

## 5. Accounts and Audit of Co-operative Societies

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### 5.1 Introduction:

Every business organization involves an exchange of goods and services. Exchange of goods and services from one business organization to other parties is called as transaction. Business organization having an object to earn Profit, maintaining the books of accounts to know the profit or loss in the business during the financial year.

Co-operative societies are voluntary organization formed by the members. Even though, the main object of co-operative society is not to earn profit, but to take a review of financial conditions of the society they maintain the books of accounts.

Scientific recording of financial transaction is known as accounts. The scientific record contains the details of the date and amount of the transaction. Every co-operative society must conduct the audit every year. Verification of accounts is known as audit

According to Maharashtra co-operative societies act 1960, it is mandatory to maintain books of accounts of co-operative society. As cooperative society is an organization of persons and is working on the basis of Democratic principle, there should be transparency and honesty in the financial transactions. Therefore, it should make the arrangement for maintaining and writing the books of accounts.

So, we are going to study the books of accounts and Audit in this topic.

### 5.2 Books of Co-operative society

In the working of co-operative society many financial transactions take place. All these transactions are recorded in different books of account. It is mandatory to maintain the books of accounts and also other books. This book is useful for the smooth functioning of the co-operative society. Following are the different books of accounts.

#### A. Books of accounts:

Every co-operative society has to maintain books of accounts. This book is the mirror of financial transaction in a co-operative society. This book shows the financial position of the co-operative society.

Following are the different books of accounts and statement of a co-operative society.

1. **Journal:** The journal is a primary book of original entries. In this book the day to day transactions are recorded in a chronological order, in debit and credit form and in a systematic manner. All cash and credit transactions are recorded in this book. Therefore, this book has a Legal importance. Journal is a base of ledger.
2. **Subsidiary book:** The co-operative societies which has large number of business transaction maintains subsidiary book. It is secondary book. The journal is divided into several parts to enter the numerous transactions quickly and effectively. In each subsidiary book the specific types of transactions are recorded. Under subdivision of journal all cash transactions are recorded in cash book and credit transactions are recorded in suitable subsidiary book. e.g. Purchase book, Sale book, Purchase return book, Sales return book etc.
3. **Ledger:** A bundle of accounts is known as ledger. The book in which various accounts are recorded is known as ledger. After recording the transaction in a journal, subsequently it is to posted to a ledger. The process of transferring entries from journal is known as ledger posting. The ledger is a record of final entry at the end of the financial year. All accounts are balanced and trial balance is prepared. Therefore, it is the most important book of accounts. All co-operative societies maintain ledger.
4. **Cash book:** The cash book is a sub division of the general. In this book all cash transactions are recorded. It records details of cash received by the co-operative society, cash paid by the co-operative society and cash in hand on the particular date.

#### B. Statutory books:

According to Maharashtra co-operative societies act 1960. The books and registers which is obligatory to be maintained by the society are called as statutory books. Every co-operative society has to maintain the following statutory books. The cash book, journal ledger are statutory books in addition to these books following statutory books are maintained:

#### Statutory Books

1. <b>Members Register</b>	2. <b>Active and Non-active member Register</b>
3. <b>Share Register</b>	4. <b>Debenture Register</b>
5. <b>Minutes Book of members meeting</b>	6. <b>Minutes book of Managing committees meeting</b>
7. <b>Stock Register</b>	8. <b>Asset Register</b>
9. <b>Investment Register</b>	10. <b>Dead Stock Register</b>
11. <b>Loan Register</b>	12. <b>Audit Register</b>
13. <b>Deposit Register</b>	

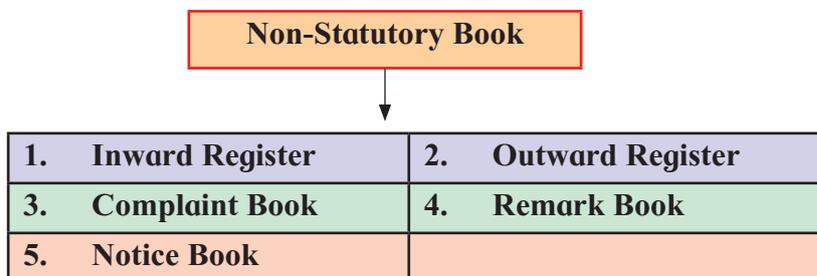
1. **Members register:** The co-operative society act 1960 provides that, every society has to maintain the register of members. It should be maintained in the form 'I'. The register includes full name of members, address, occupation, date of admission, shares held by them, date of entrance fees paid name of the nominee etc.

