

Accounting System and
Operational Procedures for
INDISCO Revolving Loan Funds

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INDISCO Guidelines for
Extension Workers

3

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1. INTRODUCTION

This hand book has been prepared for managers and extension officers to enable them to operate the Revolving Funds in the pilot project areas.

The hand book has several chapters. In the first chapters a general idea about the Fund and its operations have been given. Last chapter, on the other hand, has been allocated for book keeping and its applications. Users will find example transactions of a Revolving Fund for bookkeeping practice throughout this handbook.

The book keeping and accounting terminology is a technical matter, therefore we cannot get rid off some difficulties totally for users of this hand book which may arise during keeping records of the revolving fund. On the contrary simplicity in accounting and bookkeeping may create cumbersome results and financial reports that may cause the bookkeeping system useless in the long run.

The book keeping system proposed here, on the other hand, is the simplest one that is some of the aspects of accounting like accrual of income and expenses, budgeting technics and many others have been omitted on purpose. In the long run, however, they can be inserted in the system easily.

We have proposed a book here for bookkeeping that is called **Ledger cum Journal** that is a combination of ledger and journal. The reason why we use the **LCJ** is not only it is simple to use, but also to minimize the number of the books that will be used in the Revolving Fund. To get further information about debtors the **Receivable Ledger** is another book to keep in the Revolving Fund.

Documentation is a very important for the revolving fund like in any other business for book keeping.

In this hand book we have used the following documents as main documents for book keeping:

- Application form and feasibility report
- Cash receipt
- Petty Cash Voucher
- Suppliers invoices and receipts
- Bank statements

Specimen of these forms and example cases to show how to use them have been inserted in the hand book.

To enable the manager to control his/her business an **Audit Check List** has also been included.

An other bookkeeping system, which is slightly different from this one, has been included in the annex. This hand book in the annex is an accounting system for the **tribal groups** in the pilot project areas. When a beneficiary group enjoys a loan from the Revolving Loan Fund the manager keeps the records of the Fund. Then money goes to the beneficiaries through the group where a book keeping is necessary again. Furthermore bookkeeping entries are also necessary for savings of the members of the group. Therefore the authors of this hand book have designed another accounting system for the groups that can be found as an annex in this hand book. It is an optional thing that is when a group feels to keep records for the group activities then it is used.

1.1. WHAT IS A REVOLVING FUND?

A revolving fund means that it is intended to distribute its funds always to the same population group or geographic unit and same economic activity. It collects the funds distributed to the beneficiaries back for use along the same lines.

A revolving fund is rotating, when and if users from among a specified beneficiary group take turns in using the sources of the fund. The term revolving means that the net real value of the fund is always maintained.

The primary advantage of revolving loan funds is that their resources are cheap, while their assets are very few. Considerations like liquidity and capital adequacy do not need to be as precisely observed as in other financial institutions: Illiquidity of a revolving fund only means that no further loan can be granted. Therefore paying back the loan used by the beneficiary groups to the fund becomes a very important issue to maintain the fund beings serve for a longer period of time.

1.2. WHY WE NEED A REVOLVING LOAN FUND?

A serious problem faced by small business, co-operatives, tribal groups and individuals in developing countries is one of access to capital and credit on reasonable terms which is needed to establish income generating activities to increase their standard of living.

Most commercial banks or other alike financial institutions regard lending small entrepreneurs as a high-risk, high-cost business and require collateral that is usually beyond the means of a small business or a tribal group. Since the primary advantage of revolving funds is that their sources are cheap as result of low administration cost, Revolving Loan Funds becomes a vital issue on lending funds to tribal groups or co-operatives and individuals.

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1.3. WHOSE MONEY IS IT?

The primary source of a revolving fund is the initial money which is put by donors generally and it is strengthened by the savings of the beneficiary groups.

It is aimed that the fund will be self-reliant in the future that it is assisted in developing a structure to become a commodity-based funding institution, enabling it to respond to the changing needs of the beneficiaries with additional responsibilities for mobilizing their savings, and capacitating these beneficiary groups on managing their own financial matters. It is, therefore, clear that the funds in the revolving fund belongs to the tribal commodity and is used for that community by the community itself.

1.4. WHO ARE THE BENEFICIARIES?

The INDISCO program has designed for indigenous and tribal peoples or communities to become self-reliant in managing their own development.

The beneficiaries of the Revolving Loan Fund are the followings:

- Indigenous and tribal groups,
- Individuals who are willing to run small scale projects in the
- agricultural, industrial and service sector,
- Tribal co-operatives.

Tribal women's group or co-operatives taking part in pilot project activities may be extended loans for collective or individual income generating activities.

1.5. WHAT TYPES OF LOAN ARE AVAILABLE FOR ME?

The Revolving Loan Fund may grant loan for the following activities:

- small scale farming
- horticulture
- poultry
- livestock keeping
- bee keeping
- fisheries
- forestry products
- cottage industries
- retail business and services
- small scale agro-industries

There are two kinds of loan delivered by the revolving loan fund for those activities above, namely:

- Working Capital Loan
- Capital Expenditure Loan

Working Capital Loan:

Working capital is the money that we need it for buying raw material, paying for labour and other expenses which are needed for the income generating activity that currently we run, or wish to run. Therefore if anyone or group and co-operative that needs working capital money applies to the Revolving Loan Fund for a WORKING CAPITAL LOAN.

Working Capital Loan is generally paid within a maximum one year period of time. The pay back instalments start one month later following delivery of the loan.

Capital Expenditure Loan:

The capital expenditure means that it is any kinds of fixed assets i.e. plant and equipment, furniture and fittings, machinery, land, any kind of construction and buildings, any means of vehicles and sometimes animals for long term use in business and not for sale.

All new or expanding business face is such items as equipment, storage capacity and work space. The capital expenditure loan is extended to the beneficiaries to buy such items. It should be kept in the mind that it is very important to make sure the asset is being effectively used. Therefore a feasibility report is required to apply to the FUND for a capital expenditure loan.

Capital expenditure loan is generally followed by a working capital loan, especially for the new establishments. To buy fixed assets for your project may not help you to start business unless you have enough cash to buy raw material or to meet such expenses as labour or electricity etc..

Contrary to the working capital the pay back period for this type of loan may be longer but not more than three years in any case.

Capital investment requires some time before generates its first cash-in flow or income. Therefore a grace period may be given to the beneficiary. A grace period should not be more than six months in general.

The grace period is the period that only the interest of the loan received from the FUND will be paid and the instalments of the principle will follow the grace period. This will help the borrower invest first and earn later and pay later.

1.6. DO I PAY INTEREST AND HOW MUCH?

Any loan delivered from the FUND is subject to 10% interest calculated annually bases. It is simple interest which is added to the principle amount of loan to calculate instalments.

The interest charged to the borrowers will help the FUND beat the inflation, meet the overhead expenses and strengthen the fund itself.

Example cases to show how to calculate the interest charge for a loan have been given in this manual.

1.7. WHAT IS SAVING, WHY WE SHOULD SAVE?

Theoretically there are three reasons why we save money:

To meet our daily needs,

To meet the consequences of unexpected events,

To catch the opportunities which might occur any time.

People who generate income should save some of its money for one of the reasons or all above. It is the only way to build a self reliant community.

The revolving loan fund finds its sources from donations initially, but its main financial resource should be the savings of the community. The more saving we have, the more lending capacity the FUND will have.

1.8. HOW AM I GOING TO USE MY SAVINGS WITH THE REVOLVING LOAN FUND AND AM I GAINING INTEREST FROM MY SAVINGS?

You can only use your savings indirectly that means the more saving kept in the fund, the more money you can borrow.

You can also use your savings as a collateral against the loan that you may need.

Finally, when you retire, you can get your savings back from the FUND.

Your savings are subject to gain interest calculated annually.

1.9. TO WHOM I SHOULD GO FOR GETTING A LOAN FROM REVOLVING LOAN FUND?

To get a loan, individually or collectively, you should first communicate to the extension officer in charge in the pilot area who will help you to fill an application form.

2. LOAN DISBURSEMENT

2.1. APPLYING FOR A LOAN

The funds of the Fund account shall only be utilised to finance employment and income generating activities to be undertaken by the tribal groups who participate in the pilot projects (see rules and regulations for RLF article 2.)

Therefore groups at village level of a particular project area may apply to the Revolving Loan Fund Pilot Project Management to get a loan.

The group shall be small and homogenous, comprising 10 to 15 persons.

Tribal women groups or co-operatives taking part in pilot project activities may be extended loans for collective or individual income-generating activities.

Project manager and extension officers will cooperate with the VILLAGE COMMITTEES to identify borrowers' groups in the project area for credit consideration.

Loan application to the Revolving Loan Fund Management shall be performed by an application form.

The application form is the following:

APPLICATION No: (Will be put by the Project Management)

A. TO BE COMPLETED BY APPLICANT(S)

Date:

1. We (insert name of co-operative / tribal group leader) hereby request the Revolving Fund Committee to extend us of..... loan to finance our project detailed below:

.....
.....

(give and state purpose of the productive income generating activity, or project here)

(attached detailed feasibility studies of the project, if applicable)

2. We intend to put up the following(s) as our collateral for the loan we have requested:(tick the appropriate and, if applicable, attach the documents that indicates the ownership)

- land :
- assets (name it) :
- promissory note(s) :
- guaranty by third parties :

3. Deadline of the distribution of the loan is (insert the date)

4. We propose the following repayment schedule:

equal amount monthly, starting from (insert the date)

lump sum in the end of the season

5. The rules and regulations have been explained to us by the **FUND** project management or through its extensions that we fully understand and accept the terms and conditions for requesting the loan.

6. We certify the above statements made by us are true and complete.

Borrower(s) name, address and signature(s)

B. (TO BE COMPLETED BY REVOLVING FUND COMMITTEE)

1. We confirm that Revolving Loan Funds criteria, policies and procedures have been reasonably met. Therefore this application has been approved by our committee in the meeting on (date) and registered as (number)

2. We hereby recommend in line with the budget, loan financing of the borrower (put name of borrower) to be extended (in figures), and (..... in words)

3. Signed and dated by at least two Revolving Fund Committee Members

Names of committee members

Signatures

1)

2)

C. (TO BE COMPLETED BY THE LOAN SECTION)

ca)

LOAN

Amount requested :

Amount recommended by the Committee :

Loan amount after adjustments (if any) :

cb)

SCHEDULE OF REPAYMENT (as proposed)

(monthly or lump sum

indicate appropriate one here) :

LOAN APPLICATION FORM

Page : 3

cc)

COST OF LOAN

Insurance charge (if any)

Other costs (if any)

Total cost

PAY THIS AMOUNT (ca - cc)

ce)

I/we have received the cheque/cash with an amount of
(in figures), (in words).

Date and signature of borrower(s)

cf)

(IF APPLICABLE) We regret processing this application and
extending loan to the borrower(s) for the following reasons (explain
why):

.....
SIGNED AND DATED BY: The Fund Administrator and The Chief Of
Loan Section:

NOTE:

This form is duplicated. All copies of the form and its attachments come to the REVOLVING FUND committee first THROUGH the pilot project manager, after borrowers filling their part which is section A. The original and last copy both return to the group (with a cheque or hard cash) where the borrower is asked to sign the section C of the form, before he collects the cheque or hard cash. The borrower is also given the copy of the form for his own records. The original copy returns to the accounting section at the pilot project management for accounting purposes.

Upon receiving, each application form should be given a number in the space provided for this purpose on the top of the form.

The application form has three sections which are filled as follows:

SECTION A:

This section is filled by the **applicant** as follows:

Date: This is the date when the form is filled

1. Insert name of village and name of group members who are applying for a loan, also insert the loan amount requested and finally give a brief explanation of the project.

2. Tick the appropriate and if applicable attach the documents that indicates the ownership of the items being put as collateral.

3. Indicate the deadline of the distribution of the loan.

4. Indicate applicant's choice of payment schedule.

The applicant may repay the loan either monthly, or lump sum at the end of the season. Therefore extension officer should ask the applicant's preference.

5. Nothing will be written here.

The extension officers will explain or help the borrower to read and fully understand the terms and conditions of the Revolving Loan Fund.

6. The leader of the borrowing group will sign here and insert the address of the village where the group lives.

SECTION B:

Section B is to be completed by the **Revolving Fund Committee**.

According to the rules and regulation for the Fund an application for a credit shall be channelled through the Pilot Project Management to the Revolving Fund Committee (see article 3.01). Therefore this committee will fill the Section B to approve or to disapprove the application.

1. Insert the date of the committee meeting held and the number that this application has been registered in the registry book.

