

Book 3: KEEPING TRACK

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Together For a Change

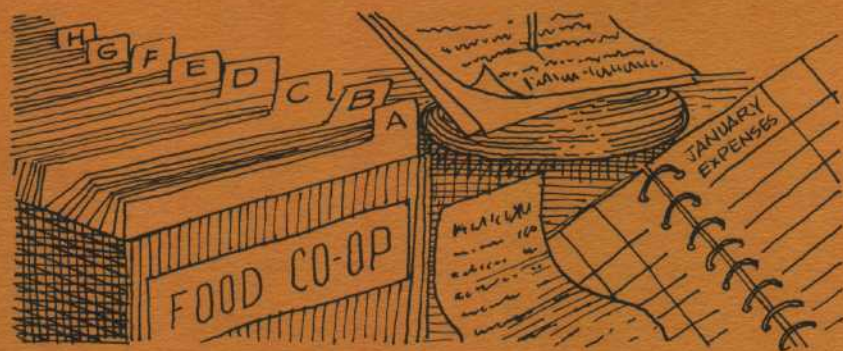
A Series on Food Cooperatives



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III. Keeping Track



BY DIANE HALL¹, and ELIZABETH SCOTT²

THERE ARE probably as many different ways to run a preorder food cooperative as there are groups of people involved in them. Experience shows that this is also true about bookkeeping methods.

We chose the following bookkeeping system because of its adaptability to individual co-op needs. It includes most of the bookkeeping problems that an average preorder group would run into. In addition, any parts which will not be used by your particular co-op can be deleted without affecting the rest of the system.

The system is simple and compact, and works well for the average-sized (25 to 50 members) preorder food co-op. All that is required are: individual order forms, a box of 4×6 inch index cards (one for each member), and one 6-column journal.

Although the system is single entry, it has several checks and balances to assure the bookkeeper that the numbers are correct.

This bulletin is made up of two parts. Part 1 talks about the cycle of a cooperative, how bookkeeping fits into that cycle and the forms the treasurer will work with. Part 2 describes the bookkeeping system itself.

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Part 1—The Cycle

No bookkeeping system happens outside an organization. This is important to remember as you read through this bulletin. Bookkeeping is an integral part of the whole system and is an aspect as important as distribution. Bookkeeping is the record of the business. It is a history always in the making.

Preorder Food Co-op Cycle

If the following cycle does not conform to your co-op, the order of events can be changed to whatever suits your membership.

At the time of the order, each member is given an individual order form and an itemized price list. In some co-ops the members fill out order forms at home and submit them to a volunteer who compiles all the separate orders into one order. Other co-ops use an auction method where all members meet once a month and order together. One person calls out the individual items and the members respond by stating how many pounds of that item they wish to purchase. Once an order is filled, each member enters it on their order form. The advantage of this system is that if the co-op is a few pounds short of ordering the unit amount of an item, one member will usually speak up and volunteer to purchase the difference. The disadvantage is that the members must meet twice a month, once for the ordering and again at the time of distribution.

After the order, a copy of each order form goes to the treasurer. At this point, math is checked, preliminary bookkeeping is done and the deposit is made. Next, the various orders are submitted to the suppliers.

After the order has been distributed among the members, the second portion of bookkeeping starts; refunds are figured out, math is checked again, journal entries are made and membership cards are brought up to date.

Markups to Cover Expenses

Co-op markup—every member pays a percent markup to cover the expenses of repacking groceries, paying a driver gas to pick up the order, and other expenses of running the co-op. How to figure this markup is discussed in Extension Bulletin 1562.

Member share—If your co-op is going to order from a cooperative supplier (such as the Michigan Federation of Food Co-ops) it will be required to pay a member share. This is also called a stock fee by Common Health or a membership fee by Intra-Community Cooperative (ICC). Whatever the title, the principle is the same. Because these suppliers are nonprofit cooperatives, they are owned by their members. This ownership is in the form of financial backing by the member co-ops, share of

the warehouses, inventory and, of course, one co-op, one vote in the democratic management of the business.