2. **Active and non-active member's register:** After completing the financial year the name of the active and non- active members is written in the register. In this register name, address, email, classification of active member according to the date, classification of non -active members according to the date such information is recorded. The list of active members is recorded in form J1 and list of non -active members is recorded in form J 2 separately.
3. **Share register:** This register contains the details of shares allotted to the members. The share account is written with the help of share register. The list of shares which are allotted is prepared according to the number of share certificates.
4. **Debenture register:** This register contains all the details regarding debenture sold by co-operative society, its face value and total amount. The register contains the name and address of the debenture holders.
5. **Minute book of members meeting:** This book contains the proceedings of General Body Meeting of the society. This book has legal importance. It contains names and signatures of the members, chairman, secretary present for the meeting and the business transacted in the meeting.
6. **Minutes book of managing committees meeting:** The proceedings of the meeting of the Managing committee are recorded in this book. The business transacted in every meeting is recorded separately. Accordingly, if sub-committee meetings are conducted there minutes are recorded separately.
7. **Stock register:** All the details of the stocks in the different departments of a co-operative society are recorded in this register. The entries of incoming and outgoing stock are recorded in this register.
8. **Asset register:** All the types of assets which are owned by the co-operative society are recorded in this register. It contains the title and nature of asset, date of purchase of asset, cost of asset, installation charges and any addition or deduction of the assets.
9. **Investment register:** The details of the investment made in different forms at different places by the co-operative society are recorded in this register. The particulars regarding the name and nature of investment, date of investment, amount invested, date of maturity, rate of interest or dividend etc. are recorded in this register.
10. **Dead stock register:** In this register details related to dead stock are entered e.g. outdated stationary, furniture, etc. The date of purchase of asset, cost, quantity etc. is recorded in this register. The assets written off are also recorded in this register.
11. **Loan register:** The loans provided by the co-operative society to its members are recorded in this register. Register is maintained to record the name of member, the amount of loan given to the member, rate of interest, period, loan recovery and outstanding amount etc.
12. **Audit and audit rectification register:** Every year auditor is appointed in the Annual General Body Meeting. The auditor audits books of co-operative society. All information relating to audit is recorded in this register. This register is known as auditors remark book. In this book the accounting year, name and address of the auditor, appointment of auditor, auditors remark etc. such information is recorded. If auditor has taken any objection and suggested any rectification then it is also recorded in separate audit rectification register.

**13. Deposit register:** A co-operative society accepts deposits from its members as well as from the non-members. The details of all deposits are recorded in this register. It includes the date, amount, rate of interest and maturity date etc.

**C. Non-statutory registers:**

Co-operative society maintenance the following non statutory books for it smooth and efficient working.



- 1. Inward register:** A co-operative society receives the letters, circulars and other documents from the outsiders, they are recorded in inward register. This register is kept in columnar form. Columns are provided to enter for each letter viz. inward no, date of receiving, sender’s name and address, subject, department for which letter is received, remark etc.
- 2. Outward register:** All the letters dispatched to the various parties; organizations are recorded in this register. This register is also in a columnar form. columns are provided to enter outward number, date, address name, subject, postage charges, remark etc.
- 3. Complaint book:** The Complaints made by the outsiders, Institutions, members, customers are recorded in this register.
- 4. Remark book:** When the government authorities and visitors visit the co-operative society and they give some remark about the working of the society. Such remarks are recorded in remark book.
- 5. Notice book:** Some common notices and circulars are given by the society to the members, directors, staff and employees of the co-operative society. Such notices and circulars are recorded in this book.