2. Insert the name of the borrower and amount of loan as approved by the Committee.

3. Signed and dated by at least two committee members

SECTION C:

The section C is completed by the account section of the Fund or by the manager him/herself.

ca) Amount requested : It is the amount requested by the borrower
Amount recommended : It is the amount approved by the committee

cb) Schedule of repayment : Insert the schedule of payment preferred by the applicant.

cc) Cost of loan : Insert, if applicable, insurance and other cost.

The insurance cost is that if the loan will be spent on such items like live stocks, machinery, buildings etc., then an insurance coverage may be necessary to protect the loan amount in case of unexpected accidents which may happen and destroy the income generating investment of the borrower partly or totally. Therefore the Fund's management may ask the borrower to obtain an insurance cover from a reliable insurance company, or the Fund itself arranges such coverage and charge the insurance fee to the borrower's account. Or the borrowers may allow the Fund make the insurance arrangement and deduct the insurance fee from the requested loan amount.

PAY THIS AMOUNT: It is the difference of the loan amount approved by the Committee and the cost of the loan. This is the amount that will be paid to the borrower.

ce) Insert the number, date and amount of the cheque. Obtain the borrower's signature before handing over the cheque.

cf) (If applicable) explain why this application has been rejected.

SIGNED AND DATED BY: The Fund Manager will sign and date here before the cheque or money order has been issued.

2.2. EVALUATION OF THE LOAN APPLICATION

Application for credit shall be based on sound feasibility study which means loan only be extended to borrowers if their projects are profitable. Therefore a **feasibility report** may be attached to the application form to indicate that the loan requested will be spent on profitable activities.

A specimen of the feasibility report is the following:

FEASIBILITY REPORT

SECTION I

A) PROJECT TITLE:

B) EXPLAIN THE PROJECT:

C) CAPITAL EXPENDITURE REQUESTED:

<u>Types of Expenditure</u>	<u>Amount</u>
-----------------------------	---------------

a) Land

b) Buildings, Machinery and other types of fixed assets

1. Project design
2. Construction cost
3. Machinery and alike
4. Transport and Insurance
5. Assembling
6. Overhead expenses
7. Furniture and fittings
8. Other expenses

Total Capital Expenditure

D) WORKING CAPITAL REQUESTED

E) TOTAL PROJECT COST

SECTION II

ESTIMATED SALES :

ESTIMATED COST OF SALES :

NET OPERATIONAL INCOME (LOSS) :

SECTION III

EVALUATION THE PROJECT

Average Return On Capital Invested: (to be calculated by this formula below:

(Estimated Net Operational Income/Capital Invested) x 100

The feasibility report that should be filled by the applicants with the assistance of extension officers has the following headings to be filled:

SECTION 1

A) PROJECT TITLE: Put the name of the project i.e. bee-keeping, purchasing live stock, etc..

B) EXPLAIN THE PROJECT: Give a brief explanation of the project.

C) CAPITAL EXPENDITURE REQUESTED: Insert types of the expenditure that are needed for the project which may be financed by the Fund.

D) WORKING CAPITAL REQUESTED: Indicate the amount of working capital if you think it is needed for this project.

The working capital is the money which is needed to buy material or pay for labour and etc.

E) TOTAL PROJECT COST: It is the total of C and D.

SECTION II

It is the part of the form where the extension officer will assist the applicants to make some calculations as follows:

These are the headings of this section:

Estimated sales

(if the project is a continuous activity then estimate one whole year's sale. If it is a buying and selling activity like buying a CALF and selling it some time later on profit then estimate the selling price of this transaction and enter it here.)

Cost of Sales (Estimate the cost of sales that is financial input for production i.e. raw material, seeds, fertilisers, energy, marketing expenses, labour force, rent, depreciation of fixed assets and other cost.)

Net operational income (It is the difference of estimated sales and cost of sales.)

SECTION III

This is the section where the extension officer will make the final evaluation in the light of the findings of Section II as follows:

Average Return on Capital Employed (To be calculated by this formula):

$$\text{(Estimated net operational income/Capital Invested) X 100}$$

DO YOU THINK THE RATIO IS HIGH ENOUGH? THE PROJECT MAY BE CONSIDERED PROFITABLE IF IT IS HIGHER THAN THE HIGHEST, BUT RISK FREE INTEREST RATE FOR SAVINGS AVAILABLE IN THE COUNTRY.

Let's have a look at the example case below to see how to fill the application form and the feasibility report:

Mrs. Komar is a housewife. She is very busy with the daily housework and taking care of her family. On the other hand she thinks that if she uses her time more efficiently she may get herself involved an income generating activity. She still believes in that this is the only way to contribute the family income and increase the standard of living of her family. Mrs. Komar, with this ideas, goes to see and talk the extension officer of the pilot project. This is the conversation they had:

Mrs. Komar : Good afternoon Mr. Rajiv.

Mr. Rajiv : Good afternoon Mrs. Komar, may I help you?

Mrs. Komar : Yes please. What I have been thinking recently is that if I had enough money to buy a sewing machine I would have sewed children underwear to sell in the market. I have noticed to that one of my relatives who lives in another village produces pajamas and sells them in the market and makes good money out of it.

Mr. Rajiv : It is an excellent idea Mrs. Komar. The Revolving Fund may grant a loan to you if you meet the RLF committee's rules and regulations. The first thing to do is that preparing a feasibility report and filling an application form. Tell me Mrs. Komar how much is the cost of sewing machine?

Mrs. Komar : I have all the information which you may need.

- The cost of machine is US \$ 200.00.
- To make one children underwear I need 1 meter material which cost to me 75 cents per meter.
- I can sew 6 underwears in one day. Therefore I need 6 meters material for one day production.
- The price of similar type of underwear in the market place is sold approximately 2.5 Dollars each.
- The transport to the market costs to me 2 Dollars round trip.
- I must consider 50 cents per underwear for other expenses.

Mr. Rajiv : This is enough for me Mrs. Komar. Let's see how much income you would make out of these estimates:

Capital Expenditure needs	\$ 200
Contingency	\$ 15
Total	\$ 215

Working Capital Needs (For two weeks' needs)

Material cost 1 meter x 6 underwears x 14 weeks x 75 cents:	\$ 63
Other material like cost 50 cents x 6 underwears x 14 weeks:	\$ 42
Ovehead cost:	\$ 20
Total investment required:	<hr/> \$ 340

Now we can fill the feasibility report:



FEASIBILITY REPORT

SECTION I

A) **PROJECT TITLE:** Children underwear sewing

B) **EXPLAIN THE PROJECT:** There is demand for children underwear in the market place near applicant's village. With this project it is aimed to take advantage of the insufficient supply of children underwear in the market. By doing so it is expected that the family income of the applicant will raise.

C) **CAPITAL EXPENDITURE REQUESTED:**

<u>Types of Expenditure</u>	<u>Amount</u>
a) Land	-
b) Buildings, Machinery and other types of fixed assets	
Sewing Machine	200
Contingency	15
	<hr/>
Total Capital Expenditure	215
D) WORKING CAPITAL REQUESTED	125
	<hr/>
E) TOTAL PROJECT COST	340

SECTION II

ESTIMATED SALES : \$ 4,200 (year)¹

ESTIMATED COST OF SALES : \$ 2,625 (year)²

NET OPERATIONAL INCOME (LOSS) : \$ 1,575 (year)³

SECTION III

EVALUATION THE PROJECT

Average Return On Capital Invested:

$$\begin{aligned} & (\text{Estimated Net Operational Income/Capital Invested}) \times 100 \\ & (1,575 / 340) \times 100 = 463 \% \end{aligned}$$

¹ She can produce 6 underwears a day which means 42 a week, 2100 a year if we assume she can work 50 weeks a year only. If she sells underwear at 2 Dollars each that makes 4,200 Dollars a year.

² To produce one underwear we need 1 meter material which is 75 cents per meter. We estimate that she can produce 2,100 underwear in one year time. Therefore the material cost would be $2,100 \times .75 = \$ 1,575.00$. We also estimate that the other cost per underwear is 50 cents. Therefore the other cost would be $2,100 \times .50 = \$ 1,050.00$ and total cost of sales would be \$ 2,625.00.

³ To make a better tuned up results, estimated administration cost may be deducted from net operational income also. For example the administration cost for this case above would have been calculated under the following assumptions as follows:

Therefore the Average Return on Capital Invested for this project is 463 % which is high enough to say this project is feasible.

Now we can fill the application form as follows:

Overhead expenses: It is estimated that S 500 for one year would be enough for electricity, maintenance and alike expenses.

Marketing expenses: The transport fee to the market place is 2 Dollars for a round trip. If she goes to the market 75 times a year the marketing cost would be 150 Dollars.

Interest expenses: The interest rate is 10 % annually. Therefore interest expense is 34 Dollars for the first year.

Depreciation expense: The rate for depreciation is 25 % as we are estimating the economic life of a sewing machine is 4 years. Therefore it is 50 Dollars for the first year.

Other expenses: It is estimated that 100 Dollars for a year would be enough for unexpected expenses.

APPLICATION No: 30 (Will be put by the Project Management)

A. TO BE COMPLETED BY APPLICANT(S)

Date:

1. We *Mrs. Komar..* (insert name of co-operative / tribal group leader) hereby request the Revolving Fund Committee to extend us of \$ *340.00* loan to finance our project detailed below:

Children Underwear Production

(give and state purpose of the productive income generating activity, or project here)

(attached detailed feasibility studies of the project, if applicable)

2. We intend to put up the following(s) as our collateral for the loan we have requested:(tick the appropriate and, if applicable, attach the documents that indicates the ownership)

land : *Nil*

assets (name it) : *Nil*

promissory note(s) : *Nil*

guaranty by third parties : *Nil*

3. Deadline of the distribution of the loan is *24.08.1996*..... (insert the date)

4. We propose the following repayment schedule:

equal amount monthly, starting from *November 1996*..... (insert the date)

lump sum in the end of the season

5. The rules and regulations have been explained to us by the **FUND** project management or through its extensions that we fully understand and accept the terms and conditions for requesting the loan.

6. We certify the above statements made by us are true and complete.

Borrower(s) name, address and signature(s)

Mrs. Komar, 27.05.1996

B. (TO BE COMPLETED BY REVOLVING FUND COMMITTEE)

1. We confirm that Revolving Loan Funds criteria, policies and procedures have been reasonably met. Therefore this application has been approved by our committee in the meeting on *10.06.1996*..... (date) and registered as (number) *123*.....

2. We hereby recommend in line with the budget, loan financing of the borrower (put name of borrower) to be extended \$ *340.00*..... (in figures), and (*only three hundred and forty dollars....* in words)

3. Signed and dated by at least two Revolving Fund Committee Members

<u>Names of committee members</u>	<u>Signatures</u>
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1) *Mr. X*

2) *Mr. Y*

C. (TO BE COMPLETED BY THE LOAN SECTION)

ca)

LOAN

Amount requested : \$ *340*.....

Amount recommended by the Committee : \$ *340*.....

Loan amount after adjustments (if any) :

cb)

SCHEDULE OF REPAYMENT (as proposed)

(monthly or lump sum

indicate appropriate one here) : *Monthly Starting from*

November 1996

cc)

COST OF LOAN

Insurance charge (if any)

Other costs (if any)

Total cost

PAY THIS AMOUNT (ca - cc) \$ 340.....

ce)

I/we have received the cheque/cash with an amount of \$ 340.....

(in figures), *only three hundred and forty dollars.....* (in words).

Date and signature of borrower(s)

cf)

(IF APPLICABLE) We regret processing this application and extending loan to the borrower(s) for the following reasons (explain why):

.....

SIGNED AND DATED BY: The Fund Administrator and The Chief Of Loan Section:

These are the examples how to calculate the interest:

CASE 1: A group of borrowers has taken of \$ 8,000 for loan from the Fund. Let's assume that the interest rate for this loan would be 2 % monthly. The group will pay the loan back in four equal installments in one year. The formula to calculate the interest for a year is the following:

$$\text{Interest charge} = (\text{Loan amount} \times \text{interest rate}/100 \times \text{number of months})/12$$

Therefore the interest charge for each month of the first quarter is the following:

$$\text{Interest charge} = (8,000 \times 2 /100 \times 1)/1 = \$ 160.00$$

Therefore the interest charge for each month of the first quarter would be \$. 160.00.

In the second quarter the interest charge will be calculated from the remaining balance of the loan as follows:

$$\text{Interest charge} = (6,000 \times 2/100 \times 1)/1$$

$$\text{Interest charge} = \$. 120.00$$

For the third quarter it would be \$. 80.00 and \$. 40.00 for the last period.