The financial backing is the member share. It is usually 110% of the co-op's average monthly order. This is paid for at a rate of 4 to 10% per order over a period of time until the entire amount is paid. The amount is totally refunded if the co-op should decide not to use the cooperative supplier and discontinue membership.

Many preorder food cooperatives also use this member share procedure to raise capital within the co-op. Either there is a set fee charged, or the member is asked to pay some percentage of their monthly purchases. In most cases when the member leaves the co-op this amount is refunded.*

In this bookkeeping system the co-op is assumed to be buying from the Michigan Federation of Food Cooperatives. This organization asks member co-ops to pay a member share of 110% of the average monthly order. This is done at a rate of 10% per order until the full amount is paid.

Each co-op in turn asks the same of each of its members. For example, a member who purchased \$45.00 on the first order and every order thereafter, would also pay \$4.50 per month until \$49.50 ($\$45.00 \times 1.10$) had been deposited.

The markup system—If, as in the example of this group (Fig. 1), the markup is 3% to cover expenses and 10% for the member share when the co-op starts out, all members will be paying the same amount in addition to the price of their groceries. However, a time will come when some members are paying only the 3% markup while others are paying 13%. This situation tends to lead to more confusion with the individual members, than with the bookkeeper.

The question usually asked is: "what is the best way for the member to know which markup should be paid?" This can best be handled by the

Fig. 1—Member Share Balance Listing.

Subtotal 39.25			
x 1.10			
43.17	Subtotal	39.25	(A)
Member share	Markup 3%		
Balance 15.96	13%	5.10	
	Rental	.50	X
Check No. 558	Total	44.85	
	Net order		

* For a further explanation, see *Cooperative Extension Bulletin E-1506*.

use of a member share balance listing on the order form. (Fig. 1). On each order the subtotal will be multiplied by 1.10 to get the total member share required. In this way, each member is aware of their member share balance from month to month. If the subtotal (A) times 1.10 is greater than the member share (B) balance, use a 13% markup. If, on the other hand, the subtotal times 1.10 is less than the member share, the member would only pay a 3% markup.

The Rent Fund

Another aspect of this bookkeeping system is the use of the rent fund or the rental account. In the example being used, the co-op rents its distribution space for \$15.00 per month. Instead of covering this expense with the markup, they feel it is fairer to charge a set fee only to members who order that month. In this example the fee is 50¢. This approach can also be used for other co-op activities such as a newsletter or member education.

Description of Forms

This system uses three forms: the individual order form (Fig. 2), the

Fig. 2.—Individual Order Form

Co-op Name				
Name:		Pick-up		
Address:		Date: 5/8		
Phone:		Day: Friday		
		Time: 6-8 pm		
Item	Cost/unit	No. Units	Total	Refund
Safflower oil	4.90	1 gal.	4.90	
Peanut butter	.66	3	1.98	
Cheese	1.86	3	5.58	
Popcorn	.20	5	1.00	
Yeast	1.19	1	1.19	
	≡	≡	≡	≡
Member share balance <u>15.96</u>	Subtotal		39.25	
	Markup	3% 13%	5.10	
	Rental		.50	
Check No. 558	Total		44.85	
	Net order		 	

membership card (4"×6") (Figs. 3 and 4), and a six-column journal (Fig. 5).

Individual Order Form—Information such as the co-op's name and space for the member's name, address and phone number should be at the top of the form (Fig. 2). It is also advisable to leave space for the date and time of distribution. Below this is the area where the members will fill in their order.

The first column in this area is for the listing of the name of the item. The second is for the cost per unit. (The cost per unit would be copied off the price list.) In the third column, the member fills in the number of units desired and then multiplies column 2 by column 3 to arrive at the total cost for that item. As listed in Fig. 2, the first item, safflower oil, costs \$4.90 per gallon; the member wants one gallon, yielding a total cost of \$4.90 for that item.

The total column is added together to arrive at the subtotal. This amount is entered in the box marked subtotal at the bottom of the form. The member then enters the percentage mark-up (in this case 13%) according to the difference between the member share balance and the subtotal. The percentage mark-up is multiplied with the subtotal to yield the mark-up amount, in this case \$5.10. ($\$39.25 \times 13\% = \5.10).