**Activity:**

- 1)** Collect the samples of inward and outward register under the guidance of your teacher and make at least 5 records on it.

**5.3 Financial Statements of co-operative society**

In a co-operative society more importance is given for accounting. Therefore, every co-operative society have to maintain daily transactions for the different books of accounts. Books of accounts can be used to evaluate the financial progress of the co-operative society.

According to the act co-operative society has to prepare following books of accounts:

- |                            |                    |
|----------------------------|--------------------|
| 1. Trial balance           | 2. Trading Account |
| 3. Profit and loss Account | 4. Balance sheet   |

1. **Trial Balance:** It is necessary to prepare the trial balance for every co-operative society at the end of financial year as per the provisions of the Co-operative societies act. Trial balance is a statement of the debit and credit balances of the various ledger accounts, which is prepared to check their arithmetical accuracy.

At the end of the financial year the ledger accounts are closed and their balances are drawn, then a list of debit and credit balance is prepared on separate sheet. This list of balances is called trial balance. The total of debit columns and credit columns of trial balance must tally. Arithmetical accuracy of recording the transactions and appropriate writing of books of accounts can be checked with the help of trial balance. Trial balance is a basis for preparation of the final accounts i.e. trading account, profit and loss account and balance sheet.

2. **Trading Account:** Trading account is prepared to find out the gross profit or gross loss in the business out of the buying and selling of goods and services. On debit side of trading account opening stock and all direct expenses like purchase of goods, wages, octroi, carriage inward etc. and on credit side direct income like sales and closing stock is recorded. Debit balance of this account indicates the gross loss and the credit balance of this account indicates gross profit.
3. **Profit and loss Account:** Profit and loss account is prepared in the form 'N' mentioned by the Co-operative act. All indirect expenses like office and administration expenses, selling expenses, distribution expenses and losses are debited to the profit and loss account and indirect incomes like interest, Commission, dividend etc. are credited to profit and loss account. The balances of nominal account transfer to the profit and loss account and total amount of debit side and total amount of credit side is taken. If credit side is more than debit side, it indicates the net profit and the debit side is more than a total of the credit side it indicates net loss.
4. **Balance sheet:** Balance sheet is a statement of assets and liabilities of the co-operative society on a particular date. Balance sheet shows the financial position of an organization on a particular date. This statement is prepared at the end of the financial year. It shows true and fair position of the society. Therefore, it is called the mirror of the financial position of the co-operative society. On the left side of the balance sheet capital and liabilities of the society are recorded and on the right side of the balance sheet properties and Assets of the society are recorded. Balance sheet is prepared on the basis of trial balance. The total of both the sides and balance must tally.

#### 5.4 Audit of co-operative society

The Co-operative sector has been developed as a result of government initiative and effective measures. India's First Co-operative Societies Act was passed in the year 1904 and necessary amendments were made time to time. On 1<sup>st</sup> May 1960 Maharashtra state was established and Maharashtra co-operative societies act 1960 was passed. According to the act the co-operative societies are required to maintain accounts and these accounts must be audited from certified auditor of the co-operative department or Chartered Accountant.

##### 5.4.1 Meaning and Definition

➤ **Meaning:**

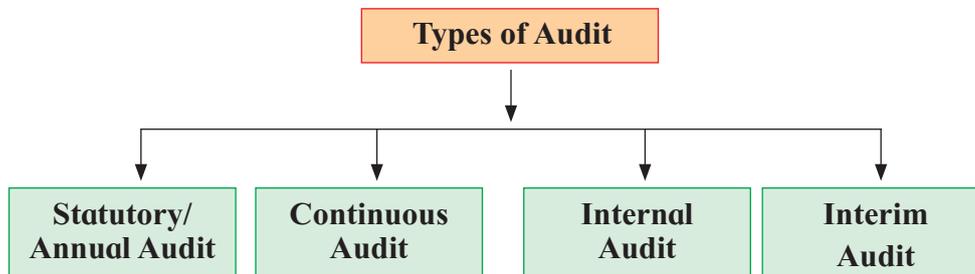
Audit is an examination and verification of the financial statements and books of accounts of the co-operative society.

