is the science of studying how research is done scientifically. Human nature is always curious to learn, study and investigate phenomenon raising the question like - why, when, how, what etc. Research may be done through questionnaire, personal investigation etc.

In other word, research is common parlance to search for knowledge. Advance learner dictionary define the research "a careful investigation or inquiry specially through search for new facts in any branch of knowledge". It is really a method of critical thinking by defining and re-defining problem, formulating hypothesis or suggested solution collecting, organizing and evaluation data, making deduction and making conclusion to determine whether they fit the formulated hypothesis.

3.2 Research Design

The formidable problems that follows the task of defining the research problem is the preparation of the design of research project, popularly known as the "Research Methodology". Decision regarding what, where, when, how much, by what mean concerning an inquiry or a research study constitute a research design. "A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy procedure" - **Claire Selltize and Other.**

It is the overall plan of a proposed study to specify the appropriate research methods and produces for obtaining specify finding validity, accuracy and economically as for as possible. As per the nature of study, survey research design will be followed with descriptive and analytical approach.

3.3 Population and Sample

The total number of registered cooperative organization in Nepal are considered as the total population of this study. But to make simplicity of the study samples will be collected form Chitwan district only by applying judgmental sampling method.

3.4 Sources of Data

Basically, the data use in this study will be colleted from primary sources through observation, interview, questionnaire etc. Besides that, some secondary sources also will be required.

3.5 Sampling Method

Sampling is simply the process of learning about population on the basis of a sample drawn from it. It is the selection of some part of an aggregate or totality on the basis of which as judgment or inference about the aggregate or totality is made under this method a small group of the universe is taken as the representative of the whole man and the results are drawn. Different types of sampling technique are used for drawing the sample plan. Among them stratified sampling method has been chosen in this study.

Stratified sampling assumes that the composition of the total population is known. Generally when the population is heterogeneous with respect to variable or characteristics under study then the techniques of stratified sampling is used to obtain more sufficient and accurate result. Under this method, total population will be divided into various homogenous groups in such a way that representative sample could be chosen.

3.6 Selection of Sample District

In this study Chitwan district is selected as sample district.

3.6.1 Selection of Sample Organization

Among the total number of cooperative organization established in Chitwan will be divided into different categories according their nature and will be chosen for the study.

3.7 Method of Data Collection

This study will use primary sources of data. Personal contact, field survey, questionnaire, observation will be the main source of primary data. However, questionnaire and observation will be use in this study. One set of questionnaire will be prepared and distributed to the (represented of cooperative) secretary of cooperative to collect information. The researcher personally collect the questionnaire distributed by visiting entire cooperative.

3.7.1 Data Analysis Tool

The data obtained from the questionnaire and observation were carefully edited then coded in the standard form.

3.7.2 Formulation and Test of Hypothesis

(A) Chi-Square Test

Under the test of goodness of fit we try to find out how far the observed values of a sample proportion of a given phenomenon are significant different from the expected values. This is done by comparing the desired values of χ^2 from the formula easier with the table values of χ^2 for the required degree of freedom depending on the number of observation and level of 0.05 (normally) unless otherwise stated.

(i) **Formulation of the Hypothesis** : General procedure of testing hypothesis, which will be applied in this study, is as follows :

a. **Formulation of the Hypothesis**

) **Null hypothesis** : A statistical hypothesis which is stated for the purpose of possible acceptance, is called a null hypothesis and is denoted by H_0 . The null hypothesis formulated in this study are :

- H_0 : Account keeping system is not dependent of academic background of the book keeper.
- H_0 : There is no significant difference of accounting pattern between account trainees and non-trainees.

) **Alternative hypothesis** : Any hypothesis, which is complementary to the null hypothesis (H_0), is called an alternative hypothesis and is denoted by H_1 .

- H_1 : There is significant difference of accounting pattern between account trainees and non-trainees.
- H_1 : Account keeping is dependent of academic background of the book keeper.

b. **Computing the Test Statistic** : Calculate an appropriate test, which is based on an appropriate probability distribution for testing whether the null hypothesis should be accepted or rejected.

χ^2 will be calculated by using this formula :

$$\chi^2 = \sum \frac{(O - E)^2}{E}$$

Where,

O = Observed frequencies

E = Expected frequencies

The calculate the expected frequencies (E) the following equation will be used :

$$E = \frac{RT \times CT}{N}$$

Where,

RT = The row total for the row containing the cell

CT = The column total for the column containing the cell

N = The total number of observation

- c. **Decision Rule :** Decision will be made by comparing the calculated value of χ^2 with tabulated values of χ^2 .

If calculated χ^2 TM the tabulated χ^2 it is not significant and H_0 will be accepted. Otherwise, it will be rejected.

CHAPTER - FOUR

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

Presentation and analysis of data is an important stage of the research study. The collected raw data transcribed into mathematical and understanding form. The analysis of data consist of organizing data by tabulation and then placing that in presentation form by using figure and table. Basically, this chapters interpret the finding related with accounting aspect.

4.2 Observe Data

4.2.1 The Academic Background of the Accountant

Table No. 4.1

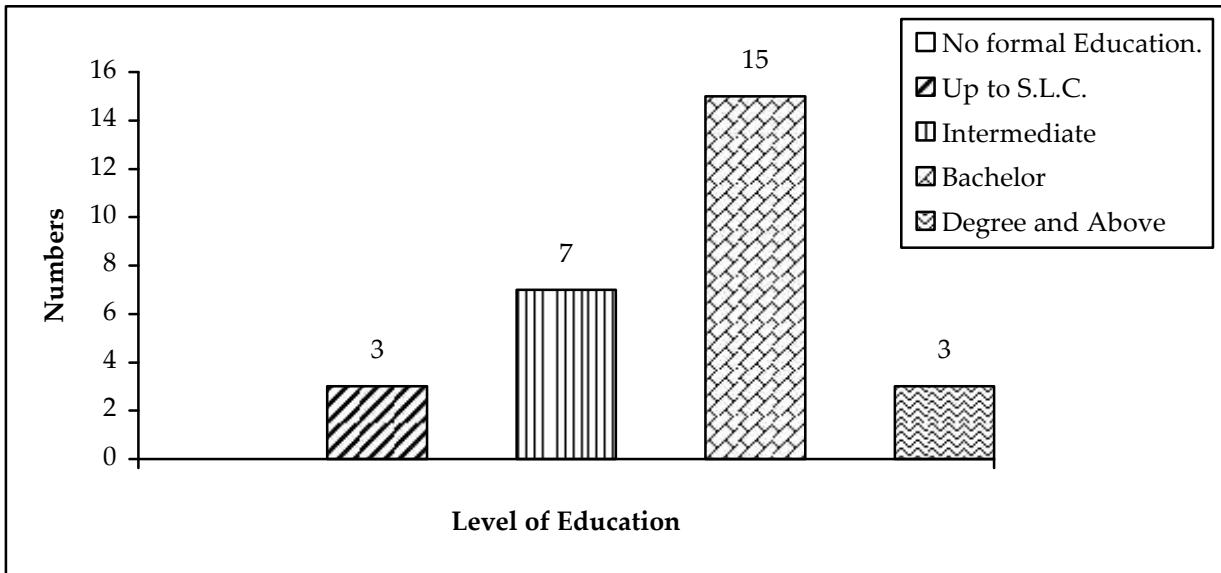
The Academic Background of the Accountant

Level of Education	Number	Percentage
No formal Education.		
Up to S.L.C.	3	10.71
Intermediate	7	25
Bachelor	15	53.57
Degree and Above	3	10.71
Total	28	100

Source : Field Survey, 2008

The above table shows the number of book-keeper and their qualification. The majority of book-keeper i.e. 53.37% are bachelor level and there is no one have no formal education.