Let us see these transactions on the receivable ledger of this particular borrower:

BORROWER'S NAME AND ADDRESS:							
Date	Ref.	LOAN			INTEREST		
		Dr	Cr	Balance	Calculated	Paid	Balance
01/04/1996		8,000		8,000	160		160
01/05/1996				8,000	160	160	160
01/06/1996				8,000	160	160	160
01/07/1996			2,000	6,000	120	160	120
01/08/1996				6,000	120	120	120
01/09/1996				6,000	120	120	120
01/10/1996			2,000	4,000	80	120	80
01/11/1996				4,000	80	80	80
01/12/1996				4,000	80	80	80
01/01/1997			2,000	2,000	40	80	40
01/02/1997				2,000	40	40	40
01/03/1997				2,000	40	40	40
01/04/1997			2,000	-	-	40	-
TOTAL							

CASE 2: A group of borrower has been given an amount of \$. 4,000 for loan from the Fund payable 4 months later. The interest rate for this loan is 1% monthly. Therefore the interest charge for this loan would be \$. 40 for each month.

Let us see the transaction on the receivable ledger:

BORROWER'S NAME AND ADDRESS:							
Date	Ref.	LOAN			INTEREST		
		Dr	Cr	Balance	Calculated	Paid	Balance
01/04/1996		4,000		4,000	40		40
01/05/1996				4,000	40	40	40
01/06/1996				4,000	40	40	40
01/07/1996				4,000	40	40	40
01/08/1996			4,000	-	-	40	-
TOTAL							

CASE 3: A group of borrower has been extended an amount of \$. 4000 for loan from the Fund's account. The group has drawn the money from the Fund as follows:

01/04/1996 2,000
 01/06/1996 1,500
 01/07/1996 500

—————
 4,000

The loan is payable at 01/08/1996 and the interest charge is 2% monthly. Let's see the transactions on the ledger again:

BORROWER'S NAME AND ADDRESS:							
Date	Ref.	LOAN			INTEREST		
		Dr	Cr	Balance	Calculated	Paid	Balance
01.04/1996		2,000		2,000	40		40
01.05/1996				2,000	40	40	40
01.06/1996		1,500		3,500	70	40	70
01.07/1996		500		4,000	80	70	80
01.08/1996			4,000	-	-	80	-
TOTAL							

CASE 4: A group of borrower has been given an amount of \$. 6,000 for loan from the Fund. The group will return the loan in six equal instalments with an interest of 2% monthly.

Let us see the transactions on the **Receivable Ledger** again:

BORROWER'S NAME AND ADDRESS:							
Date	Ref.	LOAN			INTEREST		
		Dr	Cr	Balance	Calculated	Paid	Balance
01/04/1996		6,000		6,000	120		120
01/05/1996			1,000	5,000	100	120	100
01/06/1996			1,000	4,000	80	100	80
01/07/1996			1,000	3,000	60	80	60
01/08/1996			1,000	2,000	40	60	40
01/09/1996			1,000	1,000	20	40	20
01/10/1996			1,000	-	-	20	-
TOTAL							

If a borrower pays only the principle, but fails paying the interest the manager should take the interest amount from the payment of the borrower first, then the remaining balance of his payment is credited to the borrower's loan account. Assume that the borrower of the case 4 pays \$. 1,000 only, but fails paying the interest of the first month which is 120. Let us see it on the **Receivable Ledger** as follows:

BORROWER'S NAME AND ADDRESS:							
Date	Ref.	LOAN			INTEREST		
		Dr	Cr	Balance	Calculated	· Paid	Balance
01/04/1996		6,000		6,000	120		120
01/05/1996			880	5,120	102.4	120	102.4
TOTAL							

As you may notice remaining balance of the principle amount of the loan is \$. 5,120 after this transaction. The manager has recovered \$. 120 which is the interest of the first month from \$. 1,000 at once. Therefore remaining balance of \$. 1,000 is \$. 880 which has been credited to the loan account of the borrower. Now, the borrower owes us \$. 5,120 although he has paid \$. 1,000. The interest for the second month would be \$.102,4 because it has been calculated from the balance of \$. 5,120.

The records on the ledgers above should be done through the book keeping system which has been explained in this hand book later (see chapter 5 Recording Loans).

2.4. MAINTAINING A PETTY CASH

The petty cash system is an accounting method which helps the manager save his time from going to the bank each time he needs money. The petty cash system is called "imprest" system. Under this method a predetermined amount (usually sufficient to cover one week's expenses) is drawn from the bank. This cash is called "petty cash float".

If a payment is made from this petty cash, a petty cash voucher should always be issued for the amount. The petty cash vouchers should be numbered in sequence and made in duplicate. The original is given to the person who receives the cash, where the second copy remains in the book.

This is how the petty cash system works:

- Decide how much cash would be enough to cover the Fund's need for a week.
- Withdraw the cash from the bank and lock it in the cash box.
- Do not make payment out of petty cash without receiving supporting documents and the signature on the voucher by the recipients.
- When the money is nearly finished go through the vouchers and total them. When the vouchers are totalled make a cheque for that amount and cash to imprest your petty cash.
- Be sure the account section enters petty cash vouchers in the book keeping system as shown in this manual later.
- Issue a petty cash voucher for making payment.

A specimen of the petty cash voucher is on the following page:

PETTY CASH VOUCHER

Date:

No:

Account Name and No:

Payment made to:

Date	Text	Amount
		Total

Amount (in words):
.....

Paid by :

Received by:

Approved by:

Explanation of headings:

Date : This is the date when the payment was made.

Petty Cash Voucher No : This is the petty cash voucher number, either preprinted or numbered.

Account Name and No : This is the ledger account under which this account falls (according to the chart of accounts provided in this hand book).

Payment Made To : The name of the payee should be filled in the blank space provided.

Date : This is where the date of the relevant document is entered.

Text : This is where the explanation relating to the payment is indicated.

Amount : This is the amount of the payment.

Paid by : This is the name and signature of the person who is handling the petty cash.

Received by : The person who has received the petty cash should sign on the blank space.

Approved by : The person who has the authority to approve the petty cash voucher should sign here.

3. LOAN REPAYMENT

3.1. REPAYMENT OF LOAN

The loan should be repaid in cash only. Payment of in kind is not acceptable. The manager should always remember that the Revolving Loan Fund is a financial institution, but it is not a marketing entity. Therefore in kind payment of borrowers is not acceptable.

The loan is preferably repaid by the borrowers directly to the account of the Fund in the bank. There may be some cases where the banking facilities are missing or far enough from the borrowers, then the manager ask the extension officers to go and collect the money from the borrowers.

In this case the extension officer must issue a cash receipt to the borrowers when he collects the money. The cash receipt is duplicated. The original is given to the borrower for his own records. The second copy remains in the book. A specimen of cash receipt is the following:

CASH RECEIPT	
Date:	Receipt No:
Name Of the Pilot Project zone:	
Received from:	
The sum ofDollars	
For.....	
Signed by	
extension officer:	

The extension officer should deposit the money that he has collected in his earlier time and return the Fund with a bank slip which shows so much money has been deposited in the Bank.

The manager should go through the cash book and bank slip to see if these two documents are matching. If they are it means that the money collected from the borrowers has been correctly deposited in the bank. After the reconciliation has been successfully performed the transaction is entered in the book keeping system as shown in this manual later.

For a successful recollection of the loan the manager should always send a remainder to the borrowers prior to date of maturity of their loan.

4. BOOKKEEPING SYSTEM

4.1. INTRODUCTION

The book keeping system that is proposed here is for **The Revolving Loan Fund** only that is the bookkeeping entries of a group's activities will not be accommodated here. We have another bookkeeping system for group's activities that can be found in annex.

There are two main books proposed here for bookkeeping, namely:

Ledger Cum Journal, and
Receivable Ledger.

A user of this manual may find example cases and explanations how to use this accounting system if he/she goes through the following pages.

4.2. LEDGER CUM JOURNAL AND CHART OF ACCOUNTS

The Ledger Cum Journal will be used for recording Fund's transactions. The Ledger Cum Journal, which is also called **LCJ**, is a combination of ledger and journal as follows:

Explanation of columns:

LINE NO. : There are two of them, one on the left and the other one on the right. Each line of the page is numbered by the book keeper in sequential order before using the page. These are useful to match relevant transactions on the same line but on different accounts.

DATE : It is a column where the date of the transaction is entered.

DETAILS : It is for the details of the transaction which is available on the supporting documents, e.g. petty cash voucher, loan application form, invoice etc. The details given here should be descriptive enough so that auditing at the later stage becomes easier.

REFERENCE NO.: It is for the reference number of the relevant document. If it is a Petty cash voucher, voucher number or invoice number is the reference number.

AMOUNT : The total of this particular transaction is entered here. This column is convenient to check whether there is any posting error between the debit and credit columns. In order to do this, the "amount column" of the LCJ should be totalled when it comes to the end of the page. The total debits should be equal to the total credits which should be equal to the "amount column" or else there is a posting error which requires checking.

ACCOUNTS: The accounts which are used more frequently than others are given their own account columns. The accounts which are appearing rarely are classified under the other accounts column. It is up to the manager of the Fund to decide which are the accounts which appear more frequently than others. In this manual The accounts that are going to be used in recording the Fund's

transactions have already been pre-determined as you can see below.

OTHER ACCOUNTS: This column is allocated for accounts which do not appear very often. It has three columns; first column is for account name (or code if available), the other columns are debit and credit columns.

PAGE TOTAL: It is for the page total when the page comes to the end.

BALANCE C/F: It is the column for obtaining balances of each account which will be carried forward.

TOTAL : It is for totalling each account after the balances. Since we have already had the balances on the relevant column, debit and credit sides of each account should be balanced in the "Total" column. This is useful information because shows us whether there is any calculation mistake.

Recommended accounts for the Fund are the following:

CHART OF ACCOUNTS

CASH AT BANK : It is an account used for the money at the bank

PETTY CASH : It is for the cash held for the imprest system

RECEIVABLE FROM BORROWERS: It is for receivable from borrowers. The balance of this account is the outstanding loan amount of the borrowers.

OTHER RECEIVABLE: It is for any other receivable of the Fund then loans which have been given.

BAD DEBTS: It is for bad debts. If any borrower fails paying his loan then the remaining balance of his loan is transferred here from RECEIVABLE FROM BORROWERS account. The balance of this account is the amount that waits for the next action of the management against bad debts.

FIXED ASSETS : It is the account where fixed assets like building, office furniture, office equipment etc. of the Fund are recorded.

LIABILITIES: It is the account where the amount which the Fund owes to the third parties is entered here.

PROVISION FOR BAD DEBTS: Whenever a receivable from borrowers turns to be a bad debt and it is transferred to the Bad Debts account from the Receivable From Borrowers account, a provision is made by debiting Income and Expenditure account, and crediting the Provision for Bad Debts account.

ACCUMULATED DEPRECIATION: It's the account where deprecation Charge for the year is entered.

CAPITAL : It is the account where the initial funds given to the Fund is entered. Any donation received to increase the Fund's capacity is entered here.

FUNDS : It is the account for retained earnings of the Fund. If a risk fund or any other fund is made out of the profit of the Fund at the end of the year is entered here.

INCOME AND EXPENDITURE: It is for the income and expenditure of the Fund. If the debit side is in excess of credit side of the account at the end of the year, it means that the Fund has made loss for the

year. If it is other way around it means that the Fund has made profit for the year.

PROFIT OR LOSS: It is the account where the balance of income and expenditure account is transferred at the end of the year to obtain the final result of the Fund which is either profit or loss accordingly.

These accounts will be opened on the LCJ when they are needed to record the transactions.



4.3. RECEIVABLE LEDGER

The other book which will be used for book keeping is the **RECEIVABLE LEDGER**. It is a subsidiary book where each borrower is provided a page for his own records.

This ledger is used by the manager to trace how much each borrower owes to the Fund. It is also used to record interest calculated and interest paid by the borrowers. Entries to the "Receivable From Borrowers" account on the LCJ are also entered here.

A specimen page of this book is the following:

BORROWER'S NAME AND ADDRESS:					Page No:		
Date	Ref.	LOAN			INTEREST		
		Dr	Cr	Balance	Calculated	Paid	Balance
TOTAL							

This book is made two. One is maintained by the Fund. The other one is kept by the borrower. The borrower's copy is in red cover.

Explanations of columns:

BORROWER'S NAME AND ADDRESS: Enter the name and address of the borrower.

DATE: This is the date on which this transaction has been done.

REFERENCE: This is the reference number of the relevant line on the LCJ from which this transaction has been posted.

LOAN DR: This is the column where the loan amount of the borrower is posted.

LOAN CR: This is the column where the loan instalments are entered when the borrower pays.

LOAN BALANCE: This is the column provided for the loan's balance at a particular time.

INTEREST CALCULATED: This is the column the calculated interest from the loan balance is entered. This record is not a double entry book keeping (For more about interest calculation refer to **3. INTEREST CALCULATION** of this manual).

INTEREST PAID: This is the column where interest paid by the borrower is entered against the "Cash at Bank" account.

INTEREST BALANCE: This is the column provided for the current balance of the interest of a particular borrower. The current balance of the interest is the difference of the columns of calculated interest and paid interest.