➤ **Definition:**

“Auditing may be defined as the examination of the books of accounts and vouchers of the business with a view of ascertaining whether the balance sheet is properly drawn or not so as to show true and correct view of the state of affairs of the business” -R. G. Williams

“Auditing is an intelligent and critical scrutiny of books of accounts of a business with the documents and vouchers from which they have been written up, for the purpose of ascertaining whether the working results of a particular period as shown by profit and Loss Account and also the financial position as reflected in the Balance Sheet are truly and fairly determined and presented by those responsible for their compilation” – J.R.Batliboi

### 5.4.2 Types of Audit



1. **Statutory/Annual Audit:** It is compulsory to conduct audit after end of the financial year as per the co-operative societies act. It is also called Annual audit. The audit which is conducted after preparing accounts is known as Statutory audit or Annual audit. It must be conducted within four months after the end of financial year by the statutory auditor appointed by the state government. On the basis of this audit, Audit class is allotted to the society.
2. **Continuous Audit:** Continuous audit means detail examination of all transactions continuously throughout the year or at regular intervals in a year. Continuous audit is conducted for the societies having large number of transactions. Due to continuous audit final accounts are prepared immediately.
3. **Internal Audit:** Internal audit is the independent appraisal of activity within an organization for the review of accounting financial and other business practices as a protective and constructive aim of management. In case of large co-operative society, they have a separate internal audit department for stock excise department is working independently and efficiently the auditor may depend upon the checking undertaken by such department. This audit is done by the employer appointed by the co-operative society. Internal audit is helpful for Statutory audit.
4. **Interim Audit:** An audit which is conducted in between two statutory audits with a view to find out interim profits to enable the society to declare interim dividend. It is a kind of audit which is conducted in between the financial year in between two periodical balance sheets. It helps for annual audit. It becomes easy to prepare profit and loss account and balance sheet due to interim audit, because majority of the work is completed in interim audit. Due to interim audit mistakes, irregularities and fraud are detected which keeps control on the employees. In the middle of the financial year audits can be done to understand the financial position of the business and accordingly adopt appropriate policies.

### 5.4.3 Audit Classification:

After conducting the audit of a co-operative society, auditor gives Audit Classes to co-operative society. The audit class is given with the help of marks secured by the society. The quality of the co-operative societies is known with the help of audit class. Audit Class is based on the observations of the profit and loss account. These observations are share capital, financial positions, recovery of loans, management of society, reserve funds number of shareholders, turnover of co-operative society, etc.

The marking system is used to allot the audit class to the society is as under:

Capital Raising -20 Marks, Financial stability-40 marks, Management-15 Marks, General administration-25 Marks

In this way 100 marks are divided. As per the marks secured by the co-operative society, Audit Class is awarded. Following is a classification of audit.

1. **'A' class** : The cooperative societies securing more than 60 marks are awarded 'A' class. The financial condition of the society is sound, loan recovery is good and overdues are less than 10%.
2. **'B' class** : The co-operative society securing marks between 50 to 59 awarded 'B' class in audit examination. The financial position of society is fair and the overdues of societies are near 25%.
3. **'C' class** : The societies securing marks between 35 to 49 are awarded 'C' class. The management of society is inefficient, financial position is not satisfactory. The overdues of such societies are between 30% - 40%. The Management and general administration need to be reformed.
4. **'D' class** - The co-operative society securing less than 35 marks are allotted 'D' class. Management of societies is inefficient. Such society violates the rules and regulations of the act and does not keep the books of accounts properly and overdues of societies are up to 60%.

**Activity:**

- 2) What shall be the effect of co-operative society securing 'A' class? Discuss with your teacher.