Figure No. 4.1
The Academic Background of the Accountant



Source : Table No. 4.1

4.2.2 Book Keeping Personnel

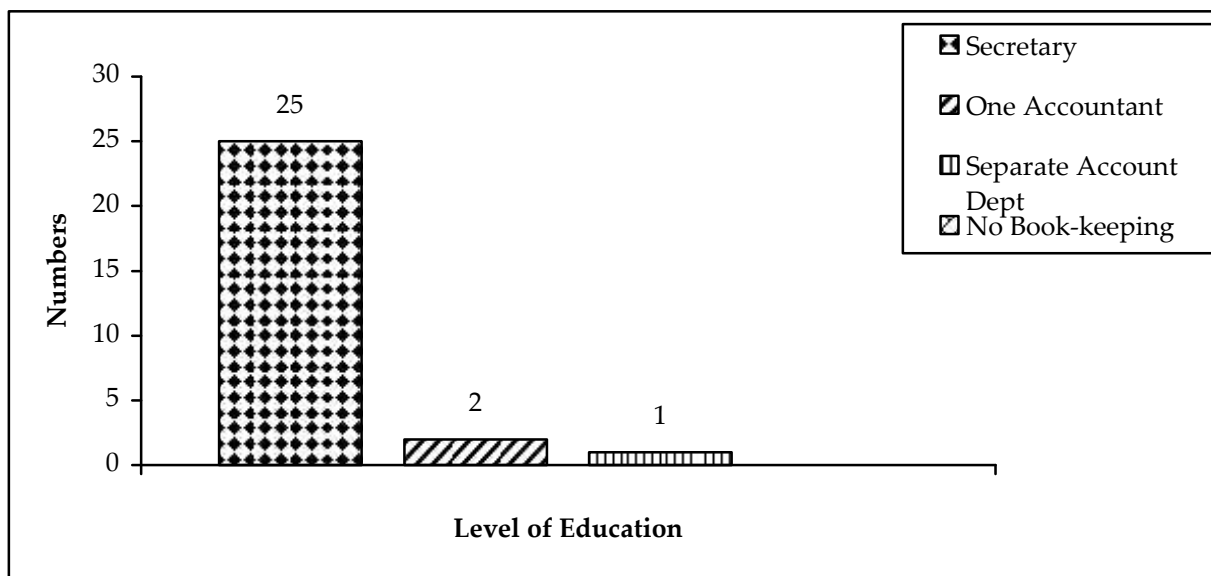
Table No. 4.2
Book Keeping Personnel

Type	No.	Percentage
Secretary	25	89.28
One Accountant	2	7.14
Separate Account Dept	1	3.57
No Book-keeping		
Total	28	100

Source : Field Survey, 2008

In the major number of co-operative secretary use to maintain book-keeping.

Figure No. 4.2
Book Keeping Personnel



Source : Table No. 4.2

4.2.3 Accounting Record Maintained

Table No. 4.3
Accounting Record Maintained

Particulars	No.	Percentage
Yes	28	100
No	-	-
Total	28	100

Source : Field Survey, 2008

It is found that all co-operative maintained accounting record.

4.2.4 System of Accounting

Table No. 4.4
System of Accounting

Particular	No.	Percentage
Single Entry book-keeping	-	-
Double Entry book-keeping	28	100
Total	28	100

Source : Field Survey, 2008

According to sample study it found that, all the co-operative organization under double entry book-keeping system.

4.2.5 Mode of Purchase of Fixed Assets

Table No. 4.5
Mode of Purchase of Fixed Assets

Particular	No.	Percentage
In Cash	28	100
Under Hire purchase	-	-
Total	28	100

Source : Field Survey, 2008

All co-operative has been purchase assets under cash basis and there is no system of trying the assets.

4.2.6 System of Hiring Labours

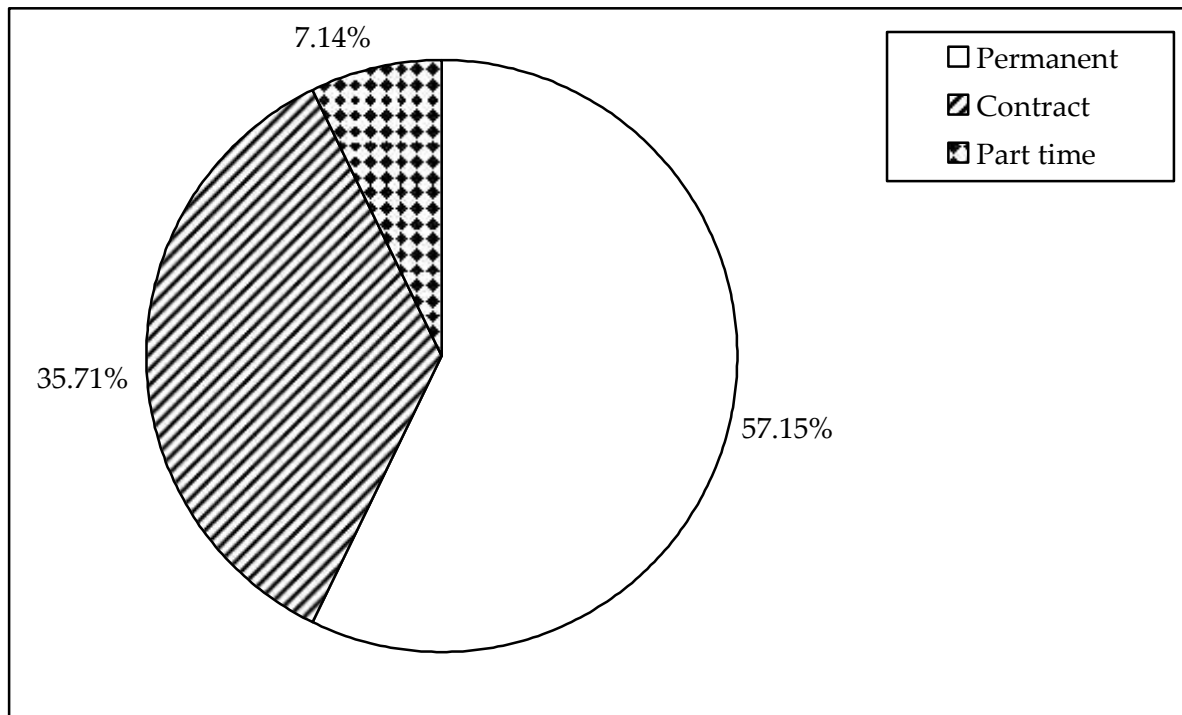
Table No. 4.6
System of Hiring Labours

Particular	No.	Percentage
Permanent	16	57.14
Contract	10	35.71
Part time	2	7.14
Total	28	100

Source : Field Survey, 2008

For hiring employee different co-operative take different policy. Majorly permanent system is being followed.