5. BOOKKEEPING APPLICATIONS

5.1. BOOKKEEPING

Every business entity needs the records to be kept for sound business management so as the Revolving Loan Fund.

There are several books, documents and reports can be used in a business for accounting purpose depending on the size of the transactions and business itself.

In the accounting system proposed for the Revolving Loan Fund these books and documents have been reduced in numbers to make the accounting for the FUND as possible as simple.

On the other hand we can not get rid off the books and documents completely. We have still to maintain some books and documents in the FUND.

An accounting entry needs a supporting document before entering it in the books. In the Revolving Loan Fund case we have several documents and we will call them supporting documents. They are:

- A copy of the application form
- Cash receipt book
- Petty cash vouchers
- Bank slips
- Suppliers' Invoices
- Bank statements

We can either enter these documents in the books, or in the journal voucher first then the books. When we fill we are ready for it we will start using a

journal voucher. For the time being the accounting entries will be done directly from the documents into the books.

In order to maintain accounting records we should have two kinds of main books, namely:

- * Journal : It is for recording daily transactions of the FUND
- * Ledger : It is for grouping the daily transactions under the relevant account. A list of accounts to use for the Fund have been provided for you in Chapter 4.2

In the proposed accounting system we have combined these two books in order to reduce the clerical works and called it Ledger Cum Journal (LCJ). An example page of the book can be seen in Chapter 4.

Every transaction is entered in the LCJ three times. To show how to use the LCJ let's assume that we delivered 270 dollars to a borrower as working capital loan from the Fund's account in the bank on the first of February 1996. The relevant document for this transaction is an **Application Form** and assume that it has been numbered as 30.

As you see we first entered \$ 270 in the column for amount. Later we credited BANK account and debited RECEIVABLE account. Therefore the total of debit sides of each account is always equal to the total of the column for amount. The total of the credit sides of each account, again, is always equal to the column for amount. Therefore a page of this book is in balance at any time.

The reason why we are debiting to one account and crediting to another is because of the so called principle of DOUBLE ENTRY BOOKKEEPING.

We have some other books. We call them subsidiary ledgers. We may have them as many as we want. It depends on the types that we need of financial information. In this accounting manual we like to underline especially one, namely: **Receivable Ledger**. The details of every transaction regarding receivables are also recorded in this book. Therefore every beneficiary group is given a page in its name in this book. This information will help the management to have records of every beneficiary in details.

To give an example have a look at the following transactions:

On 1/2/1996 Mr. Saibal has been extended an amount of 150 dollars for working capital loan. The interest calculated for this loan is 14 dollars. Therefore he owes us \$. 164 altogether.

We will enter this transaction in the LCJ as follows:

Remember the relevant document of this transaction is the **Application Form** where we will find all data we need to make an entry in the book.

This transaction will be posted to the **Receivable Ledger** from the **LCJ** as follows:

BORROWER'S NAME AND ADDRESS:		Mr.Sabial			Page No:		
Date	Ref.	LOAN			INTEREST		
		Dr	Cr	Balance	Calculated	Paid	Balance
01/02/1996	LCJ/1	150		150	14		14
TOTAL							

When the borrower returns the loan he received together with the interest charge we will make the following entries in the **LCJ** and in the **Receivable Ledger**:

And the entries in the **Receivable Ledger** are the following:

BORROWER'S NAME AND ADDRESS:		Mr.Sabial			Page No:		
Date	Ref.	LOAN			INTEREST		
		Dr	Cr	Balance	Calculated	Paid	Balance
01/02/1996	LCJ/1	150		150	14		14
01/03/1996	LCJ/2		150	-		14	-
TOTAL							

5.2. EXAMPLE FUND'S TRANSACTIONS FOR BOOKKEEPING

On the examples below we will show you how to enter the Fund's transactions in the book keeping system proposed for the pilot project management. The examples will be ended up with a balance sheet and income statement of the Fund.

Let us assume that a revolving loan fund has just been established and performed the following transactions in a month.

01/03/1996: An amount of \$ 10.000 has been deposited in a bank account as capital of the Fund to start with.

This transaction will be debited to "Cash at Bank" account and credited to "Capital" account in the LCJ as follows:

02/03/1996: A group of borrowers, (let's say group A) has requested of \$.3.000 for loan. It has been paid by a cheque following the approval of the **Application Form**. It is payable in one month with an interest rate 2 % monthly.

This transaction will be debited to "Receivable from Borrowers" account and Credited to "Cash at Bank" account . The supporting document for this transaction is the **Application Form**. Let us see how the LCJ will look like after entering this transaction in line 2.

This transaction should be also entered in the **Receivable ledger** which is a subsidiary ledger. To enter, on the other hand, we should first calculate the interest for this loan as follows:

$$\$ (3.000 \times 2/100 \times 1)/1 = \$. 60 \text{ is the interest calculated.}$$

BORROWER'S NAME AND ADDRESS:		GROUP A			Page No: 22		
Date	Ref.	LOAN			INTEREST		
		Dr	Cr	Balance	Calculated	Paid	Balance
02/03/1996	LCJ/2	3,000		3,000	60		60
TOTAL							

03/03/1996: Another group of borrowers, say Group B, has been extended \$, 4000 being value of loan that they requested to finance their income generating activities. The loan is payable in equal 4 monthly instalments with an interest rate of 2 % monthly.

This transaction will be debited to "Receivable from Borrowers" account, and credited to Cash at Bank" account as follows (in line 3):

We should also enter this transaction in the **Receivable Ledger** as follows:

BORROWER'S NAME AND ADDRESS:		GROUP B			Page No: 23		
Date	Ref.	LOAN			INTEREST		
		Dr	Cr	Balance	Calculated	Paid	Balance
03/03/1996	LCJ/3	4,000		4,000	80		80
TOTAL							

Remember, each borrower is provided a page in the **Receivable Ledger**. Therefore the page number for this entry is not 22, but 23 for the group B.

11/03/1996: Paid \$. 200 for office furniture by a cheque.

This transaction will be debited to "fixed assets" account, and credited to "Cash at Bank" account as follows (in line 4):

16/03/1996: Drawn \$ 50 from the Bank for petty cash.

This \$ 50 will be debited to "Cash in Hand" account, and credited to "Cash at Bank" account as follows (in line 5):

19/03/1996: Paid \$ 10 to an extension officer from petty cash to cover his travel expenses to the project areas.

To pay this, we should first issue a **petty cash voucher** as follows:

PETTY CASH VOUCHER		
Date: 19/03/1996		
No: 001		
Account Name and No: Travel Expenses		
Payment made to: Mr....., Extension officer		
Date	Text	Amount
19/03/1996	for travelling to the project areas as planned earlier	10
Total		10
Amount (in words): Ten Dollars		
.....		
Paid by : Mr....., The manager		
Received by: Mr....., Extension officer		
Approved by: if applicable		

The **original** of the **Petty Cash Voucher** is given to the extension officer for his own records. Now we can use the remaining copy of the petty cash voucher to make entries in the LCJ as follows (in line 6):

31/03/1996: The extension officer has collected the principles and interest charges from the borrowing group of A and B. Then, he deposited it in the bank.

The extension officer has to issue a cash receipt to the borrowers for the money he collects. The **original** of the **cash receipt** is given to borrowers, and the second copy remains in the book. The cash receipts for these transactions are the following:

Date: 31/03/1996	Receipt No: 001
Name Of the Pilot Project zone:	
Received from: GROUP A	
The sum of \$ 3,060	
For Loan installment and interest charge	
Signed by extension officer:	

Date: 31/03/1996	Receipt No: 002
Name Of the Pilot Project zone:	
Received from: GROUP B	
The sum of \$ 1,080	
For Loan installment and interest charge	
Signed by extension officer:	

The extension officer deposits the money in the bank and he returns to the Fund with the cash book and the bank slip which proves that so much money has been deposited in the bank. Now we can enter these transactions in the **LCJ** as follows (in line 7 and 8):

LINE NO.	DATE	DETAILS	REF NO.	AMOUNT	Bank.....A/C		Receivable from Borrowers.....A/C		Fixed Assets..A/C		Pelly Cash.....A/C		Income Expenditure...A/C		Name of Accounts		OTHER ACCOUNTS		LINE NO.
					Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	
1	01/03	Being deposited	Bank Cred Adv. 123	10,000	10,000											CAPITAL			1
2	02/03	Loan given	App. Form 35	3,000		3,000													2
3	03/03	Loan given	App. Form 36	4,000		4,000													3
4	11/03	Being Purchased	INV. 125	200			200		200										4
5	16/03	Being Drawn	Cheque No.	50			50			50									5
6	19/03	Being Paid	PV 001	10							10								6
7	31/03	Being Received	Cash Rec. No. 001	3,060	3,060			3,000											7
8	31/03	Being Received	Cash Rec. No. 002	1,080	1,080			1,000											8
9																			9
10																			10
11																			11
12																			12
13																			13
14																			14
15																			15
PAGE TOTAL																			
BALANCE C/F																			
TOTAL																			

We should also enter these transactions in the "Receivable Ledger" as follows:

BORROWER'S NAME AND ADDRESS:		GROUP A			Page No:		22
Date	Ref.	LOAN			INTEREST		
		Dr	Cr	Balance	Calculated	Paid	Balance
02/03/1996	LCJ/2	3,000		3,000	60		60
31/03/1996	LCJ/7		3,000			60	
TOTAL							

BORROWER'S NAME AND ADDRESS:		GROUP B			Page No:		23
Date	Ref.	LOAN			INTEREST		
		Dr	Cr	Balance	Calculated	Paid	Balance
03/03/1996	LCJ/3	4,000		4,000	80		80
31/03/1996	LCJ/8		1,000	3,000	60	80	60
TOTAL							

If you look at the **Receivable Ledger** for Group B above you may notice that the interest charge has been calculated on the remaining balance of \$ 3,000 loan amount and entered in the columns for "calculated interest" and "balance". This amount of \$ 60 is not a **double entry book keeping** record, therefore we can not see it on the LCJ until we collect it from the borrowers.

31/03/1996: Depreciation rate for Fixed assets is 10 %.

This is a year ended transaction which should be done automatically by the accountant at the end of the year to produce a balance sheet and income statement.

We debit this to the "Income and Expenditure" account, and credit to "Accumulated Depreciation" account in the LCJ as follows (in line 9):

5.3. PRODUCING THE BALANCE SHEET AND INCOME STATEMENT OF THE FUND

Let us continue the example that we have been already working on to produce the financial reports of the Fund. First thing to do is totalling the last page of the LCJ as follows:

LINE NO.	DATE	DETAILS	REF NO.	AMOUNT	Bank.....A/C		Receivable from Borrowers.....A/C		Fixed Assets..A/C		Petty Cash....A/C		Income Expenditure...A/C		Name of Accounts		OTHER ACCOUNTS		LINE NO.
					Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	
1	01/03	Deposit	Bank Cred. Adv. 123	\$ 10,000												CAPITAL		\$ 10,000	1
2	02/03	Loan given	App. Form 35	3,000		3,000													2
3	03/03	Loan given	App. Form 36	4,000		4,000													3
4	11/03	Being Purchased	INV. 125	200			200		200										4
5	16/03	Being Drawn	Cheque No.	50			50				50								5
6	19/03	Being Paid	PV 001	10						10									6
7	31/03	Being Received	Cash Rec. No. 001	3,060				3,000					60						7
8	31/03	Being Received	Cash Rec. No. 002	1,080				1,000					80						8
9	31/03	Depreciation of the Year		20								20				ACC. DEPRECIATION			9
10																			10
11																			11
12																			12
13																			13
14																			14
15																			15
PAGE TOTAL				21,240	14,140	7,250	7,000	4,000	200	200	50	10	30	140				10,020	
BALANCE c/f				10,130		6,890		3,000		200		40	110					10,020	
TOTAL				31,550	14,140	14,140	7,000	7,000	200	200	50	50	140					10,020	10,020

Now, we should post the balance of the "income and expenditure" account to the "Profit" account, and then total the page of the LCJ again to get the final balances of the accounts as follows:



LINE NO.	DATE	DETAILS	REF NO.	AMOUNT	Bank.....A/C		Receivable from Borrowers.....A/C		Fixed Assets..A/C		Pelly Cash.....A/C		Income Expenditure...A/C		Profit(Loss)..A/C		OTHER ACCOUNTS			LINE NO.	
					Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Name of Accounts	Dr	Cr		
1	31/03	Balance C/F		\$ 10,130	\$ 6,890		\$ 3,000		\$ 200		\$ 40		\$ 110				CAPITAL	\$	\$ 10,020	1	
2	31/03	Year Ended											110		110					2	
3																				3	
4																				4	
5																				5	
6																				6	
7																				7	
8																				8	
9																				9	
10																				10	
11																				11	
12																				12	
13																				13	
14																				14	
15																				15	
PAGE TOTAL				10,130	6,890	3,000	200	40	110	110	110	110	110	110	110	110			10,020		
BALANCE C/F				10,130	6,890	3,000	200	40	-	110	110	110	110	110	110	110	110		10,020		
TOTAL				20,260	6,890	3,000	200	40	40	40	40	40	40	40	40	40	40		10,020	10,020	

6. AUDIT CHECK LIST

The manager is responsible to perform proper auditing on the Fund's accounts. This auditing may be extended to the group accounts as well if the Loan Committee has decided.

