

ACCOUNTING MANUAL

Section 1. Accounting Control

DABIREMCO shall adopt sound internal control system that is consistent with the following objectives:

- a. To safeguard and preserve the cooperative's assets;
- b. To prevent fraud and other losses; and
- c. To ensure the accuracy and completeness of the accounting records.

It shall adopt measures of safeguards and internal control to improve the credibility and accuracy of its accounting records. These measures must include:

- a. A manual of operations segregating the duties and responsibilities of each employee who handles operational, custodial and accounting functions;
- b. A system of authorization and recording procedures adequate to provide reasonable accounting control over assets, liabilities, equity, revenue and expenses;
- c. Hiring, employing and developing personnel capable of effective and efficient performance of their duties and responsibilities; and
- d. Effective and timely audit of the cooperative's records and accounts by its audit committee or external auditors.

Section 2. General Safeguards and Control of Assets

This system of control requires the joint effort, reciprocal witnessing, proofing, or authentication by two or more designated personnel, whether together or singly, one after the other, to successfully and properly complete an operation. Cash in vault, accountable forms such as members' passbooks, official receipts, safe deposit spare locks and keys should be under dual control.

Dual control on the vault, safes, chests, receptacles, can be established by the use of two locks, or combinations with one or more people assigned to each half of the control. Safe combination numbers should be written or typed on paper and placed in an envelope sealed with wax with signatures of the officers-holders and their witnesses running across the flap to expose any tampering thereof. The envelope should be deposited with the Manager in the case of branches and with the General Manager in the case of the Head Office. The same procedure applies to the duplicate keys to the inner door of the vault, safes, chests and drawers. Cashiers and other officers assigned to the dual control should avoid observation by one another while operating safe or vault combinations.

Combinations should be periodically changed. When seals are broken the presence of the two signatory witnesses and the holders or their substitutes, preferably ranking officers, are required. In any case, when the seal is broken, the combination should be changed immediately.

Safes and chests that are equipped with only one combination may attain a dual control feature by placing a shield over the combination so that one person holds part of the combination and a second holds the rest. Another way of creating dual custody is through the installation of a key lock to augment the combination lock.

Section 3. Review of Operation by the Board of Directors

The Board of Directors of the cooperative has the primary responsibility of protecting the interests of its member – depositors and borrowers. Due to this enormous responsibility, the Board is kept informed on the status of loans approved by them and those approved by the Credit Committee. At its regular meeting, the Board is furnished by management with the Cooperative's Statement of Financial Condition, Statement of Operation, Statement of Cash Flows, comparative balances of statutory funds, charge-offs, undivided net surplus, cash items, overages and shortages and the reports of the internal auditor/Audit Committee and external auditor (if any).

Section 4. Rotation of Personnel

Management should plan the rotation of personnel, particularly accountable officers/employees. Such rotation shall be done without notice and shall be of such duration as to permit disclosure of any fraudulent manipulations or irregularities in the cooperative's various transactions.

Section 5. Forced Leave of Absence

An essential internal control/safeguard shall be diligently enforced regularly. All accountable officers/employees shall be required to take uninterrupted forced leave of absence of sufficient duration to permit transactions under the control of one individual to be properly validated.

Section 6. Scrutiny of Outside Activities of Personnel

It is mandatory upon Management to take interest in the outside activities of all officers and employees, which may have an immediate or future adverse effect upon the cooperative's interests. Some indications that require close observation are the following:

- a. Sudden changes in personal habits or appearance of personnel;
- b. Gambling, illicit relationships, habitual patronage of bawdy houses, nightspots, and excessive drinking of officers and employees;
- c. Association or involvement with individuals known to be of dubious character, and participation in activities beyond the social or financial capability of the officer or employee; and
- d. Unusual close employee-member relationship.

Section 7. Sound Policy in Hiring New Employees

Non-compliance by Management with the normally accepted procedures in the hiring of new employees should be brought to the attention of the Board. The background of candidates for employment in the cooperative should be probed, and references checked to ensure that the candidates are of exemplary character, integrity and ability.

Section 8. Segregation of Duties

One basic internal control is to segregate the physical handling of a transaction from its recording and supervision. For example, a person handling cash is not permitted to keep the ledger records. In like manner, a loan officer should not be allowed to disburse proceeds of loans. Duties of personnel are segregated and clearly defined for purposes of check and balance. No employee shall be assigned or permitted to dominate a transaction from start to finish. Two or more people should be involved in as many different transactions as possible.

Section 9. Cash Receipts Systems and Procedures

Cash management involves the planning and control of cash to efficiently meet the day-to-day cash needs of the cooperative, investing temporary idle cash to earn interest/revenue, and safeguarding cash from theft.

Safeguarding cash from theft is critical in most businesses. Cash is easy to conceal and transport and is desired by everyone. This phase of the control of cash is closely related to the accounting system. Free access to the accounting system makes it easy to conceal malversation/embezzlements. Therefore, careful control of cash receipts and payments is essential.

The following safeguards should be implemented:

- a. Segregation of Duties
The cashier or any person holding cash should not be allowed to handle the books of accounts.
- b. Official Receipt

- i. The Treasurer is responsible to the cooperative for all cash received and subsequent deposits thereof to the bank.
- ii. All cash receipts are acknowledged with pre-numbered Official Receipts (OR) duly registered with the Bureau of Internal Revenue, signed by the treasurer or any employee authorized to receive cash.
- iii. ORs should be issued in three (3) copies:
 - Original – to payor
 - Duplicate – to Accounting
 - Triplicate - Treasurer's copy
- iv. The numerical sequence of the ORs issued by the Treasurer/Cashier is checked by the accounting personnel before recording them in the Computerized Accounting System.
- v. The accounting personnel compares the total amount of cash receipts against the validated bank deposit slips.
- vi. A custodian other than the Cashier handles the unused ORs.
- vii. The ORs custodian shall keep track/check the used or unused OR.
- viii. All copies of cancelled ORs are stapled, preserved and retained in the booklet/stub and marked "CANCELLED".

