Common Accounting System
Deficiencies In Present Accounting System of PACS

1. Accounts are maintained on cash basis.
2. The books of accounts are not standardized. Cash book, Bank book, Day book is not maintained by PAC. All transactions are written in a book called “Kird”.
3. There is no uniformity in formats of financial statements prepared by different PACS.
4. Prudential norms for IRAC are not followed.
5. Provision for interest receivable on loans & provisions for interest payable on borrowing are not made.
6. Other expenses & incomes are not accounted for on accrual basis.

Considering above Nabard devised a simplified, standard & common accounting system for PACS. Major components of CAS are

i. Applicability of universally accepted basic concepts & principles in maintenance of accounts by PACS.
ii. Adoption of standard financial statements balance sheet, training A/C, P & L A/C
iii. List of Common Set of General Ledger head of accounts compatible with financial statements.
iv. Maintenance of minimum essential & standard books of accounts.
Preparation & presentation of financial statements under CAS are based on **Certain Fundamental Assumptions.** These are

A. Going concern  
B. Consistency  
C. Accrual  

PAC is a business entity undertaking both credit & non credit business.

Credit business of PAC is to provide short term loans (crop loan) to farmer members. It also provides M.T. loan for agricultural purposes—digging of well, purchase of M-pump, tractor, Land Development etc.

Non credit business of PACS is

a) Trading in Agricultural Inputs, fertilizer, seeds, pesticides.  
b) Trading in PDS Commodities (Ration)  
c) Trading in Non-PDS consumer items.  
d) Food grains & other commodities under Govt. Procurement Schemes.  
e) Socially relevant scheme hike mid day meal scheme.
### Accounting Principles

Under CAS, transactions are recorded following certain fundamental principles of accounting. These principles are –

<table>
<thead>
<tr>
<th>Principle</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Double entry system of book keeping. Every transaction has two aspects one debit other credit.</td>
<td></td>
</tr>
<tr>
<td>b) Distinction to be made between capital &amp; revenue expenditure.</td>
<td></td>
</tr>
<tr>
<td>c) Expenses &amp; income to be treated on accrual basis.</td>
<td></td>
</tr>
<tr>
<td>d) Book debts must be valued only at realizable amount &amp; in accordance with regulatory norms.</td>
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</tr>
<tr>
<td>e) Inventory should be valued at cost of market whichever is less.</td>
<td></td>
</tr>
<tr>
<td>f) Premises &amp; other fixed assets should be valued at historical cost less depreciation.</td>
<td></td>
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<tr>
<td>g) Depreciation should be provided either on straight line basis or wdr on consistent basis.</td>
<td></td>
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<tr>
<td>h) Provision for gratuity &amp; provided fund contribution to be made on accrual basis.</td>
<td></td>
</tr>
<tr>
<td>i) Investments should be valued at lower or cost or market value.</td>
<td></td>
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<tr>
<td>j) Net profit should be computed after marking provision for NPA, OIR, Depreciation on fixed assets &amp; invest, outstanding expenses.</td>
<td></td>
</tr>
</tbody>
</table>
Books of Accounts
Under CAS, PAC has to maintain following books of account

Books of Prime entry

Subsidiary books
i) Journal ledgers
II) Personal ledgers – deposit, capital, loan.
iii) Membership register.
v) DCB register
vi) Furniture office equipment register.
vii) Insurance register.
viii) Sales register for non credit activity.
ix) Stock register
x) Depreciation chart.
Vouchers under CAS

Uptil now PACS were not preparing separate vouchers for cash transaction, bank transactions, purchase & sale of goods. Adjusting & closing entries were not made. Now PAC has to prepare following vouchers under CAS

1) Receipt voucher --- Green
2) Payment voucher --- Red
3) Contra voucher --- Faint Blue
4) Journal voucher --- Saffron
   i) Depreciation
   ii) NPA provision
   iii) OIR provision
   iv) Expense outstanding
   v) Interest payable on deposit/borrower
   vi) Interest received on Loans to members
5) Purchase Voucher --- Red (credit purchase)
6) Sales Voucher --- Green (credit sales)
7) Pay in slip --- Yellow
8) Withdraw slip--- White
Financial Statement of PACS shall include following.

<table>
<thead>
<tr>
<th>Periodicity</th>
</tr>
</thead>
</table>
| 1) Trial balance | Monthly  
| 2) Trading A/c | Monthly  
| 3) P & L A/c | Monthly  
| 4) Balance Sheet | Yearly  
| 5) P & L Appropriation A/c | Yearly  

Separate trading A/c should be prepared for following non credit activities.