Figure No. 4.3
System of Hiring Labours



Source : Table No. 4.6

4.2.7 Application of the Method of Segregating Cost in to fixed, Variable and Semi-Variable.

Table No. 4.7

Application of Method of Segregation of Cost

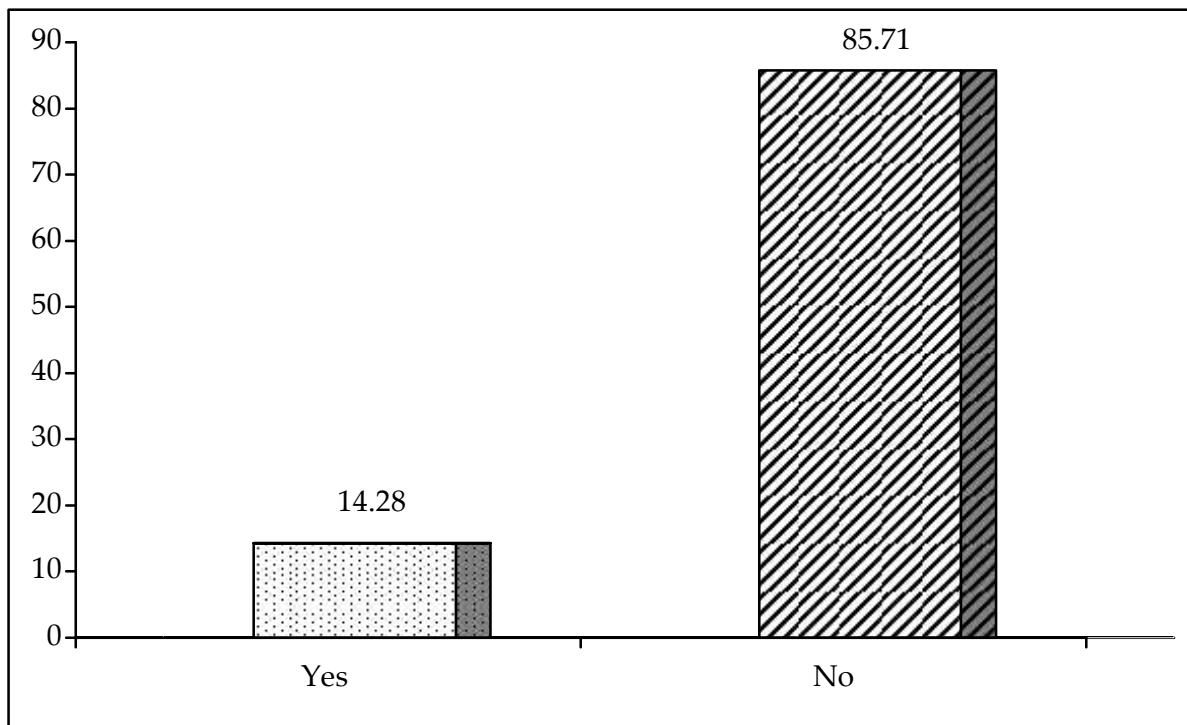
Particular	No.	Percentage
Yes	4	14.28
No	24	85.71
Total	28	100

Source : Field Survey, 2008

Most of the co-operative don't segregate the cost in fixed and variable. They only record the cost incurred in practice. Generally most of the book-keeper have knowledge about segregation of cost but they don't apply in practice.

Figure No. 4.4

Application of Method of Segregation of Cost



Source : Table No. 4.7

4.2.8 Nature of Maintaining Final Account

Table No. 4.8

Nature of Maintaining Final Account

Particular	No.	Percentage
1. Four account - Assets Register - Capital and Liabilities Register - Income Register - Expenditure Register	28	100
2. Periodical trial balance profit and loss a/c with or without trial balance.	-	-
3. No proper Account	-	-
Total	28	100

Source : Field Survey, 2008

All the co-operative are maintained four Account provision made by co-operative act i.e. - Assets Register, Capital and Liabilities Register, Income Register and Expenditure Register

4.2.9 Record of Charging of Depreciation

Table No. 4.9

Record Charging of Depreciation

Particular	No.	Percentage
Yes	28	100
No	-	-
Total	28	100

Source : Field Survey, 2008

All the co-operatives charge the depreciation in the assets of the co-operative organization.

4.2.10 Method of Charging Depreciation

Table No. 4.10

Method of Charging Depreciation

Particular	No.	Percentage
Fixed	-	-
Diminishing	28	100
Total	28	100

Source : Field Survey, 2008

All the co-operative use to charge depreciation under diminishing balance method.