#### 5.4.4 Advantages of Audit:

The audit of co-operative society is important and essential. After auditing the book of accounts auditor gives his opinion about the financial position of the co-operative society in his report. On the basis of this report the information about the financial position of the society is known. Therefore, auditing is advantages. Following are the advantages of audit:

1. **To understand the real financial position:** After auditing the books of accounts of the co-operative society real financial position is understood. Such information is known to the directors, members, registrar and general public. Accordingly, society can plan future policies.
2. **Accurate and up- to - date Audit:** Books of accounts are to be checked by the auditor every year. So, books of accounts are written carefully, accurately and up-to-date. All the books of accounts are written accurately is known due to audit.
3. **Avoid mistakes and Frauds:** While writing the books of accounts fear is created among the employees so that the frauds and misconduct are exposed. Due to auditing control is kept on employees which avoids mistakes and frauds.
4. **Remedies on mistakes in Audit:** If the employees have done any kind of mistake while writing the books of accounts, such mistakes are identified and rectified and proper remedies are taken to avoid such mistakes in future.
5. **Increase in sale of share capital:** Due to auditing the trust among the members and ordinary people is created. As auditing is trustworthy it helps to increase in sales of share capital.
6. **Interest of shareholders:** The working of co-operative society is done by the directors elected by the shareholders. Most of the members are assured that a director cannot commit fraud in the financial affairs of the society and cannot harm to the members for their own benefit. In this regard the members are assured due to audit so interest of the members/ shareholders is protected.

7. **Get loan easily:** The societies which provide loan rely more on audited accounts. Due to audit the real financial position of the society is known. So, on the basis of audit they can provide loan to the co-operative society. Due to audit it is easy to get loan.
8. **Advice for maintaining books of accounts:** Various defects and deficiencies are identified while conducting the audit. Auditor is an expert in auditing so he gives various advices on how to remove defects and deficiencies in auditing. In the same way he gives proper advice for preparation of books of accounts.

#### 5.4.5 Legal provisions regarding Audit

Following are the legal provisions according to Maharashtra Co-operative Societies Act, 1960:

1. **Co-operative Year:** For uniformity in the financial year of all types of co-operative societies, it is decided that the financial year of co-operative societies is from 1st April to 31st of March. This financial year is called as co-operative year.
2. **Audit by registrar:** According to the Act, it is the responsibility of the Registrar to conduct audit of co-operative society. Registrar can appoint a certified auditor to audit the books of accounts of the society. It is mandatory that co-operative society must audit books of accounts within four months after the end of every financial year.
3. **Maintenance and writing of books of accounts:** As per the provisions of the co-operative societies act following books of accounts and registers should be maintained:
 

(a) Members register (Form I)	(b) Shares Register
(c) Debenture register	(d) Minute book
(e) Cash book	(f) Journal and Ledger
(g) Stock register	(h) Assets register
(i) Register of Audit objections and rectification	(j) Other books as ordered by State government
4. **Annual statement:** The co-operative society should prepare all the statement of accounts within 45 days after the end of financial year or within the extended time given by the registrar of co-operative societies. This statement includes:
 

a. Trial balance for the year	b. Profit and loss account	c. Balance sheet
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Profit and loss account should be in form 'N'. This statement should be presented before members in the meeting for approval.
5. **Provisions of Audit:** While conducting the audit following matters must be checked:
  - A. Amount of overdues, loan and advances given by society
  - B. Cash balance
  - C. Financial transaction is harmful or not to societies and member's interest.
  - D. Expenses borne by the society while achieving objectives.
6. **Availability of books of accounts:** All books of accounts, documents, assets and cash book should be kept open for examination. Such books should be provided by the custodian of assets for purpose of auditing in the main branch of the society or at any branch of the society for auditing.
7. **Responsibility to provide information:** The responsibility to provide information to the auditor is on the retired and current office bearers, employees and members. Necessary information of business transaction and working of society should be provided to the registrar or person appointed by him.