Next, the rental amount is listed and then the subtotal, mark-up and rental amounts are added together to yield the total. This is the amount the member will pay when submitting the order.

The far right-hand column on this form is used when refunds are given for items that did not arrive due to the supplier being out of stock. The procedure for this refund will be described in the next section.

There is also a space at the bottom for the entry of the check number of the member's payment. This is used only to facilitate good bookkeeping. Usually order forms have 1 or 2 carbon copies. The member keeps

Fig. 3.—Membership Card.

Name	Date	Member share	Balance
	1/80	3.99	3.99
Address:	2/80	4.02	8.01
	3/80	4.12	12.13
Phone:	4/80	3.83	15.96
	5/80		
Talents or other info:	6/80		

one copy, one copy is given to the bookkeeper and one copy is given to the person ordering or doing the distribution.

Membership Card—The second form is the member's 4" by 6" index card (Fig. 3). There should be space for the member's name, address and telephone number. You might also include other information such as activities the member might be willing to volunteer to the co-op.

On the right-hand side is the record of the member's share deposits (payments of 10%) listed by month. The balance is a running total of the amount paid to date. For example, in April \$3.83 was paid. This is added to March's balance of \$12.13 yielding a new balance of \$15.96.

The back of the membership card (Fig. 4), is used to keep a record of the member's monthly net order. How to figure this amount will be described in the next section. If your co-op has a work requirement, this area can also be used to record hours. The listing of the member's net order amount will be used for determining the amount of member share which should be paid.

The Six-Column Journal—Figure 5 is a representation of the six-column journal. It is a combination of what (in a traditional bookkeeping system) would be called the checking account journal and the general journal where all transactions in and out are listed.

Going across the top, the first column is for the date of the transaction, either when cash was received or when a check was written. The second column is a brief explanation of the transaction. Each month should start with the balance brought forward from the previous month. This is followed by the cash amount or receipts for this order. All expenses paid out are listed in order from top to bottom.

The third column is for listing the check number for recordkeeping and cross reference to the co-op's checkbook. The receipt column lists all money taken in. The disbursement column is for all money paid out. The

Fig. 4—Membership Card (Side 2).

Month/ Year	Net Order	Hours Worked						
J-80	39.95							
F	40.23							
M	41.20							
A	38.36							
M								
	≡	≡	≡	≡	≡	≡	≡	≡
D								

amounts of the checks are listed here. In the rental account, both money collected each month and the amount paid for rent is listed. The net profit column contains the amount of money left over after the payment of all expenses and will be used to check the balance and accuracy of the bookkeeping (next section). In the member share co-op column, both the amount of member share collected for each order and the amount transferred to the co-op supplier is listed. The final column lists any payments of member share to the supplier and the total amount on deposit with them.

Fig. 5—Six-Column Journal

Date	Explanation	Check No.	Receipts	Disbursements	Rental Account	Net Profit	Member share Co-op	Member share Supplier
6/1	Balance brought forw.	--	336.53	--	8.00	121.16	207.37	1,208.20
6/2	Receipts from order	--		--				
6/6	Co-op supplier	311						
6/6	Driver	312						
6/6	Eggs	313						
6/6	Honey and spices	314						
6/7	Building rental	315						
6/8	Cash for refunds	316						
6/8	Paper supplier	317						
	Total	--						

Part 2. Procedure for Bookkeeping

Phase 1. After the members have submitted their order:

1. Check the math on the order form.
2. Enter the check number of the member's payment on the order form.
3. Prepare totals of: all orders, rental payments and any adjustments made for math errors.
4. Transfer membership share deposit amount to the member's file card.
5. Make journal entries.
6. Make the bank deposit.

Check the individual order forms.—Completed order forms are given to the treasurer. A treasurer's first task is to check the math. An example

of a problem encountered is shown by (A) in Fig. 6. Here is a multiplication error where $3 \times \$1.86 = \5.58 and not $\$3.38$. The member must then be billed or credited the difference.