c. Cash Receipts and Deposits

- i. Cash received by the treasurer/cashier during the day should be deposited intact not later than the next banking day .
- ii. The treasurer/cashier is responsible to receive cash, issue the corresponding ORs and deposit the same.
- iii. Should employee(s) other than the treasurer/cashier be authorized to receive cash, they should use the Cash Acknowledgement Receipt (CARs) in acknowledging cash receipts. These employees should turn over daily all collections together with the unused CARs to the treasurer/cashier who issues the corresponding ORs for the total collections during the day.
- iv. The treasurer/cashier is responsible for controlling and checking the usage of ORs/CARs. Upon the turnover of cash collections by collectors or other employees authorized to receive cash, the treasurer/cashier should initial at the back of the stub copy of the OR/CAR issued and sign the Daily Collection Report (DCR) to acknowledge that collections have been duly turned over to the Treasurer/cashier.
- v. The deposit slip (DS) - is prepared in three (3) copies and distributed, after validation by the bank, as follows:
 - Deposit Slip –1 to bank
 - Deposit Slip –2 to Accounting
 - Deposit Slip – 3 to Treasurer/Cashier

d. Recording of Receipts

Based on the duplicate copies of the ORs, the bookkeeper records daily the receipt of cash in the Cash Receipts Book (CRB).

e. Bonding of Accountable Officers and Employees

- i. The treasurer/cashier and other officers/employees authorized to handle cash should be bonded.
- ii. The bonds should adequately cover the amount of possible losses or shortages that may arise in the handling of cash, which are actually in the possession of the employee authorized to handle cash. The bond must be reviewed periodically .

f. Additional Safeguards

- i. The employee responsible for handling cash must be provided with a safety box or drawer to which the treasurer/cashier/custodian alone has access.
- ii. Separate bank accounts should be maintained for grant funds and other providers' program funds.
- iii. A person other than the Cashier should do bank reconciliation on a monthly basis. Required adjustments should be taken up immediately through a journal voucher duly approved by the authorized officer/s.

- iv. All accounting/financial records shall be filed in a systematic and orderly manner.
- v. All Due to/from branches/home office shall be reconciled regularly and liquidated as soon as possible.

Section 10. Postdated Checks

Where postdated checks are received as payment for loans, savings/time deposits and for other purposes, the checks shall be treated as follows:

- a. Upon receipt of postdated checks, CAR is issued and the checks are recorded in the Postdated Checks Register indicating therein the due date of the checks and the current status.
- b. On the date of the check, an OR is issued.
- c. The OR is recorded in the Computerized Accounting System as Cash on Hand.

Section 11. Returned Member's Check

When the bank returns a member's check because of insufficient funds or for any other reason, it shall be recorded in the Postdated Checks Register. The Accountant/Bookkeeper should take note of this and prepare journal voucher reversing the entry previously made. Bank charges in connection with the returned checks are to be charged to the member/borrower concerned. The member should be contacted immediately and informed of the amount due/collectible from him.

It is a good policy that the amount collected in the form of checks is deposited separately so that all checks returned and their subsequent re-depositing can be easily traced in the cooperative's records. A memorandum notation of the check returned should be made in the member's Individual Paid-Up Share Capital Ledger and/or Loan Receivable Ledger. The subsequent disposal of the check, either by the member making good or by charging it back against his/her account, should also be noted in the member's individual ledger.

Section 12. CASH DISBURSEMENT SYSTEMS AND PROCEDURES

- a. All disbursements are paid by checks except those that are paid from the Petty Cash /Revolving Fund.
- b. Each check prepared is covered by a pre-numbered Check Voucher (CV) and supported by documents.
- c. The accounting personnel shall review and check the validity of the CV and its supporting documents.
- d. CVs shall be forwarded to the designated authorized officer for approval.
- e. Upon release of checks, the cashier/treasurer shall stamp "PAID" all copies of CVs and its supporting documents indicating the date of payments.
- f. CVs are signed by the payee/authorized representative to acknowledge the receipt of payment upon release of check. The cashier/treasurer should require the payee to issue Official Receipts or Sales Invoice, whichever is applicable.
- g. The Audit Committee shall audit all cash disbursement transactions of the cooperative.

Section 13. Control of Checks

- a. All checks are issued and recorded in numerical sequence in the checkbook or its equivalent.
- b. All checks are prepared based on the properly approved CVs, duly verified by the accounting personnel, signed and countersigned by at least two authorized signatories.
- c. The check is always made payable to a specific person or entity. Whenever possible, checks must be crossed (two parallel lines at the upper left side of the check).
- d. Unused check booklets shall be under the custody of the accounting unit head. Under no circumstances shall such check booklets be made available

- to any unauthorized person/custodian.
- e. Voided, spoiled and cancelled checks shall be marked "CANCELLED" and attached to the corresponding checkbook for subsequent inspection and reconciliation.
- f. The check when presented for approval shall be supported with an approved CV and supporting documents.
- g. Signing or countersigning of blank checks in advance is strictly prohibited.
- h. All checks issued should be recorded in the check register book. Upon release, the payee shall be required to acknowledge receipt thereof.

Section 14. Bank Reconciliation

- a. To determine the accuracy of the cash in bank account balance, a reconciliation of the book and bank balances shall be done monthly by the accounting personnel, to be reviewed by the audit committee.
- b. The bank reconciling items in the bank statement shall be reviewed by the audit committee. Unrecorded bank charges and credits, if valid, should be recorded in the books. Any error committed by the bank should be immediately communicated.

Section 15. Recording

Check vouchers are generated from the computerized accounting system. Where postdated checks are used to pay an account, a notation shall be made including information as to the amount and maturity date. The same CV numbers shall be recorded in the future when the postdated checks mature.

Section 16. Lost Checks

The cooperative may issue replacement checks to payees who have lost their original checks. In such case, a stop payment order to the bank should be issued against the original check before a replacement check is issued. It should be determined from the bank if the original check has not been paid. In doing so, the cooperative may require an indemnity bond from the payee if circumstances warrant. Bank charges that may be incurred in filing stop payment order with the bank shall be for the account of payee. The issuance of a duplicate check should be recorded in the Cash Disbursement Book in "Date", "Account No.", "Name of Item" and "Check No." columns with the purpose for its issuance noted in the "Name of Item" column. It is suggested that a cross-reference be made on the line in which the original check was entered.