- 8. To keep books of accounts open for inspection for the members:** The co-operative societies must provide books of accounts and financial statements for inspection to the members in the office of the society. A copy of financial statement should be sent to the certified auditor appointed by the Registrar within 15 days. No fees to be charged for inspection of books of accounts to the members. However, if a member demands a copy of financial statement it is mandatory to the society to provide such copy by charging nominal fees. Such copy of financial statement should be given within one month from the date of receipt of the application and payment of fees.
- 9. Errors and rectification in accounts:** The auditor should report the errors and deficiencies in the books of accounts in his report. The society should rectify the errors and remove the irregularities within 3 months from the date of receiving the auditor's report. The proper explanation of that should be given to the registrar along with the audit rectification report by the society. The audit rectification report is prepared in Form 'O'. The registrar may give some suggestions for the rectification of the errors which is to be done within prescribed time limit.
- 10. Presence of Auditor in Annual General Body Meeting:** The auditor has a right to receive the notices of the Annual General Body Meeting. The auditor is present in Annual general body meeting and he can express his opinion on any of the related matter in the Annual General Body Meeting.
- 11. Re-audit of books of accounts:** As per the demand or if required the registrar can check the books of account himself and can also re-audit the books of accounts. All the provisions of audit are applicable for the re-audit of books of accounts.

#### 5.4.6 Audit Report

After having a detailed examination of books of accounts maintained by the co-operative society, the auditor has to submit his report to the registrar, stating whether the accounts have been maintained properly and the state of affairs shows true and fair view of the financial position of the co-operative society. The copy of the report is also given to the co-operative society. The audit report is submitted in specific format. In the same manner the defects and the irregularities are also mentioned. The audit report is of two types:

- 1. General audit Report:** The general financial condition of the co-operative society is expressed in this report. The changes that have been affected during the financial year are also mentioned in this report. The report contains information regarding the capital of the society, deposits, reserve funds, number of members, profit or loss and any change in connection with the financial matters of the society.
- 2. Audit rectification Report-** The errors that are detected during the audit of a society are reported in this report. Also, rectifications are suggested and this report is submitted to the registrar. The co-operative society needs to rectify such areas within 3 months after the submission of the report. The rectification report should be submitted to the registrar in Form 'O'.

#### Activity:

- 3) Collect annual report of co-operative society and discuss with your teacher regarding accounts and audit in that report.

## 1. Distinguish between Profit and Loss Account and Balance Sheet:

Sr. No.	Points	Profit and Loss Account	Balance Sheet
1.	<b>Meaning</b>	The account which shows net profit or net loss of the transactions carried out throughout the year in a co-operative society is known as profit and loss account.	Balance sheet is a statement showing financial position of the co-operative society on a particular date.
2.	<b>Content</b>	Profit and loss account contain record of income and expenses of the society.	Balance sheet contains assets and liabilities of the society.
3.	<b>Side</b>	Profit and loss account is an account. Left side of P/L A/c is called debit side and right side is called as credit side.	Balance sheet is a statement. The left side of the balance sheet contains liabilities and right side contains the assets.
4.	<b>Purpose</b>	The purpose is to find out Net profit or Net loss	The purpose is finds out the financial position of the co-operative society on a specific date
5.	<b>Usefulness</b>	Profit and loss give information about the net profit of the society, which helps for deciding dividend.	It helps to know financial position of the society on a particular date which helps to get the financial assistance.

## 2. Distinguish Between Statutory Books and Non-Statutory Books

Sr. No.	Points	Statutory Books	Non-Statutory Books
1.	<b>Meaning</b>	The books which are mandatory for co-operative society according to the Maharashtra co-operative societies Act 1960, clause 65 are known as statutory books.	The books which are not maintained as per the Act but for the convenience of the co-operative society are called as non -statutory books.
2.	<b>Mandatory</b>	It is mandatory to maintain statutory books as per the act.	It is not mandatory to maintain statutory books as per the act.
3.	<b>Verification</b>	These books are verified by Auditor.	These books are not verified by Auditor.
4.	<b>Importance</b>	Statutory books help to show the financial position of the society.	Non statutory books help to run the working of the society smoothly
5.	<b>Types</b>	Some of the examples of statutory books are Members register, Minutes of annual general body meeting, Deposit register, cash book etc.	Some of the examples of Non statutory books are Inward and outward register, complaint book, Remark book, notice book, etc.