The second number to check is the addition of the total column, and the subtotal (B). Next, check to be sure the member has used the correct markup percent (C) and finally that the total is correct (D). The total is then checked against the amount written on the member's check and the check number is entered in the space provided (E).

Prepare totals of the following: 1) Rental totals—the number can be checked by multiplying total orders by the set fee (.50 in this example). 2) Total column—add all total columns (D) on individual orders. 3) Adjustments—add any adjustments made due to member math error.

Recording Member Share—For the members who are paying in 10% for member share, this amount has to be transferred from the order form to the membership card (Fig. 7). Ten percent of the subtotal \$39.25 is \$3.92. Enter this under member share (A) and add it to the cumulative balance in column 2; $\$15.96 + \$3.92 = \$19.88$ (B). Prepare a total of all member shares paid in this order. For example, the total is \$80.52 in Fig. 8.

Fig. 6—Checking Order Form

Co-op Name				
Name:		Pick-up		
Address:		Date: 5/8		
Phone:		Day: Friday		
		Time: 6-8 pm		
Item	Cost/unit	No. Units	Total	Refund
Safflower oil	4.90	1 gal.	4.90	
Peanut butter	.66	3	1.98	
Cheese	1.86	3	3.58	(A)
Popcorn	.20	5	1.00	
Yeast	1.19	1	1.19	
	=	=	=	=
Member share balance 15.96	Subtotal		39.25	(B)
	Markup	3% 13%	5.10	(C)
	Rental		.50	
Check No. 558	Total		44.85	(D)
	Net order			

(E)

Journal Entries—Make entries into journal (Fig. 8). Total amount received, \$1,704.45 (A); of that, \$18.00 (B) was for rent and \$80.52 (C) was member share. These amounts are added to these columns.

Making the Bank Deposit—The last task in this portion of the bookkeeping cycle is making the bank deposit. Total deposit is the sum of all checks received. This amount should equal all the totals on the order form plus or minus any math errors the members made.

Phase 2. After the order has been distributed:

1. Check the math for the refunds.
2. Figure the member's net order and list it on the member's index card.
3. Prepare a total of all refunds.
4. Make journal entries.
5. Check all balances.

After the order has been distributed, the order forms are again returned to the treasurer, and the second phase of bookkeeping begins. The order forms (Fig. 9) now have: individual refunds listed for items that were out of stock (A), the total of the individual refunds (B), 3% of this

Fig. 7.—Recording Member Share

Name	Date	Member share	Balance
Address:	1/80	3.99	3.99
	2/80	4.02	8.01
	3/80	4.12	12.13
Phone:	4/80	3.83	15.96
	5/80	3.92	19.88
	6/80		
Talents or other info:			
		(A)	(B)

Fig. 8—Journal Entry Examples

Date	Explanation	Check No.	Receipts	Disbursements	Rental Account	Net Profit	Member share Co-op	Member share Supplier
5/1	Balance brought forw.	--	277.30	--	5.00	20.45	251.85	1,083.20
5/2	Receipts from order	--	1704.45	--	18.00		80.52	

(A)

(B)

(C)

total (C), and the total refund (D). Items (B), (C) and (D) can be totaled either at the point of distribution or later by the treasurer.

The net order, which is the original subtotal minus the refund subtotal, must now be figured; $\$39.25 - \$3.17 = \$36.08$ (E). This amount is entered on the back of the membership card (F) as shown in Fig. 10.

Fig. 9—Order Form with Refunds

Co-op Name				
Name:			Pick-up	
Address:			Date: 5/8	
Phone:			Day: Friday	
			Time: 6-8 pm	
Item	Cost/unit	No. Units	Total	Refund
Safflower oil	4.90	1 gal.	4.90	
Peanut butter	.66	3	1.98	1.98
Cheese	1.86	3	5.58	
Popcorn	.20	5	1.00	
Yeast	1.19	1	1.19	1.19
=				
Member share bal. <u>15.96</u>	Subtotal		39.25	3.17
	13% Mark-up		5.10	.10
	Rental		.50	
Check No. 558	Total		44.85	3.27
	Net order		 	36.08

Fig. 10.—Membership Card With Net Orders

Month/ Year	Net Order	Hours Worked						
J-80	39.95							
F	40.23							
M	41.20							
A	38.36							
M	36.08							
=								
D								

Making the journal entries.—The final step of the monthly bookkeeping cycle is making journal entries (Fig. 11) and balancing the accounts.