The manager to perform the auditing on the books and documents will use an audit check list specially designed for the Fund's activities.

This is the check list for the Fund's transactions:

AUDIT CHECK LIST	Tick where appropriate		
	Yes	No	Other (specify)
<p>I- ON APPLICATION FORMS:</p> <p>a. Have you received the audit report of the previous year and noted down the points of importance to agree with the current year's application forms</p> <p>b. Have you mentioned the defects which you could not get corrected on the spot.</p> <p>c. Have you seen all application forms have been approved by the Committee carried date and the number of the relevant Committee Meeting on this requisition of the borrower.</p> <p>d. Have you checked all application forms have been signed by the applicants.</p> <p>e. Have you checked interest calculations on all application forms have been done correctly.</p> <p>f. Have you checked the feasibility reports attached to the application forms have been filled correctly.</p> <p>g. Have you checked all application forms have been signed by the borrowers when they have collected their cheques or hard cash from the Fund's administration.</p>			

AUDIT CHECK LIST	Tick where appropriate		
	Yes	No	Other (specify)
<p>II. ON FINANCIAL BOOKS OF ACCOUNTS</p> <p>a. Did you check the opening balances with the previous year's balance sheet?</p> <p>b. Did you verify all additions, calculations on the books?</p> <p>c. Did you check the posting with the original source of documents?</p> <p>d. Are the books kept in a safe place?</p> <p>e. Are the pages of the books stamped and signed by the chairman of the Loan Committee?</p> <p>f. Are the books entered up-to-date?</p> <p>III. ON VOUCHING</p> <p>a. Did you check that all receipts were signed by the extension officer who issued the receipt?</p> <p>b. Are the receipts running with pre-printed numbers?</p> <p>c. Did you check the cash receipts against the bank slips?</p> <p>d. Did you check that petty cash vouchers were signed by the one who issued the voucher and by the one who received the money?</p> <p>e. Did you check that the petty cash vouchers run in sequential order?</p> <p>f. Did you check that all the sources o document attached to the petty cash vouchers?</p>			

AUDIT CHECK LIST	Tick where appropriate		
	Yes	No	Other (specify)
<p>IV. ON FINANCIAL REPORTS</p> <p>a. Did you check that the balance sheet for the year was balanced?</p> <p>b. Did you confirm that the balances on the balance sheet was verified?</p> <p>c. Do you think the balance sheet for the year gives a true and fair picture of the Fund?</p> <p>d. Did you check that the income statement was prepared on time?</p> <p>e. did you check that income statement was free form any arithmetical errors?</p> <p>V. ON CASH</p> <p>a. Have you reconciled the cash at the bank with the bank statement?</p> <p>b. Have you checked the cash in the box against the balance of petty cash account?</p>			
<p>AUDITOR'S INITIAL: and DATE</p>			

APPENDIX

BOOKKEEPING SYSTEM FOR GROUPS

1. APPLYING FOR A LOAN

The funds of the Fund account shall only be utilised to finance employment and income generating activities to be undertaken by the tribal groups who participate in the pilot projects (see rules and regulations for RLF article 2.)

Therefore a borrower may apply to RLF for a loan through a group in which s/he is a member at village level of a particular project area.

Applying for a loan shall be performed by an application form as follows:

LOAN APPLICATION FORM

Page : 1

APPLICATION No: (Will be put by the Group Leader)

A. TO BE COMPLETED BY APPLICANT(S)

Date:

1. I/We (insert name of the requester) hereby request the Group Committee to extend me/us of..... loan to finance my/our project detailed below:

.....
.....

(give and state purpose of the productive income generating activity, or project here)

(attached detailed feasibility studies of the project, if applicable)

2. I/We intend to put up the following(s) as my/our collateral for the loan that I/we have requested:(tick the appropriate and, if applicable, attach the documents that indicates the ownership)

- land :
- assets (name it) :
- promissory note(s) :
- guaranty by third parties :

3. Deadline of the distribution of the loan is (insert the date)

4. I/We propose the following repayment schedule:

equal amount monthly, starting from (insert the date)

lump sum in the end of the season

5. The rules and regulations have been explained to me/us by the group leader that I/We fully understand and accept the terms and conditions for requesting the loan.

6. I/We certify the above statements made by us are true and complete.

Borrower(s) name, address and signature(s)

B. (TO BE COMPLETED BY THE GROUP COMMITTEE)

1. We confirm that Revolving Loan Funds criteria, policies and procedures have been reasonably met. Therefore this application has been approved by our committee in the meeting on (date) and registered as (number)

2. We hereby recommend in line with the budget, loan financing of the borrower (put name of borrower(s)) to be extended of (in figures), and (..... in words)

3. Signed and dated by at least two Group Committee Members

Names of committee members

Signatures

1)

2)

4.

a) LOAN

Amount requested :

Amount recommended by the Committee :

Loan amount after adjustments (if any) :

b) SCHEDULE OF REPAYMENT (as proposed)

(monthly or lump sum

indicate appropriate one here) :

LOAN APPLICATION FORM

Page : 3

c) COST OF LOAN

Insurance charge (if any)

Other charges (if any)

Total cost _____

PAY THIS AMOUNT (a - c)

d) I/we have received the cheque/cash with an amount of (in figures), (in words).

Date and signature of borrower(s)

e) (IF APPLICABLE) We regret processing this application and extending loan to the borrower(s) for the following reasons (explain why):

.....
SIGNED AND DATED BY: The group leader

NOTE:

This form is duplicated. The original remains at the group whilst the second copy is given to the borrower when s/he collects the cheque or hard cash from the group.

The **application form** has two sections which are filled as follows:

SECTION A:

This section is filled by the **applicant** as follows:

Date: This is the date when the form is filled

1. Insert name of the borrower, the loan amount requested and brief explanation of the project.

2. Tick the appropriate and if applicable attach the documents that indicates the ownership of the items being put as collateral.

3. Indicate the deadline of the distribution of the loan.

4. Indicate applicant's choice of payment schedule.

The applicant may repay the loan either monthly, or lump sum at the end of the season. Therefore the group should ask the applicant's preference.

5. Nothing will be written here.

The group leader will explain or help the borrower to read and fully understand the terms and conditions of the Revolving Loan Fund.

6. The borrower(s) will sign here and insert the address of the borrower(s) .

SECTION B:

Section B is to be completed by the **Group Committee**.

According to the rules and regulation for the Fund an application for a credit shall be channelled through the Pilot Project Management to the Revolving Fund Committee (see article 3.01). Therefore this committee will fill the Section B to approve or to disapprove the application.

1. Insert the date of the committee meeting held and the number that this application has been registered in the registry book.

2. Insert the name of the borrower and amount of loan as approved by the Committee.

3. Signed and dated by at least two committee members

4.

a) Loan

Amount requested : It is the amount requested by the borrower

Amount recommended: It is the amount approved by the committee

b) Schedule of repayment: Insert the schedule of payment preferred by the applicant.

c) Cost of loan : Insert, if applicable, insurance cost or other relevant costs also.

The insurance cost is that if the loan will be spent on such items like live stocks, machinery, buildings etc., then an insurance coverage may be necessary to protect the loan amount in case of unexpected accidents which may happen and destroy the income generating investment of the borrower partly or totally. Therefore the group may ask the borrower to obtain an insurance cover from a reliable insurance company, or the Fund itself arranges such coverage and charge the insurance fee to the borrower's account. Or the borrowers may allow the Fund make the insurance arrangement and deduct the insurance fee from the requested loan amount.

PAY THIS AMOUNT: It is the difference of the loan amount approved by the Committee and the cost of the loan that is (a - c). This is the amount that will be paid to the borrower.

d) Insert the number, date and amount of the cheque. Obtain the borrower's signature before handing over the cheque or hard cash.

e) (If applicable) explain why this application has been rejected.

SIGNED AND DATED BY: The group leader will sign and date here before the cheque or money order has been issued.

2. EVALUATION OF THE LOAN APPLICATION

The group will evaluate each application for credit which application for credit shall be based on sound feasibility study which means loan only be extended to borrowers if their projects are profitable. Therefore a **feasibility report** may be attached to the application form to indicate that the loan requested will be spent on profitable activities.

A specimen of the feasibility report is the following:

FEASIBILITY REPORT

SECTION I

A) PROJECT TITLE:

B) EXPLAIN THE PROJECT:

C) CAPITAL EXPENDITURE REQUESTED:

<u>Types of Expenditure</u>	<u>Amount</u>
-----------------------------	---------------

a) Land

b) Buildings, Machinery and other types of fixed assets

1. Project design
2. Construction cost
3. Machinery and alike
4. Transport and Insurance
5. Assembling
6. Overhead expenses
7. Furniture and fittings
8. Other expenses

Total Capital Expenditure	
---------------------------	--

D) WORKING CAPITAL REQUESTED

E) TOTAL PROJECT COST

SECTION II

ESTIMATED SALES :

ESTIMATED COST OF SALES :

NET OPERATIONAL INCOME (LOSS) :

SECTION III

EVALUATION THE PROJECT

Average Return On Capital Invested (to be calculated by this formula below):

$$\left(\frac{\text{Estimated Net Operational Income}}{\text{Capital Invested}} \right) \times 100$$

The feasibility report that should be filled by the applicants with the assistance of extension officers has the following headings to be filled:

SECTION 1

A) PROJECT TITLE: Put the name of the project i.e. bee-keeping, purchasing live stock, etc..

B) EXPLAIN THE PROJECT: Give a brief explanation of the project.

C) CAPITAL EXPENDITURE REQUESTED: Insert types of the expenditure that are needed for the project which may be financed by the Fund.

D) WORKING CAPITAL REQUESTED: Indicate the amount of working capital if you think it is needed for this project.

The working capital is the money which is needed to buy material or pay for labour and etc.

E) TOTAL PROJECT COST: It is the total of C and D.

SECTION II

It is the part of the form where the extension officer will assist the applicants to make some calculations as follows:

These are the headings of this section:

Estimated sales

(if the project is a continuous activity then estimate one whole year's sale. If it is a buying and selling activity like buying a CALF and selling it some time later on profit then estimate the selling price of this transaction and enter it here.)

Cost of Sales (Estimate the cost of sales that is financial input for production i.e. raw material, seeds, fertilisers, energy, marketing expenses, labour force, rent, depreciation of fixed assets and other cost.)

Net operational income (It is the difference of estimated sales and cost of sales.)

SECTION III

This is the section where the extension officer will make the final evaluation in the light of the findings of Section II as follows:

Average Return on Capital Employed (To be calculated by this formula):

$$\text{Average Return on Capital Employed} = \frac{\text{Estimated net operational income}}{\text{Capital Invested}} \times 100$$

DO YOU THINK THE RATIO IS HIGH ENOUGH? IF YES THEN PROJECT MAY BE CONSIDERED PROFITABLE. In general, we say that the ratio is satisfactory if it is higher than the highest, but risk free interest rate for savings available in the country.

Let's have a look at the example case below to see how to fill the application form and the feasibility report:

Mrs. Komar is a housewife. She is very busy with the daily housework and taking care of her family. On the other hand she thinks that if she uses her time more efficiently she may get herself involved an income generating activity. She still believes in that this is the only way to contribute the family income and increase the standard of living of her family. Mrs. Komar, with this ideas, goes to see and talk the extension officer of the pilot project. This is the conversation they had:

Mrs. Komar : Good afternoon Mr. Rajiv.

Mr. Rajiv : Good afternoon Mrs. Komar, may I help you?

Mrs. Komar : Yes please. What I have been thinking recently is that if I had enough money to buy a sewing machine I would have sewed children underwear to sell in the market. I have noticed to that one of my relatives who

lives in another village produces pajamas and sells them in the market and makes good money out of it.

Mr. Rajiv : It is an excellent idea Mrs. Komar. The Revolving Fund may grant a loan to you if you meet the RLF committee's rules and regulations. The first thing to do is that preparing a feasibility report and filling an application form. Tell me Mrs. Komar how much is the cost of sewing machine?

Mrs. Komar : I have all the information which you may need.