If a replacement check is issued in place of an original check that is still carried as outstanding in the cash amount, no entry of the amount should be recorded in the "Cash-Credit" column.

If a replacement check is issued in place of an original check the entry for which was reversed, the new check number and the number of the check being replaced must be recorded. The amount of the duplicate check should be credited in the "Cash- Credit" column and debited to the account as shown in the entry of the original check.

Section 17. Petty Cash, Revolving, Loose Change and Savings Mobilization Funds System

- a. The funds are in the custody of the treasurer/cashier or any designated custodian. Access to and safekeeping of each of the funds are the responsibilities of the respective custodian.
- b. Each of the funds is kept in a separate box. If one custodian is responsible for two or more funds, these should be physically segregated.

Petty Cash Fund

- a. Petty Cash Fund (PCF) of one thousand pesos (P1,000.00) is set up to take

care of minor disbursements in the amount of P200.00 or below, usually consisting of day-to-day expenses involving small amounts.

- b. It is maintained on an imprest system. At any given time, the total cash on hand and the unreplenished disbursements should be equal to the amount of the fund.

Revolving Fund

- a. A Revolving Fund of ten thousand pesos (P10,000.00) shall be set up to pay for the following:
 - i. Payment to suppliers of not more than P500.00;
 - ii. Emergency purchase that immediate action is necessary to prevent damage to or loss of life or property; and
 - iii. In case of unforeseen contingency requiring immediate purchase

Savings Mobilization Fund

A Savings Mobilization Fund of Thirty Thousand Pesos (P30,000.00) shall be maintained to pay the withdrawal of member's savings deposit of ten thousand (P10,000.00) and below. In excess of the threshold, payment shall be made thru issuance of cheque;

Loose Change Fund

- a. Loose Change Fund of twenty thousand pesos (P20,000.00) shall be maintained to answer the need for loose change in the canteen and photocopying operations.
- b. It shall be the responsibility of the custodian to maintain loose bills and coins sufficient for the day's operation.

Petty Cash Voucher/Revolving Fund Voucher

- a. A pre-numbered Petty Cash Voucher/Revolving Fund Voucher is required for cash disbursements from the Petty Cash Fund and from the Revolving Fund, respectively.
- b. PCVs/RFVs are approved by the manager/authorized officer before any cash disbursement is made. Supporting documents, if any, are attached to the corresponding PCV/RFV.
- c. After disbursement, the PCV/RFV and its supporting documents are stamped "PAID" and initialed with the date of payment noted thereon.

Section 18. Restriction on Disbursements

- a. Each payment from the Fund is limited to the amount as set herein. Any disbursement more than this amount are made by check.
- b. Encashment from the fund of checks, whether issued by DABIREMCO or not, is prohibited.

Section 19. Advances from Petty Cash Fund

- a. Advances from the Petty Cash Fund are limited to a certain amount set by the Board of Directors (BOD). Advances more than the limited amounts are made by checks.
- b. An employee requesting for a cash advance shall fill up the Temporary Cash Advance Slip indicating the purpose and amount needed. The Manager shall duly approve this before the cash advance is released.
- c. Liquidation of advances from the Petty Cash Fund shall be made within a reasonable period of time from the date of the release of the cash advances in

accordance with the policies set by the BOD.

Section 20. Petty Cash/Revolving Fund Replenishment

- a. The Petty Cash/Revolving Fund Custodian requests for replenishment when the fund runs low and are insufficient to cover petty expenses or revolving fund disbursements. A duly accomplished Replenishment Summary supports reimbursement requests for Petty Cash and Revolving Fund and its supporting documents.
- b. The replenishment check should be made payable to the fund custodian.

Section 21. Surprise Count

From time to time, the audit committee (AC) conducts a surprise count of the Petty Cash Fund and Revolving Fund and prepares a report to the BOD, copy furnished the manager regarding the results of the count.

Section 22. Systems and Procedures For Loan

1. All loan applications shall be approved by the Credit Committee and/or BOD in accordance with the Credit Policy Guidelines.
2. Loan applications of members of the BOD, Audit Committee or Credit Committee shall be approved by the BOD en banc.
3. All BOD members, Committee members and Senior Officers are prohibited from acting as co-maker of any application filed with the cooperative.
4. A Loan Ledger is maintained by the Credit Committee to record all received loan applications and actions taken thereon by the committee.
5. An approved disbursement voucher, loan promissory note and a signed loan disclosure statement must cover release of loan proceeds.
6. Checks must be issued in the name of the member-borrower and receipt of such proceeds must be duly acknowledged.
7. The cooperative must maintain individual subsidiary loan ledger cards for each borrowing member.
8. Individual Ledgers are reconciled monthly with the General Ledger control accounts.
9. Loan Portfolio Report must be prepared monthly for review by the BOD.
10. Aging of Loans Receivable must be frequently prepared monthly to determine the adequacy of the loan loss provision and the amount of loans to be transferred to Loans Receivable-Past Due Account.
11. There must be a written policy and criteria for accounts to be written off. Where an account has been written-off as uncollectible, proper control should be exercised over the account and over possible future collections. Accounts written off shall bear the approval of the BOD.
12. Where loan receivable credit balances arise from overpayments and other causes, the refund or payment thereof shall be promptly approved by the Manager.
13. Loan Receivable bookkeeper/s should not perform cash receipts and disbursement functions.

Section 23. Allowance for Probable Losses on Loans

This account shows management's judgment as to probable loan losses that may be incurred in the normal collection of outstanding loans, both current and delinquent. At least monthly, or more often as required, the balance in this account should be adjusted to provide a credit balance at least equal to the cooperatives' best estimate of the probable losses that may be incurred in the total loan portfolio in accordance with existing prescribed rules and regulations of government authorities. The amount of periodic adjustments should be determined by each cooperative after all charge-offs and recoveries applicable to the period have been recorded. If there is an existing allowance for probable losses, this shall be deducted from the new computation. An aging of loan receivables shall be prepared regularly to determine the adequacy of the allowances for probable loan losses.