1) Agriculture Inputs.
2) PDS items.
3) Non-PDS Items.

At the year end consolidated trading all should be prepared. General ledger heads falls under 5 main group.

1) Liabilities.
2) Assets.
3) Expenses.
4) Income.
5) Trading.

NABARD has issued circular on 23/07/2009 regarding prudential norms applicable to PACS. These guidelines are applicable from 01/04/2009.
Special features of financial statements under CAS

1) Separate trading A/c for every non credit activity.

2) In P & L A/c, provision for NPA is shown as follows.
   - Provision for standard assets.
   - Provision for Substandard assets.
   - Provision for Loss assets.

3) In balance sheet, Loans are shown net of NPA provision.

4) Interest receivable is shown net of OIR provision.

5) Fixed assets are shown net of depreciation.

6) Sundry Debtors are shown net of provision.

7) Investment is shown net of provision for depreciation in interest.
Prudential Norms of IRAC as applicable to PACs

NABARD vide Circular no. NB DoS dated 23-7-2009 has made applicable prudential norms of IRAC to PACS wef 1-4-2009
When loan Account becomes NPA

a) Crop Loan (short duration crop)
   Interest/ Installment of Principal remain overdue for two crop season.

b) Crop Loan (long duration crop)
   Interest / Installment of principal remains overdue for one crop season.

c) Allied agricultural and non-agricultural loans
   Interest/ Installment of principal remains overdue for more than 90 days.

   In respect of Borrower having more than one facility all facilities granted by PACs to borrower has to be treated as NPA.
Exempt Loans from NPA

- Loan against term deposit, NSC IVP, KUP, LIPS are exempt from NPA norms but gold loan is not exempt.
## Classification of Loans

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
<th>Provision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard</td>
<td>Loans which have not become NPA</td>
<td>0%</td>
</tr>
<tr>
<td>Substandard</td>
<td>Overdues for period not exceeding 3 years</td>
<td>5%</td>
</tr>
<tr>
<td>Doubtfull</td>
<td>Overdues above 3 years and up to 4 years – D1</td>
<td>10%</td>
</tr>
<tr>
<td></td>
<td>Overdues over 4 years but not exceeding 6 years – D2</td>
<td>15%</td>
</tr>
<tr>
<td></td>
<td>Overdues exceeding 6 years – D3</td>
<td>50%</td>
</tr>
<tr>
<td>Loss</td>
<td>Identified by PACS/ Auditor</td>
<td>100%</td>
</tr>
<tr>
<td>Unsecured Loans</td>
<td></td>
<td>100%</td>
</tr>
</tbody>
</table>
Loans may be treated as loss in following cases.

a) Where loan documents are lost
b) Where members and their sureties are declared as insolvent.
c) Member has died leaving no tangible assets.
d) Members have left area of operation leaving no property.
e) Loan is fictitious.
f) Gross mis-utilization is noticed and amount cannot be recovered due to non-availability of security.
g) Where realizable value of security is less than 100% of outstanding in borrower account.

Entire outstanding in loan account should be treated as NPA by only defaulter installment in case of term loan.
Provisioning norms in case of other Assets.

- **Cash in hand:**
  - Shortage in cash observed by socy official/auditor/regulatory or supervisory authority should be provided for.
  - If society is holding soiled/mutilated notes as on 31-2 Value of such notes should be provided for.

- **Bank Balances:**
  - Provision should be made for entries not reconciled and outstanding for more than 1 year.
## Investments

<table>
<thead>
<tr>
<th></th>
<th>investments</th>
<th>Provision/Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>a)</td>
<td>FDs with DCCB, post office or other banks</td>
<td>No Provision is required</td>
</tr>
<tr>
<td>b)</td>
<td>Fixed deposits with other institutions K.V. Sangh, sugar factory etc.</td>
<td>No provision if interest is received regularly</td>
</tr>
<tr>
<td>c)</td>
<td>Fixed Deposits in institutions which are under liquidation</td>
<td>100%</td>
</tr>
<tr>
<td>d)</td>
<td>Shares in DCCBs</td>
<td>No Provision</td>
</tr>
<tr>
<td>e)</td>
<td>Shares in others Cooperative</td>
<td>If dividend is received regularly – No provision</td>
</tr>
<tr>
<td></td>
<td>If dividend is not regularly</td>
<td>Valuation of shares should be done and provision should be made</td>
</tr>
<tr>
<td></td>
<td>If financial statements are not available</td>
<td>100% provision</td>
</tr>
</tbody>
</table>
Fixed Assets

