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B.Com Honours

Semester VI

Calicut University

ACCOUNTING AND TAXATION OF CO-OPERATIVES

Course Code: COM6EJ305 • Module 2 Notes

Module II: Financial Statements of Cooperatives

Covers revenue recognition in cooperatives, legal provisions of preparing financial statements, statutory forms, and preparation of Trading Account, Profit & Loss Account, and Balance Sheet.

Unit 5: Revenue Recognition & Measurement in Cooperatives

Revenue Recognition: Accounting treatment of cooperative income streams. Interest on performing agricultural/commercial loans recognized on accrual basis, whereas interest on Non-Performing Assets (NPAs) recognized strictly on realization basis under KCS Rules. Trading income recognized upon delivery of consumer goods, seeds, & fertilizers.

Unit 6: Legal Provisions for Cooperative Financial Statements

Statutory Financial Framework: Every cooperative society must prepare annual financial statements under Section 63 of Kerala Cooperative Societies (KCS) Act 1969. Statements comprise:
1. **Receipts and Disbursements (R&D) Account:** Summarized cash book required by departmental auditors.
2. **Trading Account:** Computed separately for consumer, fertilizer, & milk processing sections.
3. **Profit and Loss Account & Balance Sheet:** Structured in statutory forms prescribed in KCS Audit Manual.

Unit 7: Preparation of Final Accounts (Trading, P&L, & Balance Sheet)

Financial Statement Preparation: Integration of trading margins, interest spread, staff salaries, depreciation, & bad debt provisions to arrive at Net Surplus before mandatory statutory allocations.

Practical Solved Problem 1 (Cooperative Trading, P&L, and Net Surplus Calculation): Primary Agricultural Credit Society (PACS) Trial Balance Data: Sales of Fertilizers = ₹50,00,000; Opening Stock = ₹5,00,000; Purchases = ₹42,00,000; Closing Stock = ₹7,00,000; Interest Income on Loans = ₹8,00,000; Interest Paid on Deposits = ₹4,00,000; Administrative Salaries = ₹2,50,000; Depreciation = ₹50,000.
Prepare Trading Account, Profit & Loss Account, and compute Net Profit before statutory allocations.

Cost of Goods Sold = Opening Stock + Purchases - Closing Stock; Gross Profit = Sales - COGS

Step-by-step Solution:
1. **Trading Account Working:**
- Cost of Goods Sold (COGS) = $5,00,000 + 42,00,000 - 7,00,000 = \mathbf{₹40,00,000}$.
- **Gross Profit from Trading** = $50,00,000 - 40,00,000 = \mathbf{₹10,00,000}$.
2. **Profit & Loss Account Working:**
- Total Gross Income = Gross Profit ($10,00,000$) + Interest Received ($8,00,000$) = $\mathbf{₹18,00,000}$.
- Total Operating Expenses = Interest Paid ($4,00,000$) + Salaries ($2,50,000$) + Depreciation ($50,000$) = $

\mathbf{₹7,00,000} $.
- **Net Surplus (Net Profit)** = $ 18,00,000 - 7,00,000 = \mathbf{₹11,00,000} $.

Practical Solved Problem 2 (Cooperative Balance Sheet Asset & Liability Structuring): Structure Balance Sheet totals for PACS with: Member Share Capital = ₹10,00,000; Statutory Reserve Fund = ₹5,00,000; Member Fixed Deposits = ₹40,00,000; Loans to Members = ₹35,00,000; Cash & Bank Balances = ₹12,00,000; Fertilizer Stock = ₹8,00,000. Verify Balance Sheet equality.

Total Liabilities = Share Capital + Reserves + Deposits; Total Assets = Loans + Cash/Bank + Inventory

Balance Sheet Equality Verification:
1. **Total Liabilities:** $ 10,00,000 \text{ (Shares)} + 5,00,000 \text{ (Reserves)} + 40,00,000 \text{ (Deposits)} = \mathbf{₹55,00,000} $.
2. **Total Assets:** $ 35,00,000 \text{ (Member Loans)} + 12,00,000 \text{ (Cash/Bank)} + 8,00,000 \text{ (Inventory)} = \mathbf{₹55,00,000} $.
3. Balance Sheet matches at $ \mathbf{₹55,00,000} $.