Section 24. Accounts Written Off

When a loan receivable is considered worthless, the Board of Directors may declare it to be written off. In writing it off, the Allowance for Probable Loan Losses on Loans shall be debited and the account Loans Receivable – Past Due (or Loans in Litigation) shall be credited. When the amount in the allowance account is not enough to absorb the write-off, an additional provision for probable losses shall be set up and a credit to the allowance for probable losses shall correspondingly be made.

Section 25. Interest Charges

Regular and Travel loans shall follow the diminishing method of interest computation at the rate of 2.5% per month. Loans payable upon release of mid-year and end of year benefits shall follow the straight line method of interest at 2% per month.

Section 26. Payroll Systems and Procedures

Payroll Preparation

- a. The Summary Report on Attendance and payroll is prepared based on the Daily Time Record (DTR) of the employees or other equivalent documents.
- b. This shows the gross pay, the various deductions, and the net pay of each employee.
- c. This is prepared by the personnel in three (3) copies, checked by the accountant/bookkeeper and approved by the manager.

Overtime

- a. Every employee requesting to work overtime accomplishes a Request for Authority to Render Overtime Work (RAROW) to be approved by the authorized official.
- b. The RAROW together with the accomplishment report is submitted by the employee to the accounting personnel, who then checks the actual overtime rendered by the employee as indicated in the time records.

Pay of Salary

- a. Pay slips are prepared per individual employee and are distributed every 15th and 30th of the month.
- b. Payment of salaries is made thru the Automated Teller Machine (ATM) of the bank chosen by the cooperative.

Employee's Earnings Record

- a. An Employee's Earnings Record is maintained for each employee by the accounting unit. This record contains all vital information about the employee relative to his employment, basic salary, overtime rate and number of dependents for computation of withholding tax.
- b. The personnel officer shall maintain an Employee Leave Card (ELC) for each employee.

Section 27. Property and Equipment Systems and Procedures Safeguards And Control

Approval of Capital Expenditures (Property and Equipment)

Disbursements of capital expenditure should be approved by the Board of Directors.

Records Keeping and Control

All property and equipment should be in the name of the cooperative. The property custodian is responsible for the proper safeguarding and maintenance of property and equipment. When necessary, property and equipment should be adequately insured against fire, theft and other risk.

A Property and Equipment Ledger Card is maintained and updated by the accounting personnel for each property or equipment where the cost, depreciation charges and other relevant data, such as sale, disposition, trade-in, improvements and exchange are recorded.

Purchase Order shall be duly approved and shall correspond to the number of items found in the requisition, cost, delivery receipt and original copy of the dealer's invoice.

Property and Equipment such as furniture, fixtures and office equipment purchased shall be inspected immediately by the Property Custodian and, if possible, in the presence of the audit committee, when delivery is made as to the number of items, cost, and quality before payment is made.

Furniture, Fixtures and Office Equipment issued to the employees and/or officers shall invariably be covered by an Acknowledgement Receipt of Equipment (ARE) properly accomplished and acknowledged by the employees and/or officers to whom the furniture or equipment is assigned. The ARE shall properly describe the equipment assigned to the employee/officer. All property and equipment should be properly numbered and identified.

Whenever an officer or employee is transferred or re- assigned, a Transfer of Property Accountabilities form shall be accomplished by the transferor or transferee which shall be submitted to the Property Custodian or the Board of Directors as the case may be, furnishing a copy to the Internal Auditor for record purposes.

The transfer should be documented, properly acknowledged and recorded in the books of accounts. Assets determined to be useless by reason of unserviceability and obsolescence shall be recommended for the disposal and write-off from the books of accounts, as the case may be.

The Inventory Team composed of Audit Committee and Accounting personnel takes a physical inventory of the property and equipment at least once a year. These shall be checked against the equipment ledger cards and the general ledger balance. The inventory team shall:

- a. Plan the inventory taking ;
- a. Observe the conduct of the count;
- b. Verify the accuracy of the inventory report;
- c. Observe the conditions of the assets and whether they are properly identified.
- d. Investigate missing items.

A comprehensive inventory report shall be prepared and certified correct by the members of the committee and submit report to the Board of Directors.

Section 28. Bidding Procedures

Capital outlay over five hundred thousand pesos (P500,000) shall be subject to a bidding and its requirements, hereto included, are complied with in all respect, except those items that can only be obtained from a sole manufacturer or exclusive distributor.

There must be proposals or invitations to bid issued to bonafide and responsible dealers. The invitation to bid should specifically include the following information:

- a. The terms and conditions of the proposed contract.
- b. Specifications of the items being bidden out.
- c. The period within which the Cooperative may accept or reject the bids.
- d. The right of the cooperative to accept or reject the bid or to waive any defects.
- e. The period of delivery of the items called for and the computation of penalty for late delivery.

- f. Time and date of submission of bids.

Advertisement of Proposals or Invitation to Bid

- a. By publication in one or two local newspapers of general circulation at least one week before the opening of the bids.
- b. By posting the Invitation to Bid at the main entrance of the office, or other conspicuous places of the office premises.
- c. By furnishing copies of the Invitation to Bid to all known prospective bidders in the province at least ten (10) days prior to the date of the opening of the bids.
- d. By circular proposals— directly issued to all prospective bidders or known dealers intended to fill up requisitions of unexpendable items requiring supply for six (6) months.
- e. In cases where defective or non-complying bids have been submitted, the following must be resorted to:
 - i. Reject all the bids and re-advertise the proposals within forty-eight (48) hours.
 - ii. Award the contract to the next lowest complying bidder after rejecting the defective bid. In considering award of contracts, the time element must be given due consideration. When time is an essential element, the dealer who offers to deliver within the period stipulated will be awarded the contract even if his/her price is not the lowest; provided that his/her price is not unreasonably higher than the lowest price quoted in the advertisement bid.

Bidding must be open and competitive. The bidder's bond must be equivalent to 5% of the total amount of the bid but in no case shall it exceed P10,000. A performance bond equivalent to 10% of the total amount of the award is required.

In the opening of the sealed bids, the Audit Committee Chairman should authenticate the prices quoted by the bidders to prevent any modifications and alterations and the samples submitted, if there are any, to prevent substitution later or tampering.