1. Below the balance brought forward and receipt entries, list all disbursements made this month. In the "explanation" column, list the name of the supplier; in the next column the check number; and in the "disbursement" column, the total amount of the check.

2. For the co-op supplier (No. 305) the total amount paid was \$1,375.00 (A). Of this amount \$1,250.00 was for the groceries purchased and \$125.00 was member share payment. Subtract \$125.00 from the "member share co-op" column (B) and add it to the member share supplier column (C).

3. For the rental payment (No. 309) the amount of the rent \$15.00 should be subtracted from the rental account (D).

4. Enter the amount paid out (No. 310) this month in refunds to members (E).

5. Total up all columns on the total line (F) except for the net profit column (G).

Checking the bookkeeping.—Balancing the accounts is the process for checking the bookkeeping. It involves a series of equations, all using addition and subtraction. Most are very short; only the net profit equation is long.

1. Balance = total receipts (H) - total disbursements (I).
 (\$336.53 = \$1,981.75 - \$1,645.22)

This amount (\$336.53) should equal the balance in your checking account.

Fig. 11—Journal Entries

Date	Explanation	Check No.	Receipts	Disbursements	Rental Account	Net Profit	Member share Co-op	Member share Supplier
5/1	Balance brought forw.	--	277.30	--	5.00	20.45	251.85	1,093.20
5/2	Receipts from order	--	1,704.45 (J)	--	18.00	(M)	80.52	(K)
5/6	People's Warehouse*	305	(A)	1,375.00	(L)		(125.00)	125.00
5/6	Driver	306		15.00			(B)	(C)
5/6	Eggs	307		33.32				
5/6	Honey and spices	308		116.00				
5/7	Building rental	309		15.00	(15.00)	(D)		
5/8	Cash for refunds	310		90.90		(E)		
	Total (F)	--	1,981.75 (H)	1,645.22 (I)	8.00 (P)	(G)	207.37 (N)	1,208.20 (Q)

*(MFOFC)

2. Net profits = receipts (J) - net disbursements [(I) - (C)] -
 (disbursements-member share paid to supplier) (this order)
 member share (K) - net rental [(L) - (D)] + net profit (M).
 (collected this order) (amount in- (brought forward)
 amount out)

Rewritten with numbers:

$$\begin{array}{rcll}
 \text{Profits} = \$1,704.45 & - \$1,520.22 & - \$80.52 & - \$3.00 \\
 \text{receipts} & - \text{net disburse-} & - \text{member} & - \text{net rental} \\
 \text{(J)} & \text{ments} & \text{share} & (\$18.00 - \$15.00) \\
 & (\$1645.22 - & \text{collected} & [(L) - (D)] \\
 & \$125.00) & \text{(K)} & \\
 & [(I) - (C)] & & \\
 + \$20.45 & = \$121.16 & & \\
 \text{net profit} & \text{(Enter in (G))} & & \\
 \text{(M)} & & &
 \end{array}$$

3. The balance can now be figured in a different way to provide a cross check:

$$\begin{array}{rcl}
 \text{Balance} = \text{member share co-op (N)} + \text{net profit (G)} + \text{rental acct. (P)} \\
 \$336.53 = \$207.37 + \$121.16 + \$8.00
 \end{array}$$