4.2.11 Application of Cost Reduction Technique

Table No. 4.11

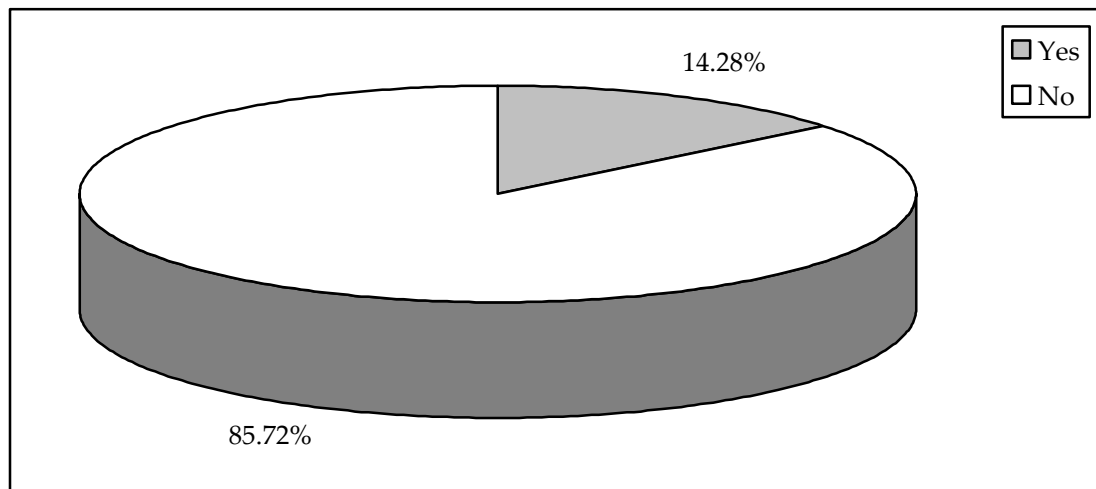
Application of Cost Reduction Technique

Particular	No.	Percentage
Yes	4	14.28
No	24	85.7
Total	28	100

Source : Field Survey, 2008

Figure No. 4.5

Application of Cost Reduction Technique



Source : Table No. 4.11

4.2.12 Feeling of Satisfaction with Existing Accounting System

Table No. 4.12

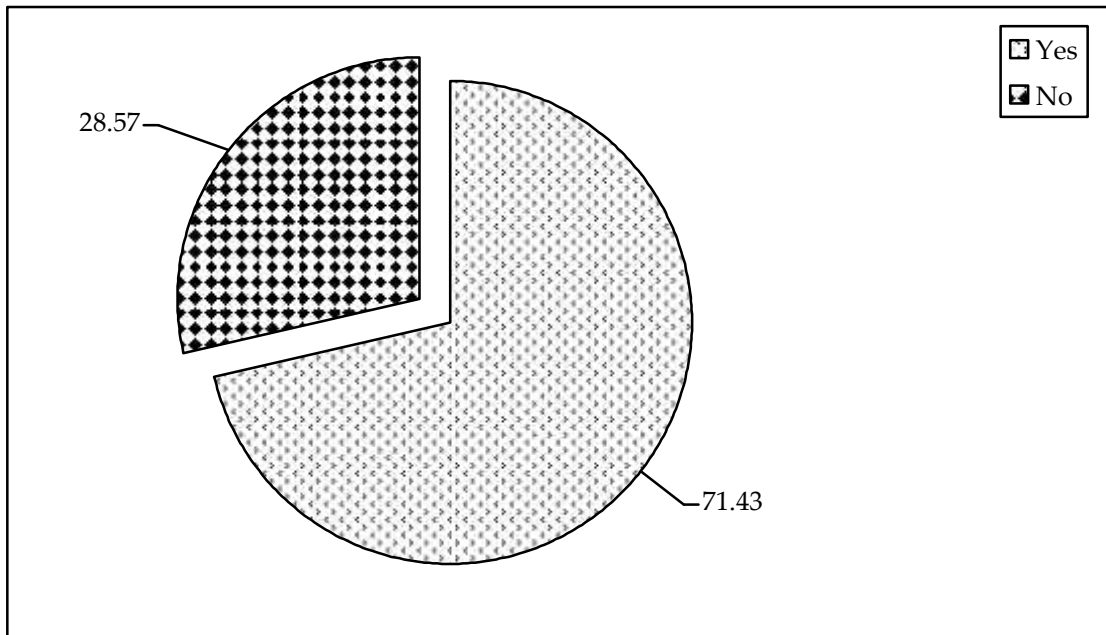
Feeling of Satisfaction with Existing Accounting System

Particular	No.	Percentage
Yes	20	71.43
No	-	28.57
Partly	8	
Total	28	100

Source : Field Survey, 2008

Figure No. 4.6

Feeling of Satisfaction with Existing Accounting System



Source : Table No. 4.12

Most of the co-operative are satisfied with present accounting system which they use to maintain.

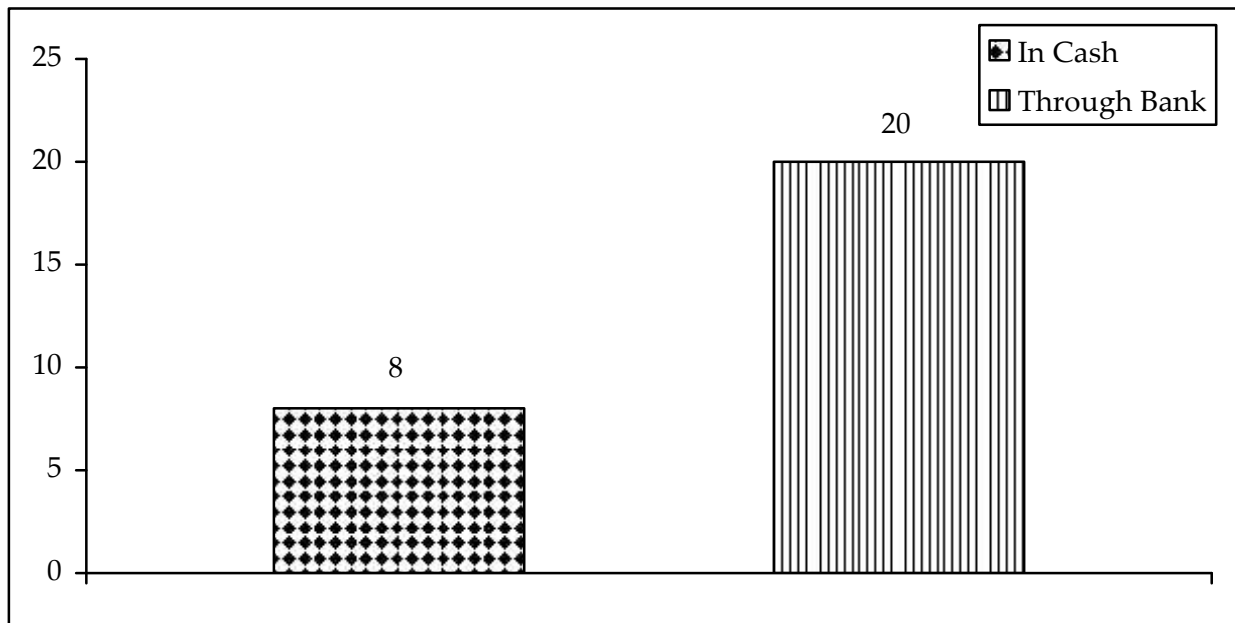
4.2.13 Mode of Economic Transaction

Table No. 4.13
Mode of Economic Transaction

Particular	No.	Percentage
In Cash	8	28.57
Through Bank	20	71.43
Total	28	100

Source : Field Survey, 2008

Figure No. 4.7
Mode of Economic Transaction



Source : Table No. 4.13

Most of the co-operative do their economic transaction through banks which is 71.43% of sample size.

4.2.14 Sources of Finance

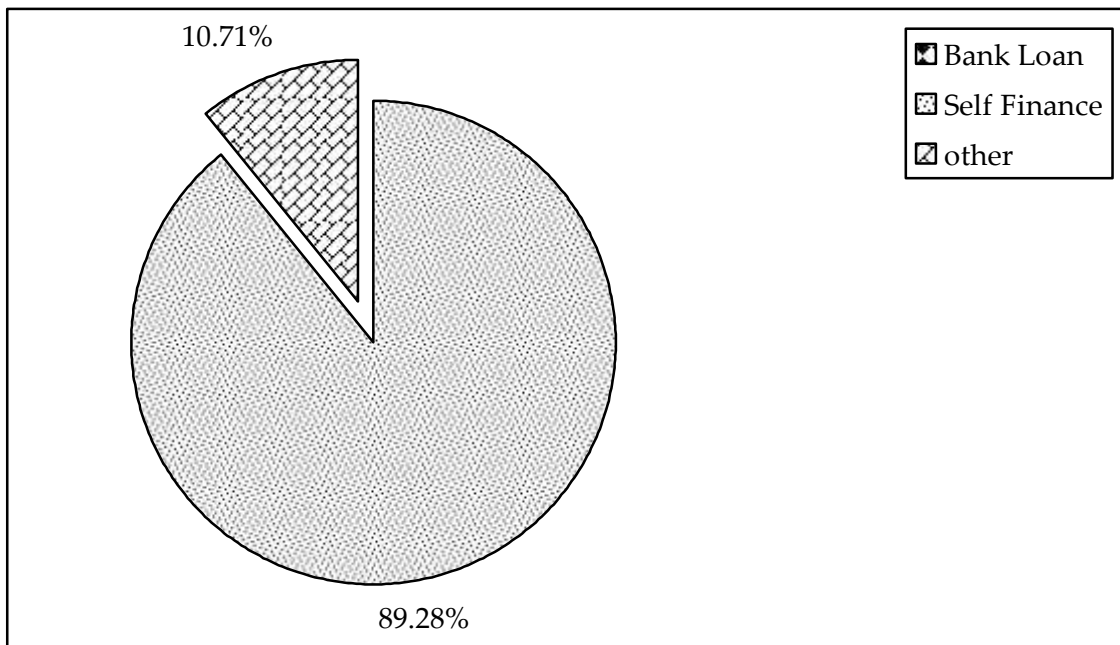
Table No. 4.14
Sources of Finance

Particular	No.	%
Bank Loan	-	-
Self Finance	25	89.28
Other	3	10.71
Total	28	100

Source : Field Survey, 2008

The major sources of finance of co-operatives organization is equity capital.