Section 29. Depreciation and Amortization

There are two kinds of depreciation, physical and functional. Physical Depreciation is related to a depreciable asset's wear and tear and deterioration over a period. Functional Depreciation arises from obsolescence or inadequacy of the asset to perform efficiently. Obsolescence may arise when there is no future demand for the product that the depreciable asset produces or from the availability of a new depreciable asset that can perform the same function for substantially less cost.

Depreciation of Used Property - When used property is acquired, the actual cost in cash or equivalent is generally the proper basis for depreciation, regardless of the previous history of the property (SFAS No. 6).

Depreciation of Idle and Auxiliary Equipment - Depreciation should be continued even on units of property, plant and equipment that are reserved or on standby or idle either temporarily or for an extended period (SFAS No. 6).

Section 30. Accumulated Depreciation

The Cost of the asset is spread over its useful life and that depreciation is the cost of the decline of the economic usefulness of the asset. The accumulated cost of this decline in the usefulness of the asset is called Accumulated Depreciation. In the Statement of Financial Condition, this amount is deducted from the cost of the asset to derive the "book or carrying value of the asset".

Section 31. Accounting Procedures - Depreciation and Amortization

Depreciation and amortization must be computed in accordance with the approved rates of depreciation and amortization and must be taken up periodically. Periodic provision for depreciation is necessary to cover the decline in the value of the assets. For simplicity and ease of application, the straight-line method of depreciation shall be adopted for all movable assets as a general rule. Under the straight-line method, the annual depreciation charge is calculated by allocating the amount to be depreciated equally over the number of years of the estimated useful life (SFAS No. 6).

Depreciation base - Depreciation should be based on the cost of the asset reduced by its estimated residual or salvage value (net of cost of removal). Salvage value should be based on price levels in effect when the asset is acquired. Such value should be periodically reviewed and revised to recognize changes in condition (other than inflation), but such adjustments should be downward only (SFAS No. 6).

- a. The depreciation expense for each item should be rounded off to the nearest peso.
- b. As a general practice, the first depreciation charge on an asset item begins a month after acquisition, purchase or use.
- c. As a general practice, the first depreciation charge on an asset item begins a month after acquisition, purchase or use.
- d. In the event the original cost less salvage value is not exactly divisible in pesos for the number of depreciable periods, the last depreciation period shall cover the balance of the asset leaving a nominal value of P1.00.
- e. When a unit is fully depreciated, a nominal value of P1.00 is carried in both the controlling account and in the subsidiary ledger to represent each fully depreciated unit.
- f. The depreciation expense for the period, the method used in computing the depreciation, and changes or revisions in the depreciation method and the effects of the changes should be disclosed either in the financial statements or as notes (SFAS No. 6).
- g. The accumulated depreciation is shown either as a deduction from the group of assets to which they relate or a deduction from the total of Property and Equipment.

Section 32. Estimated Useful Life

- a. Land Improvements - 5 years
- b. Building – 20 years
- c. Furniture, Fixtures and Office Equipment:
 - i. Furniture and Furnishings - 5 years

This classification covers building accessories, which are generally for the working and/or convenience and comfort of office personnel and clients. Examples: chairs, tables, sofas, top glass, mirrors, carpets, shades, draperies, movable dividers, vases, decorative boxes and frames, paintings, waste baskets, wall clocks and the like. Acquisition worth one thousand pesos (P1,000.00) and below are recorded outright as expense..

- ii. Fixtures - 5 years

This group refers to permanent or semi-permanent attachments closely related to the building but not classified as building. Examples: counters, teller's cages, fixed dividers or partitions, built-in cabinets/shelves, storage bins and guardhouses.

- d. Business Machines - 5 years

This includes all standard office machines or mechanically operated office equipment such as typewriters, adding/calculating machines, copying and/or mimeographing machines, check writers, franking/postage machines, bundy clocks and numbering machines, code accounting machines and check endorser.

- e. Office Equipment -5years

This category embraces all office apparatus, which are not mechanically operated. It includes cabinet, safes, vaults, ledger, trays, racks, pigeonholes and paper cutters.

- f. Computer Machines - 3 years

This group includes all component units and peripherals of a computer system.

g. Appliances - 5 years

This group includes devices used for improving working conditions in an office. It also covers musical, communication and ventilation facilities. Examples: air conditioners, electric fans, radios, stereo sets, refrigerators, intercom systems, burglar alarm system, floor polishers, vacuum cleaners and lawn mowers.

h. Other Equipment and Instruments - 5 years

This classification embraces power units, security devices and trade equipment instruments. Examples: generators, motors, transformers, water pumps and accessories, firearms, fire extinguishers, medical/dental equipment, engineering equipment, athletic, printing/bookbinding equipment and photo equipment.

i. Books - 2 years

j. Land Transportation Equipment - 5 years

This covers all technical, professional and general reference books.

k. Included in this group are automobiles, jeeps, buses, armored cars, ambulance and pickups.

l. Leasehold Rights and Improvements - 5 years

m. Organization Costs - 5 years

n. Computerization Costs (for software and programs) - 3 years

Section 33. Leasehold Rights and Improvement

- a. This account represents the cost of major and immovable improvements, additions, alterations and renovations introduced on rented lots or premises to make the same ready for use or more suitable for occupancy.
- b. Leasehold Rights and Improvement shall be written off by periodic charges to the nominal account "Depreciation and Amortization" during the term of the lease or life span of the improvement or capital expenditures introduced, whichever is shorter.
- c. In determining which of the capital expenditures are to be capitalized, the nature or type of the improvement, the life span, the materiality of the cost or value, and the accounting expediency and practical necessity shall be taken into consideration.