### 3. Distinguish Between Statutory Audit and Internal Audit

Sr. No.	Points	Statutory Audit	Internal Audit
1.	<b>Meaning</b>	The Audit which is conducted compulsorily according to the co-operative Act within four months after the financial year ending is called statutory Audit.	The Audit which is conducted voluntarily by the co-operative societies throughout the year as an administrative work of the society is called Internal Audit
2.	<b>Purpose</b>	Statutory audit is done with a purpose to know real financial position of co-operative society.	Internal audit is done to find out the mistakes and misconduct at society level.
3.	<b>Appointment of auditor</b>	For statutory audit of the society the auditor is appointed by the members in Annual general body meeting, registrar or by the government.	For internal audit of the society the auditor is appointed by the managing committee.
4.	<b>Responsibility</b>	In the statutory audit the responsibility of the auditor is according to the provisions given in Co-operative Act.	In the internal audit the responsibility of the auditor is decided by the managing committee
5.	<b>Audit class</b>	Statutory Audit helps in awarding the audit class to the co-operative society	Internal Audit does not help in awarding the audit class to the co-operative society.
6.	<b>Mandatory</b>	Statutory Audit is mandatory.	Internal Audit is not mandatory.

## 5.5 SUMMARY

- A co-operative society should maintain the books of accounts to record the financial transactions. This record is useful to the members, registrar and auditor of the co-operative society. It adds a transparency and reliability towards the society.
- **Books of Accounts of co-operative society**
  - A. Books of Accounts:** (1) Journal (2) Sub division of journal (3) Ledger (4) Cash Book
  - B. Statutory Books :** (1) Members register (2) Active and Non active members register (3) Share register (4) Debenture register (5) Minute book of members meeting (6) Minute book of managing committee meeting (7) Stock register (8) Asset register (9) Investment register (10) Dead-stock register (11) Loan register (12) Audit and audit Rectification register (13) Deposit register
  - C. Non-Statutory books:** (1) Inward register (2) Outward register (3) Complaint book (4) Remark book (5) Notice book

**Financial statement:** (1) Trial Balance (2) Trading account (3) Profit and loss account (4) Balance sheet

**Audit:** It is an examination of the books of accounts and vouchers of the organization with a view of ascertaining whether or not the surplus is properly calculated and the financial position of the society is shown properly. The books of accounts are audited as per the provisions of Maharashtra co-operative societies Act, 1960. A person who verifies books of accounts and the working of the co-operative society is known as Auditor.

**Types of Audit:** (1) Statutory Audit (2) Continuous Audit (3) Internal Audit (4) Interim Audit

**Audit Classification:** (1) 'A' class (2) 'B' class (3) 'C' class (4) 'D' class

**Advantages of Audit:** (1) To understand the real financial position (2) Accurate and up-to-date audit (3) Avoid mistakes and fraud (4) Remedies on mistakes in Audit (5) Increase in sale of share capital (6) Interest of shareholders (7) Get loan easily (8) Advice for maintaining books of accounts.

**Legal provisions regarding co-operative audit:** (1) Co-operative year (2) Audit by registrar (3) Maintenance and writing of books of accounts (4) Annual statements (5) Provisions of audit (6) Availability of books of accounts (7) Responsibility to provide information (8) To keep the books of accounts open for inspection for the members (9) Errors and rectification in accounts (10) Presence of auditor in the annual general body meeting (11) Re-audit the books of accounts.