Figure No. 4.8
Sources of Finance



Source : Table No. 4.14

4.2.15 Preparation of Budget

Table No. 4.15
Preparation of Budget

Particular	No.	Percentage
Yes	28	100
No	-	-
Total	28	100

Source : Field Survey, 2008

All the co-operatives organization use to prepare the budget.

4.2.16 Auditing

Table No. 4.16
Auditing

Particular	No.	Percentage
Yes	28	100
No	-	-
Total	28	100

Source : Field Survey, 2008

All the co-operatives audited the account by authorized auditor. All the co-operative had provided the audit report to observe during the period of research study.

4.2.17 Effectiveness of Account of System after Training

Table No. 4.17
Effectiveness of Account of System after Training

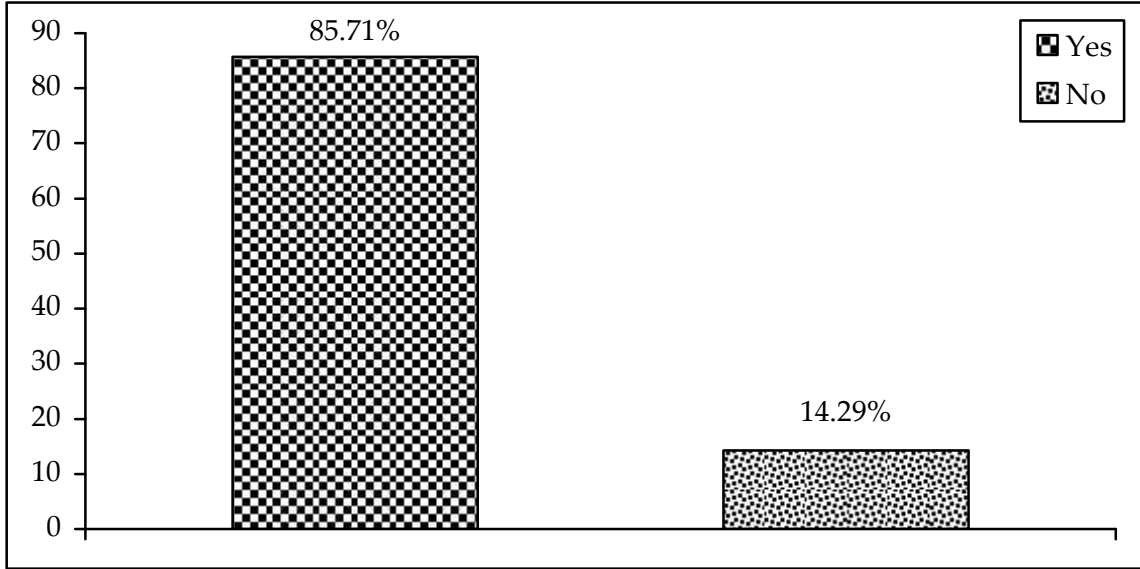
Particular	No.	Percentage
Yes	24	85.71
No	4	14.29
Total	28	100

Source : Field Survey, 2008

According to above data it is found that training is effective for the improvement in the accounting system.

Figure No. 4.9

Effectiveness of Account of System after Training



Source : Table No. 4.17

4.2.18 Usefulness of Accounting Training

Table No. 4.18

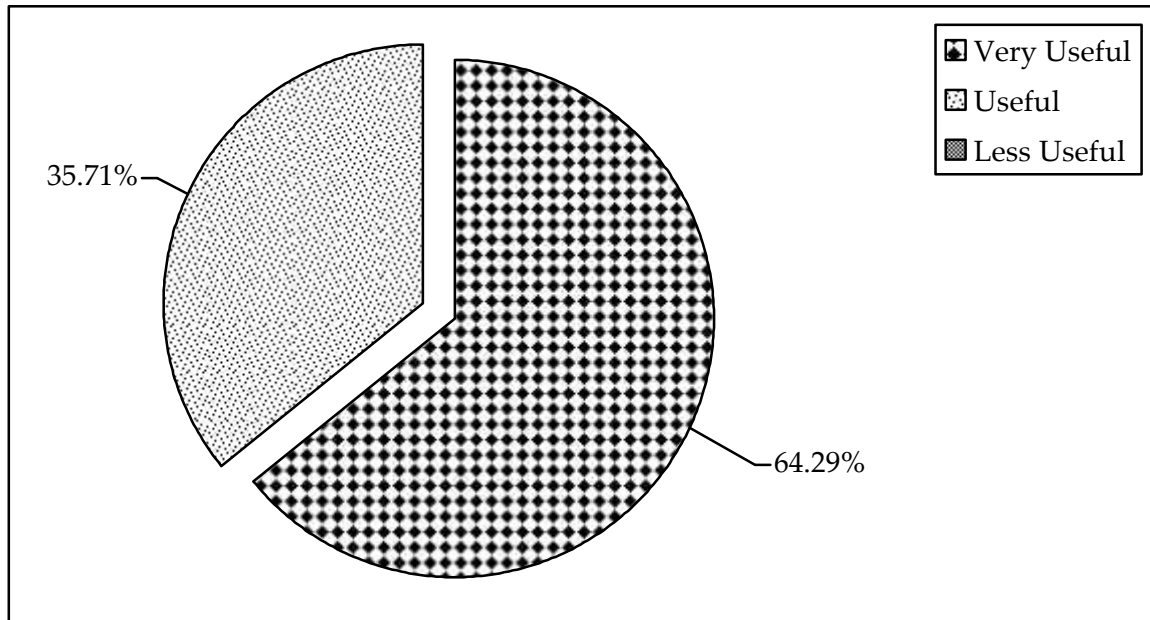
Usefulness of Accounting Training

Particular	No.	Percentage
Very Useful	18	64.29
Useful	10	35.71
Less useful	-	-
Total	28	100

Source : Field Survey, 2008

Book-keepers feel the very usefulness of accounting training. At the time of responding, they told that they are also agree to bear the cost of training them selves too. Hence it is to that training is very much essential.