Section 34. Policy in the Disposition of Assets Acquired

- a. All property and equipment and assets acquired to be disposed of by sale should be advertised by posting in a conspicuous place in the building of the main office or branch.
- b. Assets acquired shall be sold at the highest obtainable offer to purchase but the price shall in no case be less than the estimated fair market value thereof (in accordance with an appraisal made by the Cooperative not more than one year old).
- c. Sale of assets acquired may be effected for cash or installment for a period, term, interest rate and other conditions as decided by the Board of Directors (say, not more than two (2) years with at least 20% down payment and with an interest rate of 3% interest per month on a flat rate basis on the remaining balance) but cash sales shall be preferred to installment sales, provided that the offer to purchase for cash shall not be less than 85% of the estimated market value).
- d. Assets acquired with estimated minimum market value, (say, market value of not more than P50,000) may be sold by the cooperative in accordance with the rules and regulations set forth but a report of all said sales shall be submitted to the Board within the month. The Manager shall make all other disposition of assets acquired only upon previous approval of the Board of Directors.
- e. Assets acquired by the cooperative as a consequence of its lending operations shall be disposed of within two years from the date of acquisition.

Section 35. Cooperative's Liabilities Systems and Procedures

Savings deposit

- a. Tellers or employees receiving savings deposits should properly stamp or validate the deposit slips (original and duplicate copies) before these are given to the bookkeeper for posting.
- b. Except for the bookkeeper in charge of the account, no other employee shall be allowed to make posting to the subsidiary ledgers, unless properly authorized in writing.
- c. In all transactions involving savings accounts, whether deposits, withdrawals, debit or credit memos, the depositor's name and account numbers appearing in both the source documents and the subsidiary ledgers to which the amount is to be posted, should be compared to ascertain their correctness.
- d. The cooperative should maintain individual subsidiary ledger card for each savings depositor;
- e. Posting on the member's subsidiary ledger card must be up-to- date to prevent over withdrawals of savings and time deposits.
- f. Savings deposits that have been pledged for a particular loan of a member are non-withdrawable. A Deed of Assignment should be executed and the word "HOLD" should be indicated in their respective savings ledger card.
- g. Total savings/time deposit account balances as per members' individual subsidiary ledgers must tally with the controlling account balance per general ledger.
- h. Positive confirmation of member's deposit balance should be done periodically.
- i. Unclaimed deposits of members who can no longer be located should be properly disposed of as either a credit to Education and Training Fund or any other fund for social purposes.
- j. Balances of savings deposits and any adjustments thereto shall be periodically reviewed to prevent over-withdrawal or erroneous entry of transactions.
- k. Savings Passbooks shall be presented for every transaction with the cooperative.

Time Deposit

- a. Interest rate structures on Time Deposits should be regularly reviewed and approved by the Board of Directors.
- b. Actual interest paid shall be in accordance with the rates stipulated in the Certificate of Time Deposits.
- c. Pre-termination of time deposits may be allowed. This shall be governed under Section 3, Article VIII of this Manual of Policies.
- d. A copy of the Time Deposit Certificate issued to the member/depositor shall be on file and a subsidiary ledger shall be maintained for each member/depositor.
- e. The Certificate of Time Deposit or its equivalent evidence shall be surrendered to the cooperative and stamped "PAID" when said deposit is withdrawn.

Section 36. Interest on Share Capital and Patronage Refund Payable

- a. Allocation for interest on the share capital and patronage refunds should be in accordance with RA 6938 and Rule 4 of Implementing Rules and Regulations;
- b. The percentage of allocation for interest on share capital and patronage refunds should be in accordance with the decision of the Board of Directors/General Assembly subject to the Cooperative Code or the cooperative's by-laws;
- c. The interest rate on share capital should not exceed the normal rate of return on investment as determined by the CDA and such interest should be non-cumulative (Article 7, RA 6938);
- d. The manner of payment may be either in cash or in shares.
- e. The basis of computing the interest on share capital is on the paid-up capital

- share of the month;
- f. The bookkeeper/accountant must be sure before making any payment, that the total amount of interest and or patronage refund due to members as per working papers must not be more than the actual amount available for distribution;
 - g. There should be proper control over checks and other funds for interest on share capital and patronage refunds;
 - h. Interest on share capital payable and patronage refunds payable should be regularly reconciled by a person who does not maintain the records and who does not mail the checks or handle the funds for said interest and patronage refunds; and
 - i. Recognition of interest on share capital and/or patronage refund payable should be properly entered in the General Journal and posted to the General Ledger.

Section 37. Accrued Expenses

- a. Accrued expenses must be valid and duly approved with supporting legal documents by the Manager/authorized representative before it can be paid.
- b. Only expenses that were actually incurred but not yet paid in connection with the operation of the cooperative should be taken up as accrued expenses.
- c. The cooperative should maintain an individual ledger for each class of accrued expenses.
- d. *4. Accrued expenses should be settled immediately whenever funds are available.*

Section 38. Accounts Payable

The sum of individual ledger account payable balances must tally with the balances per major control account in the general ledger.

Only accounts payable that are valid and duly supported by legal documents (i.e. sales invoices, delivery receipt, purchase orders, job orders, etc. duly approved by the Manager, or by any authorized official) should be paid.

Section 39. SSS, ECC, Philhealth Premiums and Pagibig Contributions

- a. The deductions must be in accordance with the laws governing the employees' contribution to the government agencies concerned; and
- b. Remittances should be made within the prescribed time.

Section 40. Withholding Tax Payable

All taxes withheld and deducted should be made in accordance with existing laws. Remittances should be made within the prescribed time, to avoid penalties.

Section 41. Revolving Capital Payable

This account may be created and used upon authority from the General Assembly to raise funds for the coop's capital requirement. Interest on share capital and patronage refund may not be paid to members but may be used to increase the cooperatives' revolving capital.

Section 42. Loans Payable

Loans contracted by the cooperative shall be properly approved by the Board of Directors and/or the General Assembly and loan availments shall be used for the purpose for which it was applied.

The loan proceeds shall be properly receipted and deposited in the bank and disbursements against the loan proceeds shall be made by checks.

There shall be a record or minutes of the meeting of the Board of Directors/General Assembly specifying the institution from which the money may be borrowed, the maximum amount of loan to be borrowed, the officers authorized to sign the documents and the signatories of the disbursements against the loan proceeds.

A Loan Payable Register or other organized record shall be maintained to show the following:

- a. Creditor
- b. Amount Borrowed
- c. Maturity Date
- d. Interest Rate
- e. Amount Paid on Principal and Interest
- f. Collateral Pledged as *Loan Security*

The accountant shall check the accuracy of the computation of the interest payments and whenever a loan is paid, the original promissory notes shall be claimed back from the creditors, cancelled and filed.