- The cost of machine is US \$ 200.00.
- To make one children underwear I need 1 meter material which cost to me 75 cents per meter.
- I can sew 6 underwears in one day. Therefore I need 6 meters material for one day production.
- The price of similar type of underwear in the market place is sold approximately 2.5 Dollars each.
- The transport to the market costs to me 2 Dollars round trip.
- I must consider 50 cents per underwear for other expenses.

Mr. Rajiv : This is enough for me Mrs. Komar. Let's see how much income you would make out of these estimates:

Capital Expenditure needs	\$ 200
Contingency	\$ 15
Total	\$ 215

Working Capital Needs (For two weeks' needs)

Material cost 1 meter x 6 underwears x 14 weeks x 75 cents:	\$ 63
Other material like cost 50 cents x 6 underwears x 14 weeks:	\$ 42
Ovehead cost:	\$ 20
Total investment required:	<hr/> \$ 340

Now we can fill the feasibility report:

FEASIBILITY REPORT

SECTION I

A) **PROJECT TITLE:** Children underwear sewing

B) **EXPLAIN THE PROJECT:** There is demand for children underwear in the market place near applicant's village. With this project it is aimed to take advantage of the insufficient supply of children underwear in the market. By doing so it is expected that the family income of the applicant will raise.

C) **CAPITAL EXPENDITURE REQUESTED:**

<u>Types of Expenditure</u>	<u>Amount</u>
a) Land	-
b) Buildings, Machinery and other types of fixed assets	
Sewing Machine	200
Contingency	15
	<hr/>
Total Capital Expenditure	215
D) WORKING CAPITAL REQUESTED	125
	<hr/>
E) TOTAL PROJECT COST	340

SECTION II

ESTIMATED SALES : \$ 4,200 (year)¹

ESTIMATED COST OF SALES : \$ 2,625 (year)²

NET OPERATIONAL INCOME (LOSS) : \$ 1,575 (year)³

SECTION III

EVALUATION THE PROJECT

Average Return On Capital Invested:

(Estimated Net Operational Income/Capital Invested) x 100

$(1,575 / 340) \times 100 = 463 \%$

¹ She can produce 6 underwears a day which means 42 a week. 2100 a year if we assume she can work 50 weeks a year only. If she sells underwear at 2 Dollars each that makes 4.200 Dollars a year.

² To produce one underwear we need 1 meter material which is 75 cents per meter. We estimate that she can produce 2.100 underwear in one year time. Therefore the material cost would be $2,100 \times .75 = S 1,575.00$. We also estimate that the other cost per underwear is 50 cents. Therefore the other cost would be $2,100 \times .50 = S 1,050.00$ and total cost of sales would be $S 2,625.00$.

³ To make a better tuned up results. estimated administration cost may be deducted from net operational income also. For example the administration cost for this case above would have been calculated under the following assumptions as follows:

Therefore the Average Return on Capital Invested for this project is 463 % which is high enough to say this project is feasible.

Now we can fill the application form as follows:

Overhead expenses: It is estimated that \$ 500 for one year would be enough for electricity, maintenance and alike expenses.

Marketing expenses: The transport fee to the market place is 2 Dollars for a round trip. If she goes to the market 75 times a year the marketing cost would be 150 Dollars.

Interest expenses: The interest rate is 10 % annually. Therefore interest expense is 34 Dollars for the first year.

Depreciation expense: The rate for depreciation is 25 % as we are estimating the economic life of a sewing machine is 4 years. Therefore it is 50 Dollars for the first year.

Other expenses: It is estimated that 100 Dollars for a year would be enough for unexpected expenses.

APPLICATION No: 30 (Will be put by the Group Leader)

A. TO BE COMPLETED BY APPLICANT(S)

Date:

1. I/We, *Mrs. Komar..* (insert name of the requester) hereby request the Group Committee to extend me/us of \$ 340.00..... loan to finance my/our project detailed below:

Children Underwear Production

(give and state purpose of the productive income generating activity, or project here)

(attached detailed feasibility studies of the project, if applicable)

2. I/We intend to put up the following(s) as my/our collateral for the loan I/we have requested:(tick the appropriate and, if applicable, attach the documents that indicates the ownership)

land : *Nil*

assets (name it) : *Nil*

promissory note(s) : *Nil*

guaranty by third parties : *Nil*

3. Deadline of the distribution of the loan is *24.08.1996*... (insert the date)

4. I/We propose the following repayment schedule:

equal amount monthly, starting from *November 1996*..... (insert the date)

lump sum in the end of the season

5. The rules and regulations have been explained to me/us by the group leader that I/We fully understand and accept the terms and conditions for requesting the loan.

6. I/We certify the above statements made by us are true and complete.

Borrower(s) name, address and signature(s)

Mrs. Komar, 27.01.1996

B. (TO BE COMPLETED BY THE GROUP COMMITTEE)

1. We confirm that Revolving Loan Funds criteria, policies and procedures have been reasonably met. Therefore this application has been approved by our committee in the meeting on *10.02.1996*..... (date) and registered as (number) *123*.....

2. We hereby recommend in line with the budget, loan financing of the borrower *Mrs. Komar* (put name of borrower(s)) to be extended \$ *340*..... (in figures), and (*only three hundred and forty dollars..* in words)

3. Signed and dated by at least two Group Committee Members: *10.02.1996*

<u>Names of committee members</u>	<u>Signatures</u>
1) <i>Mr. X</i>	
2) <i>Mr. Y</i>	

4.

a) LOAN

Amount requested	: \$ <i>340</i>
Amount recommended by the Committee	: \$ <i>340</i>
Loan amount after adjustments (if any)	:

b) SCHEDULE OF REPAYMENT (as proposed)

(monthly or lump sum

indicate appropriate one here)

: *Monthly Starting from*
November 1996

c) COST OF LOAN

Insurance charge (if any)

Total cost

PAY THIS AMOUNT (a - c) *340*.....

d) I/we have received the cheque/cash with an amount of \$ *340.00*.....
(in figures), *three hundred and forty dollars*.... (in words).

Date and signature of borrower(s)

20/3/1996 Mrs. Komar

e) (IF APPLICABLE) We regret processing this application and extending loan to the borrower(s) for the following reasons (explain why):

.....

SIGNED AND DATED BY: The group leader

3. INTEREST CALCULATION

The loan taken from the Fund through the group is subject to an interest charge. It is calculated from the remaining balance of the loan of each borrower in every month. Therefore the group leader will go through the receivable ledgers each month to calculate the interest charges. Therefore the borrowers will pay the interest for the loan which will be calculated on monthly basis. The receivable ledger, which has been designed specially for this purpose in this manual, will help the group leader to make interest calculation.

A specimen of the receivable ledger for the borrowers is the following:

BORROWER'S NAME AND ADDRESS:							
Date	Ref.	LOAN			INTEREST		
		Dr	Cr	Balance	Calculated	Paid	Balance
TOTAL							

According to the Rules and Regulations of the Fund the interest rate is maximum 10% annually (see article 1.04).

These are the examples how to calculate the interest:

CASE 1: A borrower has taken of \$ 8,000 for loan from the Group Fund. Let's assume that the interest rate for this loan would be 2 % monthly. The borrower will pay the loan back in four equal instalments in one year. The formula to calculate the interest for a year is the following:

$$\text{Interest charge} = (\text{Loan amount} \times \text{interest rate}/100 \times \text{number of months})/12$$

Therefore the interest charge for each month of the first quarter is the following:

$$\text{Interest charge} = (8,000 \times 2 /100 \times 1)/1 = \$ 160.00$$

Therefore the interest charge for each month of the first quarter would be \$. 160.00.

In the second quarter the interest charge will be calculated from the remaining balance of the loan as follows:

$$\text{Interest charge} = (6,000 \times 2/100 \times 1)/1$$

$$\text{Interest charge} = \$. 120.00$$

For the third quarter it would be \$. 80.00 and \$. 40.00 for the last period.

Let us see these transactions on the receivable ledger of this particular borrower:

BORROWER'S NAME AND ADDRESS:							
Date	Ref.	LOAN			INTEREST		
		Dr	Cr	Balance	Calculated	Paid	Balance
01/04/1996		8,000		8,000	160		160
01/05/1996				8,000	160	160	160
01/06/1996				8,000	160	160	160
01/07/1996			2,000	6,000	120	160	120
01/08/1996				6,000	120	120	120
01/09/1996				6,000	120	120	120
01/10/1996			2,000	4,000	80	120	80
01/11/1996				4,000	80	80	80
01/12/1996				4,000	80	80	80
01/01/1997			2,000	2,000	40	80	40
01/02/1997				2,000	40	40	40
01/03/1997				2,000	40	40	40
01/04/1997			2,000	-	-	40	-
TOTAL							

CASE 2: A borrower has been given an amount of \$. 4,000 for loan from the Fund through the group payable 4 months later. The interest rate for this loan is 1% monthly. Therefore the interest charge for this loan would be \$. 40 for each month.

Let us see transactions on the **Receivable Ledger:**

BORROWER'S NAME AND ADDRESS:							
Date	Ref.	LOAN			INTEREST		
		Dr	Cr	Balance	Calculated	Paid	Balance
01/04/1996		4,000		4,000	40		40
01/05/1996				4,000	40	40	40
01/06/1996				4,000	40	40	40
01/07/1996				4,000	40	40	40
01/08/1996			4,000	-	-	40	-
TOTAL							

CASE 3: A borrower has been extended an amount of \$. 4000 for loan from the Group's account. The borrower has drawn the money from the bank as follows:

01/04/1996 2,000
 01/06/1996 1,500
 01/07/1996 500

4,000

The loan is payable at 01/08/1996 and the interest charge is 2% monthly. Let's see the transactions on the **Receivable Ledger** again:

BORROWER'S NAME AND ADDRESS:							
Date	Ref.	LOAN			INTEREST		
		Dr	Cr	Balance	Calculated	Paid	Balance
01.04/1996		2,000		2,000	40		40
01.05/1996				2,000	40	40	40
01.06/1996		1,500		3,500	70	40	70
01.07/1996		500		4,000	80	70	80
01.08/1996			4,000	-	-	80	-
TOTAL							

CASE 4: A borrower has been given an amount of \$. 6,000 for loan from the group account. The borrower will return the loan in six equal instalments with an interest of 2% monthly.

Let us see the transactions on the **Receivable Ledger** again:

BORROWER'S NAME AND ADDRESS:							
Date	Ref.	LOAN			INTEREST		
		Dr	Cr	Balance	Calculated	Paid	Balance
01/04/1996		6,000		6,000	120		120
01/05/1996			1,000	5,000	100	120	100
01/06/1996			1,000	4,000	80	100	80
01/07/1996			1,000	3,000	60	80	60
01/08/1996			1,000	2,000	40	60	40
01/09/1996			1,000	1,000	20	40	20
01/10/1996			1,000	-	-	20	-
TOTAL							

If a borrower pays only the principle, but fails paying the interest the group leader should take the interest amount from the payment of the borrower first, then the remaining balance of his payment is credited to the borrower's loan account. Assume that the borrower of the case 4 pays \$. 1,000 only, but fails paying the interest of the first month which is 120. Let us see it on the **Receivable Ledger** as follows:

BORROWER'S NAME AND ADDRESS:							
Date	Ref.	LOAN			INTEREST		
		Dr	Cr	Balance	Calculated	Paid	Balance
01/04/1996		6,000		6,000	120		120
01/05/1996			880	5,120	102.4	120	102.4
TOTAL							

As you may notice remaining balance of the principle amount of the loan is \$. 5,120 after this transaction. The group leader has recovered \$. 120 which is the interest of the first month from \$. 1,000 at once. Therefore remaining balance of \$. 1,000 is \$. 880 which has been credited to the loan account of the borrower. Now, the borrower owes us \$. 5,120 although he has paid \$. 1,000. The interest for the second month would be \$.102,4 because it has been calculated from the balance of \$. 5,120.

The records on the ledgers above should be done through the book keeping system which has been explained in this hand book later (see chapter 6 Recording The Group's Transaction).

4. RECOLLECTING THE LOAN

The loan should be repaid in cash only. Payment of in kind is not acceptable. It should be always remembered that the Revolving Loan Fund is a financial institution, but it is not a marketing entity. Therefore in kind payment of borrowers is not acceptable.

The loan is preferably repaid by the borrowers directly to the account of the Group in the bank. There may be some cases where the banking facilities are missing or far enough from the borrowers, then the group leader himself collects the money from the borrowers.

In this case a cash receipt must be issued to the borrowers when the group leader collects the money. The cash receipt is duplicated. The original is given to the borrower for his own records. The second copy remains in the book.

A specimen of cash receipt is the following:

CASH RECEIPT	
Date:	Receipt No:
Name Of the Pilot Project zone:	
Received from:	
The sum ofDollars	
For.....	
Signed by group leader:	

The group leader should deposit the money that he has collected in the Bank in his earliest time.