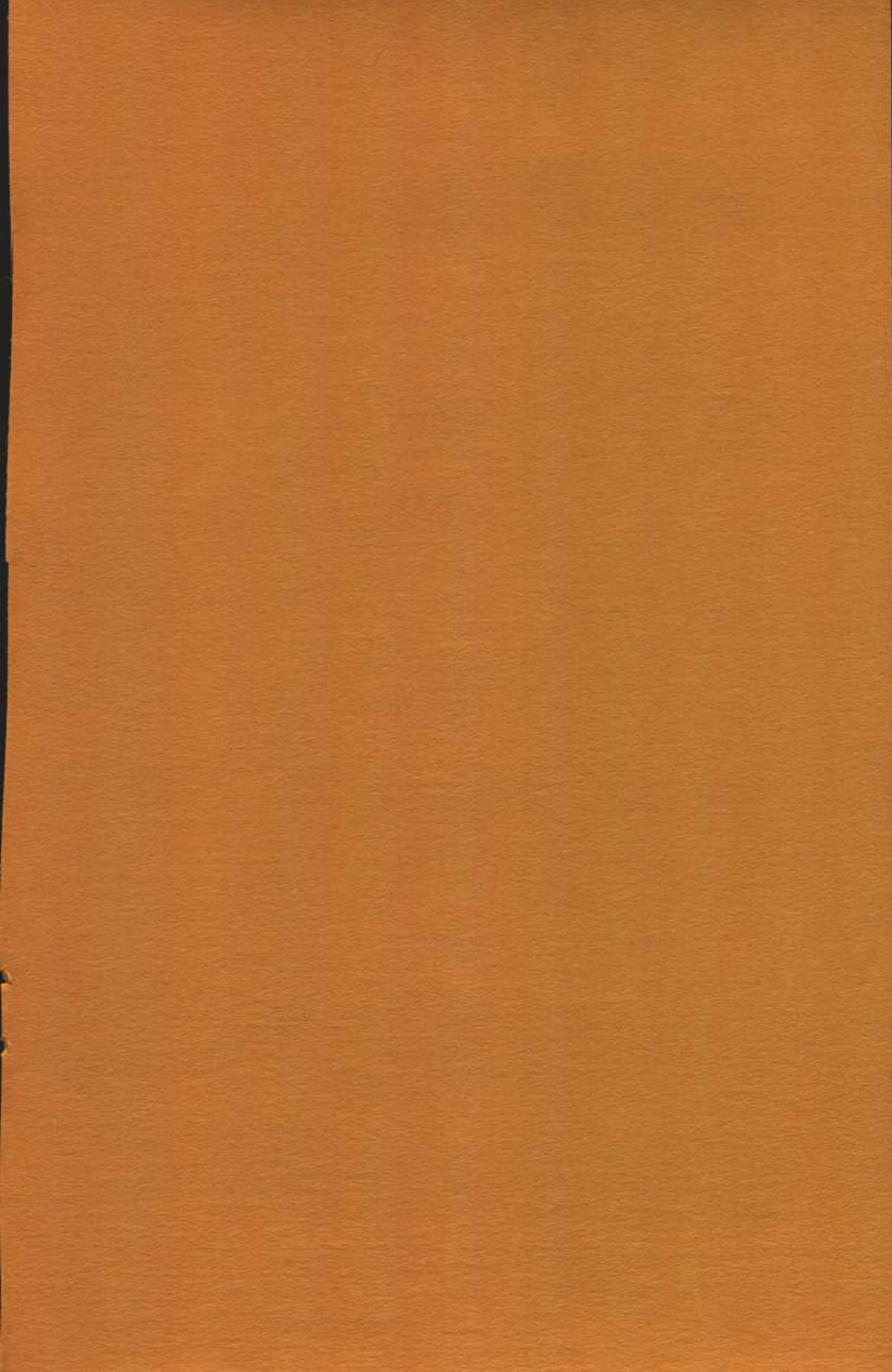
This number reflects the amount in the checking account.

4. Total amount of member share on deposit with the supplier is equal to the amount listed in column (P). This amount can be checked against the periodic (usually quarterly) reports they will send you.
5. Total member share = member share co-op (N) + member share
 supplier (Q)

$$\$1,415.57 = \$207.37 + \$1,208.20$$

This amount should be equal to the total of each member's balance of member share listed on the membership cards.

Record keeping should be the combined responsibility of all co-op members. Although bookkeeping may at first appear to be more work than it is worth, it really isn't that difficult. With careful planning, attention to detail and a few months of practice, it will become easier. Remember—accurate bookkeeping is essential to the long-term health of your cooperative.



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