Figure No. 4.10
Usefulness of Accounting Training



Source : Table No. 4.18

4.2.19 Mode of Maintaining Accounts

Table No. 4.19
Mode of Maintaining Accounts

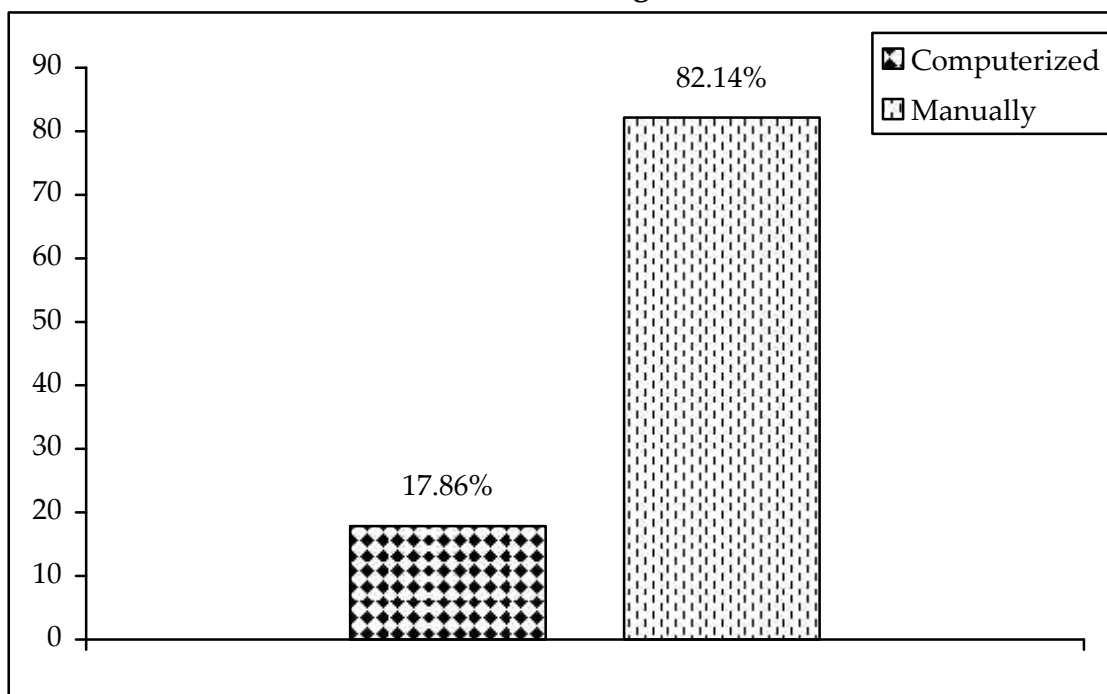
Type	No.	Percentage
Computerized	5	17.86
Manually	23	82.14
Total	28	100

Source : Field Survey, 2008

Basically, Co-operative related with Agriculture, Farming and Mahila bachat tatha Ride Shakari Sastha maintained book of account manually. But, the financial Co-operative use to maintain account manually as well as in computerized form.

Figure No. 4.11

Mode of Maintaining Accounts



Source : Table No. 4.19

4.2.20 Closing of Account

Table No. 4.20

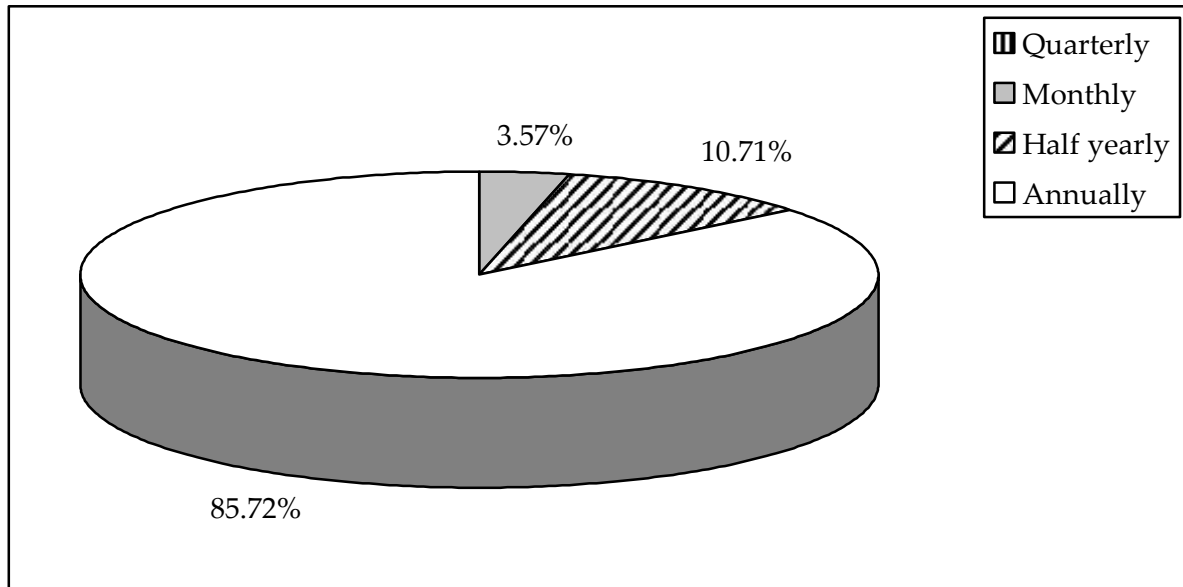
Closing of Account

Particular	No.	Percentage
Monthly	1	3.57
Quarterly	-	-
Half yearly	3	10.71
Annually	24	85.71
Total	28	100

Source : Field Survey, 2008

Mostly co-operative organization close their account annually, which is 85.71% of sample size. Besides that from of the Co-operative also closed their account monthly and half yearly.

Figure No. 4.12
Closing of Account



Source : Table No. 4.20

4.2.21 Method of Trainings

Table No. 4.21
Method of Trainings

Particular	No.	Percentage
On the job	-	
Off the job	28	100%
Both	-	
Total	28	100

Source : Field Survey, 2008

All the training had been provided in the form of off the job. According to the view of respondent training are provided by Co-operative training center, branch office Bharatpur.

4.2.22 Accounting Practice between Account Trainee and Non-Trainee

- (i) **Null Hypothesis (H₀)** : This is no significant difference in accounting practice between account trainees and non-trainees.
- (ii) **Alternative Hypothesis (H₁)** : This is significant difference in accounting practice between account trainees and non-trainees.

Test Statistic under H₀ is

$$\chi^2 = \frac{\sum \frac{f_0 - E^2}{E}}$$

Where,

O = Observed frequency

E = Expected frequency = $\frac{RT \times CT}{N}$

RT = Row total

CT = Column total

N = Grand total

Table No. 4.22
Table for expected frequency

	Good	Mod.	Poor	Total
Training	5	3	3	11
Non-Training	4	8	5	17
Total	9	11	8	28

According to appendix :

$$\chi^2 = \frac{\sum \frac{f_0 - E^2}{E}} = 15.3548$$

$$\begin{aligned} \text{Degree of freedom} &= (r - 1) (c - 1) \\ &= (2 - 1) (3 - 1) \\ &= 2 \end{aligned}$$

Tabulated value of χ^2 at 0.05 level of significance for 2 d.f. is 5.99.

Decision : Since the calculated value of $X^2 = 15.3548$ is greater than its tabulated value 5.99, null hypothesis is rejected and alternative hypothesis is accepted i.e. there is a significant difference in accounting pattern between account trainees and non-trainees.

4.2.23 Training Educational Background and Thesis Rating of Accounting System

Table No. 4.23

Training Educational Background and Thesis Rating of Accounting System

Present Accounting System \ Educational Background	Good	Mod.	Poor	Total
Upto Intermediate	3	4	5	12
Upto Master Degree	9	4	3	16
Total	12	8	8	28

Justification of Data with the test of Hypothesis

1. a) **Null Hypothesis H_0 :** Account keeping system is not dependent of academic background of the book keeper.
- b) **Alternative hypothesis H_1 :** Account keeping is dependent of academic background of the book keeper.