Borrowers ask the group leader maintain their "**pass book**'s for the money they return back to the group. **The borrower's pass book** has been explained in this hand book later (See the receivable ledger).

For a successful recollection of the loan the group leader should always send a remainder to the borrowers prior to date of maturity of their loan.

5. MAINTAINING A PETTY CASH

The petty cash system is an accounting method which helps the manager save his time from going to the bank each time he needs money. The petty cash system is called "imprest" system. Under this method a predetermined amount (usually sufficient to cover one week's expenses) is drawn from the bank. This cash is called "petty cash float".

If a payment is made from this petty cash, a petty cash voucher should always be issued for the amount. The petty cash vouchers should be numbered in sequence and made in duplicate. The original is given to the person who receives the cash, where the second copy remains in the book.

This is how the petty cash system works:

- Decide how much cash would be enough to cover the Group's need for a week or two.
- Withdraw the cash from the bank and lock it in the cash box.
- Do not make payment out of petty cash without receiving supporting documents and the signature on the voucher by the recipients.
- When the money is nearly finished go through the vouchers and total them. When the vouchers are totalled make a cheque for that amount and cash to imprest your petty cash.
- Be sure entering petty cash vouchers in the book keeping system as shown in this manual later.
- Issue a petty cash voucher for making payment.

A specimen of the petty cash voucher is on the following page:

PETTY CASH VOUCHER

Date:

No:

Account Name and No:

Payment made to:

Date	Text	Amount
		Total

Amount (in words):
.....

Paid by :

Received by:

Approved by:

Explanation of headings:

Date : This is the date when the payment was made.

Petty Cash Voucher No : This is the petty cash voucher number, either pre-printed or numbered.

Account Name and No : This is the ledger account under which this account falls (according to the chart of accounts provided in this hand book).

Payment Made To : The name of the payee should be filled in the blank space provided.

Date : This is where the date of the relevant document is entered.

Text : This is where the explanation relating to the payment is indicated.

Amount : This is the amount of the payment.

Paid by : This is the name and signature of the person who is handling the petty cash.

Received by : The person who has received the petty cash should sign on the blank space.

Approved by : The person who has the authority to approve the petty cash voucher should sign here.

6. RECORDING THE GROUP'S TRANSACTIONS -BOOKKEEPING SYSTEM-

6.1 LEDGER CUM JOURNAL AND CHART OF ACCOUNTS

The Ledger Cum Journal will be used for recording Group's transactions. The Ledger Cum Journal, which is also called **LCJ**, is a combination of ledger and journal as follows:

Explanation of columns:

LINE NO. : There are two of them, one on the left and the other one on the right. Each line of the page is numbered by the book keeper in sequential order before using the page. These are useful to match relevant transactions on the same line but on different accounts.

DATE : It is a column where the date of the transaction is entered.

DETAILS : It is for the details of the transaction which is available on the supporting documents, e.g. petty cash voucher, loan application form, invoice etc. The details given here should be descriptive enough so that auditing at the later stage becomes easier.

REFERENCE NO.: It is for the reference number of the relevant document. If it is a Petty cash voucher, voucher number or invoice number is the reference number.

AMOUNT : The total of this particular transaction is entered here. This column is convenient to check whether there is any posting error between the debit and credit columns. In order to do this, the "amount column" of the LCJ should be totalled when it comes to the end of the page. The total debits should be equal to the total credits which should be equal to the "amount column" or else there is a posting error which requires checking.

ACCOUNTS: The accounts which are used more frequently than others are given their own account columns. The accounts which are appearing rarely are classified under the other accounts column. It is up to the manager of the Fund to decide which are the accounts which appear more frequently than others. In this manual The accounts that are going to be used in recording the Group's transactions have already been pre-determined as you can see below.

OTHER ACCOUNTS: This column is allocated for accounts which appear very often. It has three columns; first column is account's name, the other columns are debit and credit columns.

PAGE TOTAL: It is for the page total when the page comes to the end.

BALANCE C/F: It is the column for obtaining balances of each account which will be carried forward.

TOTAL : It is for totalling each account after the balances. Since we already had the balances on the relevant column, debit and credit sides of each account should be balanced in the "Total" column. This is useful information because it shows us whether there is a calculation mistake.

Recommended accounts for the Group's bookkeeping are the following:

CHART OF ACCOUNTS

CASH IN HAND : It is an account used for the money in hand.

CASH AT BANK : It is an account used for the money at the bank.

PETTY CASH : It is for the cash held for the imprest system.

RECEIVABLE FROM BORROWERS: It is for receivable from borrowers. The balance of this account is the outstanding loan amount from borrowers.

BAD DEBTS: It is for bad debts. If any borrower fails paying his loan, the remaining balance of his loan is transferred to the RECEIVABLE FROM BORROWERS account. The balance of this account is the amount that waits for the next action against bad debts.

FIXED ASSETS : It is the account where fixed assets like buildings, furniture, office equipment etc. of the group are recorded.

RLF: It is the account where the funds which have been obtained from Revolving Loan Fund as loan by the group is entered here.

VOLUNTARY SAVINGS: It is the account where the voluntary savings of group members are recorded.

PROVISION FOR BAD DEBTS: Whenever a receivable from borrower is to be a bad debt it is transferred to the Bad Debts account. In the "Receivable From Borrowers" account, a provision for bad debts is made by debiting to "Income and Expenditure" account and crediting to "Provision for Bad Debts" account.

ACCUMULATED DEPRECIATION: It's the account where depreciation charge for the year is entered.

CAPITAL : It is the account where the initial funds given to the Fund are entered. Any donation received to increase the Fund's capital and initial and compulsory savings of members are entered here also.

FUNDS : It is the account for retained earnings of the Fund. If a reserve or any other fund is made out of the profit of the Fund at the end of the year is entered here.

INCOME AND EXPENDITURE: It is for the income and expenditure of the Group. If the debit side is in excess of credit side of the account at the end of the year, it means that the Group has made a loss for the year. If it is other way around it means that the Group has made profit for the year.

PROFIT OR LOSS: It is the account where the balance of the income and expenditure account is transferred at the end of the year. It shows the final result of the Group which is either profit or loss accordingly.

6.2 RECEIVABLE LEDGER

The other book which will be used for book keeping is the **RECEIVABLE LEDGER**. It is a subsidiary book where each borrower is provided a page for his own records.

This ledger is used by the group leader to trace how much each borrower owes to the Group. It is also used to record **interest calculated** and **interest paid** by the borrowers. Entries to the "**Receivable From Borrowers**" account on the **LCJ** are also entered here.

A specimen page of this book is the following:

BORROWER'S NAME AND ADDRESS:						Page No:	
Date	Ref.	LOAN			INTEREST		
		Dr	Cr	Balance	Calculated	Paid	Balance
TOTAL							

Explanations of columns:

BORROWER'S NAME AND ADDRESS: Enter the name and address of the borrower.

DATE: This is the date on which this transaction has been done.

REFERENCE: This is the reference number of the relevant line on the LCJ from which this transaction has been posted.

LOAN DR: This is the column where the loan amount of the borrower is posted.

LOAN CR: This is the column where the loan instalments are entered when the borrower pays.

LOAN BALANCE: This is the column provided for the loan's balance at a particular time.

INTEREST CALCULATED: This is the column the calculated interest from the loan balance is entered. This record is not a double entry book keeping (For more about interest calculation refer to **Chapter 3. INTEREST CALCULATION** of this manual).

INTEREST PAID: This is the column where interest paid by the borrower is entered against the "Cash at Bank" account.

INTEREST BALANCE: This is the column provided for the current balance of the interest of a particular borrower. The current balance of the interest is the difference of the columns of calculated interest and paid interest.

The **Receivable Ledger** is made two copies. One book is kept in the Group whilst the other is given to the borrower as a "**pass book**". Therefore every borrower has his own book. Each borrower brings his book to the group when he gets a loan or returns his instalments to up to date his records. To distinguish it from **member's savings book** it has **red cover**. The **member's saving book**, which has **green cover**, explained later in this hand book (See member's savings).

6.3 BOOKKEEPING APPLICATIONS

6.3.1 BOOKKEEPING

Every business entity needs the records to be kept for sound business management so as the group.

There are several books, documents and reports can be used in a business for accounting purpose depending on the size of the transactions and business itself.

In the accounting system proposed for the Group's accounts these books and documents have been reduced in numbers to make the accounting for the Group as possible as simple.

On the other hand we can not get rid off the books and documents completely. We have still to maintain some books and documents in the Group.

An accounting entry needs a supporting document before entering it in the books. In the Revolving Loan Fund case we have several documents and we will call them supporting documents. They are the following:

- A copy of the application form
- Cash receipt book
- Petty cash vouchers
- Bank slips
- Suppliers' Invoices
- Bank statements

We enter these documents in the books, namely LCJ, Member's Saving Ledger and Receivable Ledger:

- Journal : It is for recording daily transactions of the group
- Ledger : It is for grouping the daily transactions under the relevant account. The accounts are numbered for this purpose and provided for you in the Chapter II.

In the proposed accounting system we have combined these two books in order to reduce the clerical works and called it Ledger Cum Journal (LCJ). An example page of the book can be seen in Chapter 6.1.

Every transaction is entered in the LCJ three times. To show how to use the LCJ let's assume that we delivered 270 dollars to a borrower as working capital loan from the Group's account in the bank on the first of February 1996. The relevant document for this transaction is an **Application Form** and assume that it has been numbered as 30.

As you see we first entered \$ 270 in the column for amount. Later we credited BANK account and debited RECEIVABLE account. Therefore the total of debit sides of each account is always equal to the total of the column for amount. The total of the credit sides of each account, again, is always equal to the column for amount. Therefore a page of this book is in balance at any time.

The reason why we are debiting to one account and crediting to another is because of the so called principle of DOUBLE ENTRY BOOKKEEPING.

We have some other books. We call them subsidiary ledgers. We may have them as many as we want. It depends on the needs of financial information. In this accounting manual we like to underline especially two, namely: **Receivable Ledger** and **Member's Saving Ledger**.

The details of every transaction regarding receivables are also recorded in these book. Therefore every beneficiary group are given a page in its name in these book. This information will help the management to have records of every beneficiary in detail.

To give an example have a look at the following transactions:

On 1/2/1996 Mr. Saibal has been extended an amount of 150 dollars for working capital loan. The interest calculated for this loan is 14 dollars. Therefore he owes us \$. 164 altogether.

We will enter this transaction in the LCJ as follows:

Remember the relevant document of this transaction is the **Application Form** where we will find all data we need to make an entry in the book.

This transaction will be posted to the **Receivable Ledger** from the **LCJ** as follows:

BORROWER'S NAME AND ADDRESS:		Mr.Sabial			Page No:		
Date	Ref.	LOAN			INTEREST		
		Dr	Cr	Balance	Calculated	Paid	Balance
01/02/1996		150		150	14		14
TOTAL							

Again the calculated interest is not a Double Entry bookkeeping entry. Therefore we will not see it on the **LCJ** until we collect it from the borrower. The group leader will make the same entry also in the "**Red covered Receivable Ledger**" which is kept by the borrowers themselves.

When the borrower returns the loan he received together with the interest charge we will make the following entries in the **LCJ** and in the **Receivable Ledger** as follows:

And the entries in the **Receivable Ledger** are the following:

BORROWER'S NAME AND ADDRESS:		Mr.Sabial			Page No:		
Date	Ref.	LOAN			INTEREST		
		Dr	Cr	Balance	Calculated	Paid	Balance
01/02/1996	LCJ/L1	150		150	14		14
01/03/1996	LCJ/L2		150	-		14	-
TOTAL							

Remember each entry to the **Receivable Ledger** will be entered to the **Red Covered Receivable Ledger** of the borrower also by the group leader. Therefore this entry on the **Receivable Ledger** above will be repeated in the **Red Covered Receivable Ledger** of the borrower. Therefore each borrower should not forget to bring his **Red Covered Receivable Ledger** to the group leader whenever gets a loan or returns an instalment to the group.

6.3.2 EXAMPLE GROUP'S TRANSACTIONS FOR BOOKKEEPING

On the examples below we will show you how to enter the Fund's transactions in the book keeping system proposed for the group's accounts. The examples will be ended up with a balance sheet and income statement of the Fund.

Let us assume that a revolving loan fund has just been established and performed the following transactions in a month.

01/03/1996: An amount of \$ 10.000 has been drawn from the RLF as a loan to start with.

This transaction will be debited to "**Cash at Bank**" account and credited to "**RLF**" account in the **LCJ** as follows:

02/03/1996: A borrower, (let's say Mr. A) has requested of \$.3.000 for loan. It has been paid by a cheque following the approval of the **Application Form**. It is payable in one month with an interest rate 2 % monthly.

This transaction will be debited to "**Receivable from Borrowers**" account and Credited to "**Cash at Bank**" account . The supporting document for this transaction is the **Application Form**. Let us see how the **LCJ** will look like after entering this transaction in line 2.