- Years depreciation should be provided till the value reaches Rs. 1. Rank of depreciation may be decided by socy, based on normal life of asset, if not prescribed by State Coop Soc. Act Rule of bylaws.
### Sundry Debtors

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>a)</td>
<td>Security deposit with utilities agencies</td>
<td>No provision</td>
</tr>
<tr>
<td>b)</td>
<td>Amount receivable from Govt/ Govt Department</td>
<td>10% if not received within 1 year from date of claming</td>
</tr>
<tr>
<td></td>
<td></td>
<td>50% - 2 years</td>
</tr>
<tr>
<td></td>
<td></td>
<td>100% - 3 years &amp; More</td>
</tr>
<tr>
<td>c)</td>
<td>Fraud</td>
<td>100%</td>
</tr>
<tr>
<td>Stock</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) <strong>Shortage observed in physical verification</strong></td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>
| b) **Items having expiry**  
  Item remaining unsold after expiry period | 100% |
| c) **Items having no expiry**  
  Remaining unsold after 3 years | 100% |
| d) **Cloth**  
  i) Stock upto 1 year | No provision  
  ii) Stock between 1-2 years | 20% |
  iii) Stock between 2-3 year | 50% |
  iv) Stock unsold for more than 3 years | 100% |
CONTRAVENTION OF IMPORTANT RULES AND BY LAWS

1) Section 43 :-
   Limits of to which co-op. societies can raise loans and deposits up to 10 times of it paid up Share capital, Reserve fund and Building, Accumulated losses. This provision is not applicable to PACs, DCC banks and State co-op Banks.

2) Section 70 :- Investment of funds –
   Co-societies can invest its funds in
   a) Central co-op. Bank or state co-op Bank
   b) Trustee Securities
   c) A society having limited Liabilities & classified in same classification.
3) Section 65 & Rule 49 (a) :- Amounts to be deducted before calculating net profit.
   a) Interest payable on loans and deposits
   b) Establishment expenses
   c) Rent, Rates & Taxes.
   d) Audit fee.
   e) Provision for Depreciation.
   f) Provision for Bonus.
   g) Provision for Bad and Doubtful Debts.
   h) Provision for Gratuity
   i) Capital redemption fund
   j) Provision for Depreciation in Investment
   k) Provision for O.R.T.
   l) Provision for N.P.A.

4) Section 66 :- Contribution to reserve fund
   Society shall contribute minimum 25% of its net profit to reserve fund.

5) Section 67 :- Restriction on Dividend.
   Co-operative societies shall not declare except with permission of Registrar, a dividend more than 15%.
6) Section 68 :- Contribution to education fund.

   Co-operative societies shall contribute to education fund @ specified in Rule 53. Pac shall contribute to education fund at 10% of its has over earned profit & Rs. 10 if it has incurred loss.

7) Section 73 (f) (f) :- Disqualification of Director.

   A Director become disqualified if he defaults payment of loan on due date. He also become disqualified if he has taken in advance or anamat or he has taken goods on credit and he is not paid within 30 days, from the date of demand by the society or the date on which he has taken advance which ever is earlier.

8) Rule 23 :- If a person has ceased to be a member of society them shares shall be return to him or his nominee by making valuation of shares based on last audited balance sheet.
9) **Rule 65**— Society shall keep the following book of accounts

1. Member Register
2. Share Register
3. Minute Book of Annual General Meeting
4. Minute Book of Annual Board of Directors Meeting
5. Cash book
6. General Ledgers
7. Individual Ledgers
8. Stock Register
9. Property Register

10) **Rule 107(a)** – **Traveling Expenses of Directors**–

Chairman or vice Chairman of federal society, State level society, Sugar factory, spinning mill can only travel by air but they have to attach air ticket to their traveling bill.

Director of federal society, state level society sugar factory, spinning mill & society whose paid up capital is 50 crore or more can travel by railway first class. He can claimed 1 & 1/2 of the actual railway fare but he has to attach railway ticket to his traveling bill. If he doesn’t attach railway ticket he shall be entitled to second class fare.

11) **Section 28** – **Restriction on holding shares** -

A member can not hold shares more than Rs.20000/-.
THANK YOU