Section 43. Retirement Fund Payable

This is a fund set aside to cover the retirement pay as provided under RA 7641 Article 287 (subject to amendments) for employees who have reached the retirement age. In the absence of an applicable employment contract, an employee who retires pursuant to this Act shall be entitled to retirement pay equivalent to at least one-half (1/2) month salary per year for every year of service, a fraction of at least six (6) months being considered as one whole year;

This fund shall be deposited in a restricted bank account or fund management company to ensure that the fund shall not be used for other purposes.

Reconciliation and monitoring of the fund shall be regularly made and disposal of this fund shall bear the approval of the Board of Directors.

Section 44. Other Liabilities

Creation of other funds shall be approved and authorized by the General Assembly; and

The amount to be allocated for other funds must not be a percentage of the net surplus. It can be an amount or a percentage of the gross income, which shall form part of the operating expenses.

Section 45. Project Subsidy Fund Payable

This is the unused portion of the donation/grant received intended for administrative expenses such as training, salaries and wages, and the likes.

Upon receipt of the donation and grants, that portion which covers the administrative expenses shall be credited to this account and this shall be reduced by the amount of the expenditures for administrative purposes by debiting this account and crediting the Project Subsidy Fund. The Project Subsidy Fund shall be reflected in the Statement of Operation as a contra account to Subsidized Project expense - the account used when expenditures are made.

Section 46. Mutual Assistance Fund Payable (Dayong)

This fund is set aside for the purpose of giving death assistance to members and immediate family members as governed by the Policy on Mutual Assistance. A separate ledger shall be kept for each purpose.

Section 47. Accomplishment of Deposit Slips

The appropriate deposit slips shall evidence deposits, which are to be accounted and collated at the end of the day. Official Receipts issued to the member/depositor will be used on evidence of deposits. The depositor shall present his passbook every time a deposit and/or withdrawal is made. However, under circumstances deemed justifiable by the supervising official, deposits may be made without presenting the passbook. A notation on the deposit slip to this effect should be made and the depositor should be requested to present his passbook for updating as soon as possible.

Section 48. Withdrawals and Accomplishment of Withdrawal Slips

- a. Withdrawal slips properly filled up and signed by the depositor whose signature has to be verified before payment should support all withdrawals.
- b. In cases where the depositor has authorized another party to withdraw from his account in his behalf, the proper authorization on the withdrawal slip should be accomplished.
- c. Amount in words and figures written on the withdrawal slip should be in agreement.
- d. The depositor should sign in full any erasures or alterations.
- e. In case of a thumb-mark signature, the depositor should be personally present in the office and two (2) parties must witness his thumb-mark, preferably one who is an employee of the cooperative.
- f. The same procedures shall be observed in handling Time Deposits.

Section 49. Additional Safeguards for Handling the Savings/Time Deposits

- a. The bookkeeper should ensure that the transactions and individual balances of all savings accounts will tally at the end of the day. This duty should not be delegated to anybody, much less to a Teller or to a Collector.
- b. The bookkeeper should certify to the correctness of the daily collection sheets and have it noted by the Cashier or by the Accountant.
- c. No withdrawals and over withdrawals must be allowed against uncleared checks.
- d. In case of over withdrawn deposits, the approving officer and posting clerk should be made accountable and responsible for the amount withdrawn.
- e. Attorney-in-fact (authorized representatives) should be properly identified before withdrawals are allowed.
- f. Closed or filled up subsidiary ledgers should be kept properly, preferably in binders, in the custody of the Accountant.

Section 50. Requirements for Opening a Savings Deposit Account

- a. All savings accounts opened shall be controlled by assigning a number that are numerically issued.
- b. As accounts are opened, these are to be recorded in a Savings Register.
- c. The register should have the following information:
 - i. Account No.
 - ii. Date Opened
 - iii. Name and address of depositor
 - iv. Initial deposit
 - v. Remarks
- d. The Savings Register will show the history of the account.

Section 51. Requirements for Closing a Savings Account

- a. Filling up of a withdrawal slip indicating the remaining balance of the account.
- b. Approval by the supervising official concerned.
- c. Recording the closed accounts in the Savings Register.
- d. Marking the savings passbook, ledger card and signature card/s "CLOSED" or "CANCELLED".

Section 52. Change of Passbook

- a. For filled up passbook, another passbook with the same account number is issued and the old passbook is stamped "FILLED UP" or perforated.
- b. For lost/misplaced passbook, an affidavit of loss should be executed by the member/depositor and the same must be notarized. A new passbook with another account number is issued in lieu of the lost passbook. A replacement fee of one hundred pesos (P100) will be charged.
- c. For mutilated/worn-out passbook - a new passbook with the same account number will be issued upon request of the member-depositor and payment of the replacement fee.

Section 53. Deposits Held as Collateral

Savings, Time Deposits and Share Capital used to guarantee loans are still reported as is and are not separated from the Savings or Time Deposit or Share Capital accounts. However, the subsidiary ledgers shall indicate the fact that it is used as a guarantee to the loan.

Section 54. Computation of Interest on Savings Deposits

Interest expense on savings deposits is computed at 1.5% per annum. Based on a daily interest rate factor:

- a. Starting from the last day of the previous interest period, determine the number of days that a deposit balance remains unchanged/outstanding.
- b. Multiply the deposit balance by the number of days such balance remains unchanged/outstanding. The product is equivalent to the daily balance corresponding to the number of day/s deposit has remained unchanged.
- c. Repeat steps "1" and "2" as there are movements or changes in the balance of an account during the period. Should the end of the period fall on a non-banking day, interest shall extend to that date.
- d. At the end of the period, add the total products as obtained in the previous steps. The total represents the daily balances outstanding during the quarter.
- e. Multiply the total obtained in step "4" by the daily interest factor. The daily interest factor is the rate of interest for one day derived by dividing the interest rate per annum by 360. Thus, the daily interest factor for savings if the interest rate per annum is 1.5% = 1.5% / 360 or .004167.