Test Statistic under H_0 is

$$\chi^2 = \frac{\sum \frac{f_0 - E^2}{E}}$$

Where,

O = Observed frequency

E = Expected frequency = $\frac{RT \times CT}{N}$

RT = Row total

CT = Column total

N = Grand total

According to appendix :

$$F = \frac{f_{0ZE\hat{A}}}{E} = 15.3548$$

$$\begin{aligned} \text{Degree of freedom} &= (r - 1) (c - 1) \\ &= (2 - 3) (3 - 1) \\ &= 2 \end{aligned}$$

Tabulated value of F at 0.05 level of significance for 2 degree of freedom is 5.99

Decision : Since the calculated value of $F = 2.9799$ is less than its tabulated value 5.99, null hypothesis is accepted and alternative hypothesis is rejected. That is account keeping system is not depend of academic background of the book keeper.

4.3 Major Finding of the Study

- (i) All the cooperative maintained account, but mostly account is maintained manually and some other maintained in manual as well as in computer.
- (ii) Mostly secretary keeps the record of accounts.
- (iii) All the cooperatives keep the record of transaction under double entry book-keeping system.
- (iv) Accounts are closed on a annual basis.
- (v) All cooperative keep record of transaction on cash basis.
- (vi) The payment and receipt are made in cash as well as through bank.
- (vii) Different types of training and development programs are organized for quality development of employee.
- (viii) Partially, some of the cooperatives use to prepare budget but mostly they don't.
- (ix) All the cooperatives audited their account.
- (x) All the cooperatives prepared 'four account' provision made by the central department of cooperative.
- (xi) Accounting problems regarding manually recorded accounts.
 - a) Lack of qualified and experienced accountants.
 - b) No proper knowledge about calculating depreciation.
 - c) Confusion regarding contra entry for various transactions.

- (xii) Accounting problem regarding computerized accounts system
 - a) Unavailability of account software
 - b) Heavy inutile cost
 - c) Little knowledge about computerized accounting system
 - d) Lack of management supporting to maintaining account.
- (xiii) User's view of double entry system are as follows :
 - a) Double entry system helps to keep the recode of both personal as well as impersonal monetary transaction of the business.
 - b) Double entry system helps to know the amount of debtors and creditors.
 - c) Double entry book keeping system helps to prepare trial balance for checking arithmetic accuracy of the record of transactions and shows the errors, if any.
 - d) Double entry book keeping system provides accounting information to the management/owner/partners to make decision.
 - e) Double entry system helps to know the operation result i.e. profit and loss account, income statement etc.
 - f) Double entry book keeping systems help to prepare the balance sheet to know the financial position of the business.
- (xiv) Basically cooperative organization are using two method for the calculation of depreciation i.e. Straight Line Method and Diminishing Balance Method.

CHAPTER - FIVE

SUMMARY, RECOMMENDATION AND CONCLUSION

5.1 Summary

This study is intended to focus on accounting system used by cooperative organizations. It also attempts to identify the accounting problems and gives appropriate accounting model for them. It is not easy to study the all cooperatives of Chitwan district. So, the study is based on the sample of 28 different cooperatives, which have been chosen by using stratified sampling method. For data analysis χ^2 test is applied to test the hypothesis.

In the course of the study it is found that level of accounting system being practiced in cooperative organization is quite satisfactory in some respect. But, still they are suffering from different accounting problems. Four-account system which they have been using are quite traditional. There is confusion towards the accounting code numbers which they using. But there is homogeneity in the book of account and which helps to the act of auditing. Besides that there are some limitations in maintaining record of transaction because of the expansion of operation area.

There is partiality in the mode of payment and receipt through bank and in cash but, they are found to prefer to do in cash. Some cooperatives also prepare budget. Most of them close their account monthly and prepare report on an annual basis. All the cooperatives have their account audited annually.

5.2 Recommendations

On the basis of entire research study and analysis the following points are recommended which may help for the improvement of account keeping system of cooperative organizations :

(i) Provision of Accounting Training

Some book-keepers are from non-management sector and haven't participated accounting training. So, they feel difficulties in keeping record. For that, in order to increase effectiveness and efficiency training should be provided.

(ii) Operate Financial Transaction Through Bank

There is partiality in the cash transactions of cooperative in terms of cash and through bank. So, it is recommended to make all cash transactions through bank.

(iii) Application of Cost Reduction Technique

According to study, cooperatives haven't applied the cost reduction technique and it is difficult to compete in the present competitive market without adopting proper cost reduction technique. Therefore, appropriate cost reduction technique should be developed and followed by Co-operatives.

(iv) Use of Accounting Code Number.

In cooperative accounting system, they have their own accounting code number given to respective transaction. If the size and volume of transactions are increased the code numbers should be re-arranged.

(v) Application of Four Account System.

The cooperative organizations have been preparing four account system i.e. Assets Register, Capital and Liabilities, Income Registers and Expenditure Register which is insufficient. Therefore, they should be re-arranged about the provision of for account.

(vi) Use of Computer

Most of the, cooperative have manually maintained book of account. It is recommended to maintained account of both in manual and computer.

(vii) Preparation of Budget

Some of the cooperative have prepared budget. But, majority of them haven't prepared. Therefore, it is recommended to prepare the budget.

(viii) Application of the Concept of Double Entry Book-Keeping System

According to the study it is found that some of the book keeper haven't bound knowledge of double entry book keeping system. Therefore, proper knowledge of double entry system should be given to book-keepers and accountants.

(ix) Application of Capital Budgeting Technique

It is recommended to the cooperative organization for the application of capital budgeting technique for the evaluation of new investment.

(x) Nepal has been entered in the WTO, therefore, the Co-operatives should provide better services to customer according to the provision of WTO. Without proper accounting system, the organizations can not do that. That's why, they should apply modern accounting techniques for overall accounting activities.

(xi) Excellent accounting system is the backbone of any organizations, therefore that the organizations should make reliable, fast and transparent accounting system.

(xii) It is recommended that, the Co-operatives should analyze the strength, weakness, opportunities and threat (SWOT) of present accounting system. SWOT analysis can help to develop appropriate accounting system.

- (xiii) Management accounting tools are not being sufficiently practised by cooperative organization. It is recommended that management accounting tools should be practised by them in the preparation of plans, policies and to make decision.
- (xiv) There are many problems in the software operation due to lack of proper knowledge about computer. Therefore according to the need, the cooperative organizations should have trained their computer operators.

5.3 Conclusion

After the entire research work it is found that, accounting practice of different cooperative organizations are almost same as per the provision of cooperative regulation. The research work has tried to ascertain the impact of accounting training package on the accounting performance and the relation between the books of account and the qualification of book keepers. More over, it is found that different cooperatives have been using other accounting tools as per their requirement. Mostly, records are being maintained manually but some of them used computer also. It is found that cooperative organizations have audited the book of accounts and reported within the stipulated time. Annual general meeting is found to have been organized as per the provision. At last, it can be concluded that accounting practices of cooperative organizations is satisfactory.

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Appendix - I

Dear Sir,

It is the golden opportunity on meeting you during the research study on "Accounting Practices of Cooperative Organization". I have selected you as a respondent hoping that you will share valuable ideas and provide information with suggestions to me.

I would like to inform you that the information provide by you will be kept confidential and will not be published, without your permission.