**Audit Report:** (1) General audit Report (2) Audit Rectification Report

## 5.6 KEY-TERMS

1. **Journal book-** Book of the original entry of financial transaction.
2. **Cash book-** Book for recording all cash transaction.
3. **Statutory books-** Books mandatory according to the Co-operative societies Act.
4. **Non-Statutory books-** Books not mandatory according to Co-operative societies Act but prepared for convenience for working of the co-operative society
5. **Trial balance** – Statement of Debit and credit balances of ledger account.
6. **Trading account-** Trading account is prepared to find out the gross profit or gross loss in the business out of the buying and selling of goods and services.
7. **Balance sheet-** Statement showing financial position of co-operative society on a particular date.
8. **Audit-** Verification of books of accounts after completing the financial year of the society.
9. **Auditor-** A person appointed to conduct the audit of co-operative society.

## 5.7 EXERCISE

**Q.1 A) Select the proper option from the options given below and rewrite the sentences:**

1. Books which are used for recording business transactions are called \_\_\_\_\_.  
a) Inward register      b) Stock register      c) Books of accounts
2. A Journal is a book of \_\_\_\_\_ entries.  
a) Primary      b) Secondary      c) original

3. The errors shown in the audit report should be rectified by the societies within \_\_\_\_\_ months.
  - a) Two
  - b) Three
  - c) Six
4. Audit Rectification Report must be in \_\_\_\_\_ form.
  - a) 'N'
  - b) 'A'
  - c) 'O'
5. Member's register should be kept in \_\_\_\_\_ form.
  - a) 'O'
  - b) 'I'
  - c) 'N'
6. The letter received by the society is recorded in \_\_\_\_\_.
  - a) Inward register
  - b) Outward register
  - c) Dead Stock

**B) Match the following:**

Group 'A'	Group 'B'
a. Cash book	1. Conducts audit
b. Statement of financial position	2. Form 'I'
c. Members register	3. Recording cash transaction
d. Profit and loss account	4. Recording credit transaction
e. Auditor	5. Form 'O'
	6. Balance sheet
	7. Information of gross profit or gross loss
	8. To write books of accounts
	9. Trial balance
	10. Information of Net profit or Net loss

**C) Write a word or a phrase or a term which can substitute each one of the following:**

1. A book which contains various accounts.
2. A book in which cash transactions of the co-operative society are recorded.
3. The statement which indicates the financial position of the co-operative society.
4. The register in which the members information like names, addresses, admission date etc is recorded.
5. The account which shows the net profit or net loss of the co-operative society.
6. The person appointed to inspect books of accounts of the co-operative society.
7. The audit which is mandatory every year for co-operative society according to the act.
8. The audit which is undertaken continuously in co-operative society.

**D) State whether the following statement are True or False:**

1. Auditing is important for co-operative society.
2. According to the act it is compulsory to maintain non-statutory books.
3. Balance sheet shows financial position of co-operative society.
4. Errors detected during audit can be corrected by society at any time.



**Q.2 Explain the following terms:**

1. Auditing
2. Co-operative year
3. Balance sheet
4. Profit and loss a/c
5. Members register
6. Minute book of members meeting
7. Interim audit

**Q.3 Application based/Self-opinion question:**

1. According to co-operative society auditing is compulsory.
2. Auditing class is given after statutory audit
3. Co-operative society should maintain books of accounts.
4. Co-operative society must conduct internal audit.

**Q.4 Distinguish between:**

1. Statutory books and Non-Statutory books.
2. Balance sheet and profit and loss account.
3. Statutory audit and Internal audit.

**Q.5 Write short notes:**

1. Advantages of audit
2. Books of accounts of co-operative society
3. Audit classification
4. Statutory books
5. Books of accounts of co-operative society

**Q.6 Give reasons:**

1. Maintenance of statutory books is mandatory for co-operative society.
2. Balance sheet is a mirror of the financial position of the co-operative society.
3. According to co-operative society auditing is important.
4. Auditor gives audit class to the co-operative society.

**Q.7 Answer in short:**

1. Which are the financial statements of the co-operative society?
2. Explain types of audit?
3. What are the advantages of audit?
4. Which are the books of accounts of the co-operative society?

**Q.8 Long answers:**

1. Explain in detail statutory books of co-operative society.
2. Explain the legal provisions regarding 'Audit' as per the Maharashtra co-operative societies Act 1960.