This transaction should be entered in the **Receivable ledger** which is a subsidiary ledger. The group leader will make the same entry in the borrower's "Red Covered Receivable Ledger" also. To enter, on the other hand, we should first calculate the interest for this loan as follows:

$$\$(3,000 \times 2/100 \times 1)/1 = \$.60 \text{ is the interest calculated.}$$

BORROWER'S NAME AND ADDRESS:		Mr. A			Page No: 22		
Date	Ref.	LOAN			INTEREST		
		Dr	Cr	Balance	Calculated	Paid	Balance
2/03	LCJ/2	3,000		3,000	60		60
TOTAL							

03/03/1996: Mr. B, another borrower, has been extended \$, 4000 being value of loan that he requested to finance his income generating activities. The loan is payable in equal 4 monthly instalments with an interest rate of 2 % monthly.

This transaction will be debited to "**Receivable from Borrowers**" account, and credited to "**Cash at Bank**" account as follows (in line 3):

The group leader will make the same entry in the borrower's "Red Covered Receivable Ledger" also. We should also enter this transaction in the **Receivable Ledger** as follows:

BORROWER'S NAME AND ADDRESS:		Mr. B			Page No: 23		
Date	Ref.	LOAN			INTEREST		
		Dr	Cr	Balance	Calculated	Paid	Balance
3/03	LCJ/3	4,000		4,000	80		80
TOTAL							

Remember, each borrower is provided a page in the **Receivable Ledger**. Therefore the page number for this entry is not 22, but 23 for Mr. B.

11/03/1996: Paid \$. 200 for office furniture by a cheque.

This transaction will be debited to "fixed assets" account, and credited to "Cash at Bank" account as follows (in line 4):

16/03/1996: Drawn \$ 50 from the Bank for petty cash.

This \$ 50 will be debited to "**Cash in Hand**" account, and credited to "**Cash at Bank**" account as follows (in line 5):

19/03/1996: Paid \$ 10 to an extension officer from petty cash to cover his travel expenses to the project areas.

To pay this, we should first issue a **petty cash voucher** as follows:

PETTY CASH VOUCHER		
Date: 19/03/1996		
No: 001		
Account Name and No: Travel Expenses		
Payment made to: Mr....., Extension officer		
Date	Text	Amount
19/03/1996	for travelling to the project areas as planned earlier	10
Total		10
Amount (in words): Ten Dollars		
.....		
Paid by : Mr....., The group leader		
Received by: Mr....., Extension officer		
Approved by: if applicable		

The **original** of the **Petty Cash Voucher** is given to the extension officer for his own records. Now we can use the remaining copy of the petty cash voucher to make entries in the LCJ as follows (in line 6):

31/03/1996: The extension officer has collected the principles and interest charges from Mr. A and Mr. B. Then, he deposited it in the bank.

The extension officer has to issue a cash receipt to the borrowers for the money he collects. The **original** of the **cash receipt** is given to borrowers, and the second copy remains in the book. The cash receipts for these transactions are the following:

Date: 31/03/1996	Receipt No: 001
Name Of the Pilot Project zone:	
Received from: Mr. A	
The sum of \$ 3,060	
For Loan instalment and interest charge	
Signed by	
extension officer:	

Date: 31/03/1996	Receipt No: 002
Name Of the Pilot Project zone:	
Received from: Mr. B	
The sum of \$ 1,080	
For Loan instalment and interest charge	
Signed by	
extension officer:	

The extension officer deposits the money in the bank and he returns to the Group with the cash book and the bank slip which proves that so much money has been deposited in the bank. Now we can enter these transactions in the **LCJ** as follows (in line 7 and 8):

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We should also enter these transactions in the "Receivable Ledger" as flws:

BORROWER'S NAME AND ADDRESS: Mr. A Page No: 22							
Date	Ref.	LOAN			INTEREST		
		Dr	Cr	Balance	Calculated	Paid	Balance
02/03/1996	LCJ/2	3,000		3,000	60		60
31/03/1996	LCJ/7		3,000			60	
TOTAL							

BORROWER'S NAME AND ADDRESS: Mr. B Page No: 23							
Date	Ref.	LOAN			INTEREST		
		Dr	Cr	Balance	Calculated	Paid	Balance
03/03/1996	LCJ/3	4,000		4,000	80		80
31/03/1996	LCJ/8		1,000	3,000	60	80	60
TOTAL							

If you look at the **Receivable Ledger** for Mr. B above you may notice that the interest charge has been calculated on the remaining balance of \$ 3.000 loan amount and entered in the columns for "calculated interest" and "balance". This amount of \$ 60 is not a **double entry book keeping** record, therefore we can not see it on the LCJ until we collect it from the borrowers.

31/03/1996: Depreciation rate for Fixed assets is 10 %.

This is a year ended transaction which should be done automatically by the bookkeeper at the end of the year to produce a balance sheet and income statement.

We debit this to the "Income and Expenditure" account, and credit to "Accumulated Depreciation" account in the LCJ as follows (in line 9):

31.3.1996: A member of a group saved \$ 25 for the month and wished to deposit it in the Group. The group leader should do the following:

FIRST: issue a cash receipt to the member who saved when he receives the money as follows:

CASH RECEIPT	
Date: 31.03.1996	Receipt No: 003
Name Of the Pilot Project zone:	
Received from: Mr. A	
The sum of 25 (only Twenty five)Dollars	
For Voluntary saving.	
Signed by	
group leader:	

SECOND: enter the remaining copy of the cash receipt in the book in the LCJ as follows (in line 10):

THIRD: post this entry to the "**Member's Saving Ledger**". This ledger is made two copies. One is kept in the group, other is kept by the members. The one kept by the members is in **green cover**. Therefore the group leader will enter this transaction in two ledgers at the same time as follows:

MEMBER'S SAVING LEDGER

NAME AND ADDRESS:			PAGE NO:			
Date	Text	Ref	SAVINGS			
			Voluntary	Compulsory	Initial	Total
31.3.96	being saved	LCJ/L10	25	-		25
TOTAL						

GREEN COVERED MEMBER'S SAVING LEDGER

NAME AND ADDRESS:			PAGE NO:			
Date	Text	Ref	SAVINGS			
			Voluntary	Compulsory	Initial	Total
31.3.96	being saved	LCJ/L10	25	-		25
TOTAL						

6.3.3 PRODUCING THE BALANCE SHEET AND INCOME STATEMENT OF THE GROUP

Let us continue the example we have been already working on to produce the financial reports of the Group. First thing to do is totalling the last page of the LCJ as follows:

LINE NO.	DATE	DETAILS	REF NO.	AMOUNT	Bank.....A/C		Receivable from Borrowers.....A/C		Fixed Assets...A/C		Pelly Cash.....A/C		Income Expenditure...A/C		Cash in Hand.....A/C		OTHER ACCOUNTS				LINE NO.
					Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Name of Accounts	Dr	
1	31/03	Balance C/F		\$ 10,155			3,000		200		40				110	25					1
2	31/03	Year Ended											110								2
3																					3
4																					4
5																					5
6																					6
7																					7
8																					8
9																					9
10																					10
11																					11
12																					12
13																					13
14																					14
15																					15
PAGE TOTAL					10,155	6,890	3,000		200	40	40	110	110	25	25						10,155
BALANCE C/F					10,155	6,890	3,000		200	40	40	-	-	-	25	25					10,155
TOTAL					20,310	6,890	3,000		200	40	40	-	-	-	25	25					10,155

Now, we should post the balance of the "income and expenditure" account to the "Profit" account, and then total the page of the LCJ again to get the final balances of the accounts as follows:

LINE NO.	DATE	DETAILS	REF NO.	AMOUNT	Bank.....A/C		Receivable from Borrowers....A/C		Fixed Assets...A/C		Petty Cash....A/C		Income Expenditure...A/C		Cash in Hand.....A/C		Name of Accounts		OTHER ACCOUNTS		LINE NO.
					Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr	
1	01/03	Being deposited	Bank Cred. Adv. 123	\$ 10,000		10,000												CAPITAL		10,000	1
2	02/03	Loan given	App. Form 35	3,000			3,000														2
3	03/03	Loan given	App. Form 36	4,000			4,000														3
4	11/03	Being Purchased	INV. 125	200					200												4
5	16/03	Being Drawn	Cheque No.	50							50										5
6	19/03	Being Paid	PV 001	10						10											6
7	31/03	Being Received	Cash Rec. No. 001	3,060		3,060															7
8	31/03	Being Received	Cash Rec. No. 002	1,080		1,080															8
9	31/03	Depreciation of the Year		20									20					ACC. DEPRECIATION		20	9
10	31/03	Being saved	Cash Rec. No. 003	25											25			VOL. SAVINGS		25	10
11																					11
12																					12
13																					13
14																					14
15																					15
PAGE TOTAL				21,445		14,140	7,250	7,000	4,000	200	50	10	30	140	25					10,045	
BALANCE C/F				10,155			6,890	3,000				40	110							10,045	
TOTAL				31,600		14,140	14,140	7,000	7,000	200	50	50	140	140	25					10,045	

7. SAVINGS

The objective is to establish an organisation, that in future is not completely dependent on the funding from the RLF. Although the economic situation of the members is very difficult and the RLF is meant to serve them with a lending programme to combat their poverty, we should also offer them simultaneously a system of savings.

To develop to an independent and self supporting group it is necessary to build up sorts of savings:

- when does the group start with looking for other resources of funding
- how can it be done
- what are these other funding resources

The funding from RLF is an fixed amount with an interest rate of 10%. It is medium term loan. The installments of this loan result in a decrease of funding for the group in totality as well as for the individual members. The consequence is that the groups' activities lessen and the lack of funding of the members will enlarge unless RLF compensates it by fresh money.

The group should try to substitute this fund decrease by savings, in the first instance from the members. Herewith is not said that the group can not accept funding from inhabitants and other organisations in the community. The main resource is the community. The people in the community should be made aware of the fact, that the savings of the people are used for a lending program to the members of the group in the same community. Through this lending program the members increase their income and also their purchasing power. In other words the income generating activities of the members will have influence on the community and improve the economic situation and living standard there.

Saving is thinking about the future with its developments and saving is supplying the specific needs in times to come. Therefore it should become a habit of the people.

Initial Savings:

Everybody who borrows from the group has to contribute a small amount. This amount can be taken from the loan and paid into the savings account of the borrower.

This is a way of strengthen the groups equity. The member can not withdraw this initial saving. Withdrawal is only allowed by termination of the membership and with an approval of the group. Initial savings is not applicable at the moment.

Compulsory Savings:

Apart from these savings taken from the loan the members should contribute a fixed amount per period (month). The level of this monthly saving depends on each area's circumstances i.e. especially the economic situation and the pay power of the members.

These savings can partly substitute the loan from RLF and strengthen the group's equity.

Special Savings:

The division of the net profit of the group to the members is done through these saving accounts.

The above mentioned sorts of savings are strengthening the equity of the group. The members can not withdraw it. The group and the members can consider it as a collateral for the individual loans. Also it enlarges the amount of money, That can be borrowed by the individual member.

These savings will be paid to the member at the moment he retires and the group approves it.

Voluntary Savings:

However people individually and other organisations can also save voluntarily. The group has to encourage the members (and non-members) to contribute towards the voluntary savings in order to increase both the funding of the group as well as their own possession. For this kind of savings there is no limitation of time and size of amount. The saver can withdraw it freely.

The group knows the most suitable time for mobilising voluntary savings. You can collect for instance:

- from the farmers after they sell the harvest and are waiting for the next crop.
- from the traders, as they have a short term revolving trade capital, every week or month
- from the handicraftsmen after they sell the products
- from the service sector monthly, as they have a regular income

Also the group has an idea of the financial situation of the members, non-members and associations in the community. At the right moment they can contact the people and encourage them to deposit their money into the group and thus support the development of the community. Usually the savings are the cheapest resources of fund for the group, because the interest paid for savings are low in comparison with the interest upon a starting capital loan. However in the RLF programme it may be different, as the loan to the groups and members is strongly subsidised. At the other hand it is an alternative for the RLF support, it can partly substitute this loan.

The savings bring about benefits for the group and the members individually. Through this saving system the members:

- can increase the groups own capital and own funding
- improve the developments of the group
- strengthen the lending program
- alleviate/combat the poverty of the members
- form an own capital for the members
- increase the production power of the members
- raise the purchasing power of the individuals
- support the economic development of the community

After forming a group of members they should start with paying monthly into the group the compulsory savings. The members have to be in the habit of paying every month into the group. Therefore during say 3 months they save a small amount, and then they can borrow from the group. From the moment of borrowing onwards they pay every month the interest, installment and saving.

The group must decide about the interest percentages paid upon the savings.