Researcher
Shiba Prasad Sapkota
MBS
Balkumari College
Tribhuwan University
Narayangarh, Chitwan

Questionnaire

A Study on Accounting Practices of Cooperative Organization

1. Introduction:
 - a. Name of the co-operative
 - b. Location:
 - c. Date of establishment
 - d. Name of
 - e. Sex: (i) Male () (ii) Female ()
 - f. Age:
 - g. Education:
 - h. Total capital investment
 -) Fixed capital = Rs
 -) Working capitals = Rs
 - Total capital =
 - i. Sources of capital:

) Share capital = Rs

) Debt/borrowing = Rs

Total capital =

j. No. of employees:

Male :

Female :

2. Are there accounting record maintained in your co-operative?
a. Yes () b. No. ()
3. Who maintains book of accounting in your co-operative?
a. Secretary () b. Accountant ()
c. Share holder () d. General employee ()
4. Which accounting system does co-operative use?
a. Single entry book keeping system ()
b. double entry book keeping system ()
5. How account is maintained?
a. Manually () b. computerized ()
6. Are there monitoring the account from top level?
a. Yes () b. No ()
7. how account are closed?
a. Monthly () b. Quarterly ()
c. Half yearly () d. Annually
8. What is the basis of maintaining accounts in your cooperative?
a. Accrual Basis () b. Cash basis ()
9. Are you satisfied with present accounting system?
a. Yes () b. Partly () c. No ()
10. How the economics transaction are made?
a. In cash () b. Through bank ()
11. Is there provision of depreciation?
a. Yes () b. No ()
12. If yes method you apply?
a. Fixed installment () b. Diminishing Balance method ()

13. How do you purchase fixed assets?
 - a. In cash ()
 - b. diminishing Balance method ()
14. The major problems faced for (Record keeping accounting)
 - a.
 - b.
 - c.
15. Is there accounting system effective and sufficient?
 - a. Yes ()
 - b. No ()
16. Is present accounting system effective provide sufficient information in decision making?
 - a. Yes ()
 - b. No ()
17. Is there is provisions of training and monitoring system through district co-operative?
 - a. Yes ()
 - b. No ()
18. What was the method of training?
 - a. on the job ()
 - b. off the job ()
19. Which method of accounting do you prefers to use?
20. Does book keeper help to top level in decision making?
 - a. Yes ()
 - b. No ()
21. How the employ are hired?
 - a. Permanent ()
 - b. Contract ()
 - c. Part time ()
22. Is the total cost segregate in fixed and variable?
 - a. Yes ()
 - b. No ()
23. Is there any method adopt for cost reduction?
 - a. Yes ()
 - b. No ()
24. Do you prepare budget?
 - a. Yes ()
 - b. No ()
25. Do you audit the4 account?
 - a. Yes ()
 - b. No ()

Appendix - II

S.N.	List of sample Co-operatives	Address	No. of emp
1.	Om shanti dugdha utpadak sharkari sastha limited	BH.N.P-5	1.
2.	Suvesha bachat talha Ride Shakari sastha limited.	BH.N. P.13	2.
3.	Avodaya bahudasia shakari sastha limited.	BH. N.P.13	2.
4.	Hariyali Vnnat krishi autpadak sastha limited.	Gunjangar	2
5.	Madhuban Mauripalan Shakari Sastha limited.	BH. N.P.10	3
6.	Ganeshor Taja Tarkari tatha Falful Utpathak sastha Limited.	Mangalpur.- 5	3
7.	Kisan kalian Dugdha Utpathak shakati sastha limited.	Phoolbari.-4	3
8.	Chhahari Dugdha Utpadak shakari sastha limited.	BH. N.P.-13	1
9.	Bakhan sahakari sastha limited.	Shadanagar	2
10.	Bararrda bhar Madgabarti batach tatha ride shakari sastha limited.	Geetanagar- 3	2
11.	Agraj Mahila Bikas Sahakari sastha limited.	R.N.P.	1
12.	Sharatpur Dugdha utpadak sahakari sastha limited.	BH. N.P.-9	3
13.	Samaj Kalyan bahumukhi Upabhokta sastha limited.	BH. N.P.-2	4
14.	Gatishil bachat tatha ride sastha limited.	BH. N.P.-10	3
15.	Raino bachat tatha ride sastha limited.	BH. N.P.-10	2
16.	Rastriya sahakari bikash board sastha limited.	BH. N.P.-9	1
17.	Surya mukhi tatha maha utpadak sahakari utpadak sastha limited.	Chinpur-8	2
18.	Shiva nagar bachat tatha ride sharkari sastha limited.	Shivanagar- 5	1
19.	Yeti bahuudasiya shakari sastha limited.	Padampur-3	2
20.	Sahansial bachat thatha ride sastha limited.	Garthi-9	2

21.	Gopalnagar Machhapalan sahakari sastha limited.	Garthi-9	1
22.	Gramin Tarkari thata Falful Utpadak sastha limited.	Chainpur-1	3
23.	Annapurna dughha utpadak sahakari sastha limited.	Geetanagar-6	6
24.	Pragati mahia bahumukhi sahakari sastha limited.	Geetanagar-9	1
25.	Kisha pragati sahakari sastha limited.	Geetanagar-6	2
26.	Tribeni Dugdha utpadak sahakari sastha limited.	Geetanagar-9	4
27.	Torikhet dughha utpadak sahakari sastha limited.	BH.N.P-14	2
28.	Adarsha bachat tatha ride sahakari sastha limited.	BH.N.P-10	3

Appendix - III

Computation of expected frequencies under null hypothesis and X^2

(R, C)	O	$RT \times CT / n = E$	O-E	$(O-E)^2$	$(O-E)^2 / E$
(1, 1)	5	$11 \times 9 / 28 = 3.5357$	1.1643	2.1441	4.5971
(1, 2)	3	$11 \times 11 / 28 = 4.3214$	-1.3214	1.7460	3.0485
(1, 3)	3	$11 \times 8 / 28 = 3.1428$	-0.1428	0.0203	0.0004158
(2, 1)	4	$17 \times 9 / 28 = 5.4642$	-1.4612	2.1438	4.5958
(2, 2)	8	$17 \times 11 / 28 = 6.6785$	1.3215	1.7463	3.0495
(2, 3)	5	$17 \times 8 / 28 = 4.8571$	0.1429	0.0204	0.0294
Total	28				15.3548

Appendix - IV

Computation of expected frequencies under null hypothesis and χ^2

(R, C)	O	$RT \times CT / n = E$	O-E	$(O-E)^2$	$(O-E)^2 / E$
(1, 1)	3	$12 \times 12 / 28 = 5.1428$	-2.1428	4.5918	0.8928
(1, 2)	4	$12 \times 8 / 28 = 3.428$	0.4714	0.3265	0.0952
(1, 3)	5	$12 \times 8 / 28 = 3.428$	1.5714	2.4693	0.7203
(2, 1)	9	$16 \times 12 / 28 = 6.857$	2.1428	4.5918	0.6696
(2, 2)	4	$16 \times 8 / 28 = 4.5714$	-0.5714	0.3264	0.0714
(2, 3)	3	$16 \times 8 / 28 = 4.5714$	1.5714	2.469	0.5306
Total	28				2.9799