Sample Computation:

Date	Withdrawals	Deposit	Interest	Balance
May 31	..		..	5,000.00
June 30		P2,000.00		7,000.00
July 10	P1,000.00	..	.	6,000.00
August 30.	..	P500.00	..	6,500.00

From (a)	To (b)	Days Unchanged (c)	Balance (d)	Interest
May 31	June 30	30	5,000.00	6.25
June 30	July 10	10	7,000.00	2.92

July 10	August 30	51	6,000.00	12.75
August 30.	Dec. 31	122	6,500.00	33.04
TOTAL .				54.96

Interest computation will be as follows (i=prt):

Daily interest rate shall be: 1.5% / 360 days = 0.4167%

Section 55. Members’ Equity

For registration purposes, the Cooperative Code of the Philippines provides that at least 25% of the total authorized share capital is subscribed and at least 25% of the subscribed share capital is paid provided that in no case shall the paid-up share capital be less than two thousand pesos (P2,000.00). Common shares are issued to regular members while preferred shares are issued to associate members

Section 56. Subscribed and Paid-Up Share Capital

If the subscribed share capital is more than the authorized capital, the excess is called "watered stock" in the corporate terminology. If this happens in the cooperative, the excess shall be presented in the Statement of Financial Condition as "Deposits for Share Capital Subscription" until such time that the Articles of Cooperation is amended.

Section 57. Treasury Shares-Common

This account is used only in the event that there are no members willing to buy the share of the outgoing regular members. In practice, when a member resigns, the share capital is used to settle loan balances, otherwise, it is paid in cash.

Section 58. Treasury Shares-Preferred

This account is used to record capital shares redeemed by the cooperative.

Section 59. Donations and Grants

DABIREMCO may access donations and grants either from the government or from foreign funding institutions or from private entities. Donations and grants are usually given for the following purposes:

- a. Administrative or project expenses;
- b. Revolving loan capital; and
- c. Acquisition of property and equipment.

Donations and grants covering administrative or project expenses are credited to Project Subsidy Fund Payable. Donations and Grants covering revolving loan capital and acquisition of property and equipment are credited to Donations and Grants. The Donations and Grants shall be disbursed in accordance with the approved purpose. It shall not be available for distribution to members.

The Donations and Grants account intended for revolving loan capital or acquisition of property and equipment is reflected in the Equity Section after the Members' Equity while Donations and Grants intended for training, salaries and wages and other expenses are reflected as Project Subsidy Fund under Other Liabilities.

Section 60. Net Surplus Available for Distribution

The net surplus of cooperatives shall be determined in accordance with the

Cooperative Code and the cooperative's by-laws. It shall determine its net surplus at the close of every calendar year.

The net surplus shall not be construed as profit but as excess of payments made by the members for the loans borrowed, or for goods and services bought by them from the cooperative and which shall be deemed to have been returned to them if the same is distributed as prescribed by the Cooperative Code.

Section 61. Distribution of Net Surplus

The undivided net surplus is distributed to the different statutory accounts and interest on share capital and patronage refund as prescribed by law.

Section 62. Reserve Fund

- a. At least 10% of the net surplus is set aside annually for the stability of the cooperative and to meet the net losses in its operations.
- b. Utilization of the Reserved Fund requires the approval of the General Assembly.
- c. Since the Reserved Fund is intended, among others, to meet operational losses, all losses incurred by the Cooperative in its business operation shall be charged against this Fund.
- d. Consistent with the accounting principle of conservatism and the going concern theory, all charges against the Reserved Fund shall subsequently be offset by the following modified allocation and distribution of net surplus until such time that the negative balance of the Reserved Fund account shall have been fully offset, viz:
 - i. Reserved Fund - not more than sixty-five per cent (65%);
 - ii. Education and Training Fund - not more than five per cent (5%);
 - iii. Optional Fund - not more than five per cent (5%); and
 - iv. Interest on Share Capital and Patronage Refunds - the remaining net surplus but not less than twenty-five per cent (25%).

Section 63. Education and Training Fund

- a. Not more than 10% of the net surplus is set aside annually for education and training. Fifty percent (50%) of this allocation shall be used for the local education and training while the other fifty percent (50%) shall be remitted to the cooperative federation/union where DABIREMCO is affiliated.
- b. Disposal of the Education and Training Fund shall be approved by the Board of Directors;
- c. Unclaimed patronage refund, if any, may be transferred to this fund, as approved by the Board of Directors; and
- d. In case losses of the cooperative in previous years are charged to the Reserved Fund, not more than 5% of the net surplus shall be allocated for Education and Training Fund.

Section 64. Optional Fund

- a. Not more than 10% of the net surplus shall be set aside annually for optional fund.
- b. Utilization of the fund shall be approved by the Board of Directors and/or the General Assembly.
- c. In case losses of the cooperative in previous years are charged to the Reserved Fund, not more than 5% of the net surplus shall be allocated for Optional Fund.

Section 65. Interest on Share Capital and Patronage Refund

- a. This represents the remaining balance of the net surplus after allocation to the statutory funds;

- b. Allocation of interest on the share capital and patronage refund should be in accordance with RA 6938 and Rule 4 of Implementing Rules and Regulations, subject to amendments;
- b. The percentage share for interest on share capital and patronage refund shall be in accordance with the decision of the General Assembly, subject to the Cooperative Code and the cooperative's by-laws;
- c. The interest rate should not exceed the normal rate of return on investment as determined by CDA and such interest should be non-cumulative (Art. 7, RA 6938).
- d. In case losses of the cooperative in previous years are charged to the Reserved Fund, not less than 25% of the net surplus shall be allocated for interest on share capital and/or patronage refund.

Section 66. Deductions from the Payment of Share Capital and Patronage Refund

- a. Mandatory capital build-up of 10% of dividend shall be deducted from the dividend payable to member;
- b. Payment of dividends and patronage refund of more than five thousand pesos (P5,000.00) shall be in a form of cheque;
- c. Members with past due or delinquent account shall automatically be deducted therefrom;
- d. Two hundred pesos (P200.00) deduction shall be effected for failure to attend the general assembly. But for those who signified to attend but failed to do so will also be deducted with five hundred pesos.