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B.COM HONOURS	SEMESTER 6	CALICUT UNIVERSITY	COURSE CODE: COM6EJ305

ACCOUNTING AND TAXATION OF CO-OPERATIVES

EXAM REVISION NOTES

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MODULE I

1. OVERVIEW: THE SOCIO-ECONOMIC & FIDUCIARY CHARACTER OF CO-OPERATIVE ACCOUNTING

DEMOCRATIC CAPITAL EQUITY

STATE PARTNERSHIP CAPITAL AID

STATUTORY BOOKS REGISTERS

REGULATORY SUPERVISION AUDIT

A. Conceptual Distinction: Co-operative vs. Joint-Stock Company Accounting: Co-operative accounting departs from traditional corporate commercial accounting across several foundational structural dimensions:

- **Primary Objective:** ; Rendering mutual services, protecting members from exploitation, and promoting economic welfare at cost.
- **Share Capital Character:** ; Variable capital; shares are withdrawable/refundable at par upon membership resignation; zero market speculation.
- **Surplus Allocation:** ; Dividends strictly capped (maximum 15% in Kerala); remainder distributed as Patronage Rebate based on member business transactions.
- **Statutory Reserve Fund:** ; Mandatory statutory transfer: minimum 15% of net profit must be transferred directly to the non-distributable Reserve Fund.

B. Core Accounting Principles Governing Co-operative Operations: Co-operative accounting integrates standard accounting principles with specialized co-operative tenets:

- **Principle of Democratic Economic Participation:** Members contribute equitably to, and democratically control, the capital of their co-operative.
- **Principle of Mutual Trading:** Surpluses generated from transactions with members are viewed as contributions towards common reserves rather than commercial profits.
- **Principle of Patronage Refund (Bonus on Turnover):** The surplus generated by a marketing or consumer co-operative does not belong to capital; it belongs to the members who traded with the society.
- **Principle of Capital Neutrality:** Share capital receives strictly limited interest/dividend, preventing capital accumulation from dictating business policy.

Sources of Funds, State Aid Capital Architecture

A. Structural Classification of Co-operative Funds: The capital structure of a co-operative society is bifurcated into two primary statutory categories: Owned Funds and Borrowed Funds.

C. Maximum Borrowing Power (MBP) Financial Leverage Limits: To prevent co-operative societies from over-leveraging and risking depositors' funds, the Kerala Co-operative Societies Rules (Rule 56) and model society bye-laws establish a rigid mathematical ceiling on total borrowings, known as the Maximum Borrowing Power (MBP):

- **Statutory Rule of Thumb:** Under standard co-operative bye-laws in Kerala, a Primary Agricultural Credit Society (PACS) or urban co-operative bank cannot borrow an aggregate amount exceeding a specified multiple (typically 10 to 25 times) of its Paid-up Share Capital plus Statutory Reserve Fund.

Co-operative Accounting Standards Regulatory Requirements

A. Multi-Tier Regulatory Oversight: Co-operative accounting operates under complex dual and triple regulatory jurisdictions depending on the nature of the society:

- **Primary Agricultural Credit Societies (PACS):** Governed strictly by the State Government through the Registrar of Co-operative Societies (RCS) under the Kerala Co-operative Societies Act, 1969.
- **Urban Co-operative Banks (UCBs) amp; State Co-operative Banks (Kerala Bank):** Urban Co-operative Banks (UCBs) amp; State Co-operative Banks (Kerala Bank): Subject to Dual Regulation: Banking Operations: Regulated directly by the Reserve Bank of India (RBI) under the Banking Regulation Act, 1949 (prudential norms, capital adequacy [CRAR], asset classification, liquidity ratios [SLR, CRR]).
- **Registrar of Co-operative Societies (RCS):** Management amp; Incorporation: Administered by the (elections, general body meetings, member administration, liquidation).
- **NABARD Prudential Norms:** The National Bank for Agriculture and Rural Development conducts statutory inspections of rural co-operative banking institutions under Section 35A of the Banking Regulation Act, mandating uniform NPA provisioning, computerization standards, and financial reporting formats.

Books and Registers Kept by Co-operatives under KCS Act Rules

ADMINISTRATIVE STATUTORY REGISTERS

FINANCIAL ACCOUNTING REGISTERS

B. The Double-Column Day Book (Chitta) Architecture: The cornerstone of co-operative accounting is the Day Book (commonly referred to in Kerala as the Chitta). Unlike commercial accounting where transactions pass through multiple specialized sub-journals (Purchases Day Book, Sales Day Book, Returns Inward, Bills Receivable), co-operatives record all transactions in a single unified Day Book:

- **The Daily Balancing Protocol:** At the close of each business day: 1.

Empirical Co-operative Institutional Case Studies: Context: Founded in 1925 in North Kerala by 14 daily wage laborers inspired by the teachings of Vagbhatananda, ULCCS has evolved into Asia's largest worker-owned infrastructure co-operative, executing multi-thousand-crore mega-highways, IT parks, and bridge projects.

- Worker-members receive daily wages alongside an annual patronage dividend on work performed, while profits are plowed back into modern construction machinery.
- Maintains transparent, digitized project-wise cost accounting, ensuring that public infrastructure bids are executed on time without the cost escalations typical of private contractors.
- Maintains a pristine audit track record under the Kerala Co-operative Societies Act, receiving 'Class A' audit certification consecutively for decades.
- Standardizing differing NPA provisioning norms across merged district banks to comply with RBI prudential guidelines under the Banking Regulation Act.
- Consolidating Principal and Subsidiary State Partnership Funds into a unified capital base to achieve the mandatory 9% Capital to Risk-Weighted Assets Ratio (CRAR).

MODULE II

1. OVERVIEW: THE FINANCIAL REPORTING FRAMEWORK OF CO-OPERATIVES

RECEIPTS DISBURSEMENTS

TRADING P L ACCOUNT

CO-OPERATIVE BALANCE SHEET

Recognition and Measurement of Cooperative Revenues

B. Accounting Mechanism of Interest Overdue Reserve (IOR): Step 1: Accrual Entry at Financial Year-End: When interest falls due on overdue loans at the close of the financial year (March 31): Interest Receivable on Overdue Loans Account nbsp; nbsp; nbsp; nbsp;Dr.

Legal Provisions Governing Preparation of Financial Statements

A. Mandatory Statutory Provisions under KCS Act Rules: Section 56 of the Kerala Co-operative Societies Act, 1969 and relevant rules prescribe specific legal deductions before arriving at the distributable Net Profit of a co-operative society:

- **Statutory Reserve Fund:** Section 56(2) of KCS Act; Mandatory transfer of not less than 15% of net profits.
- **Co-operative Education Fund:** Rule 53 of KCS Rules; Mandatory appropriation of 5% of net profit, subject to statutory caps, payable to the State Co-operative Union for educational training.
- **Audit Fee Provision:** Section 64 amp; Rule 64 of KCS Rules; Society must make full provision for audit fees payable to the Government of Kerala based on working capital or turnover as assessed by the Director of Co-operative Audit.
- **Bad amp; Doubtful Debts Reserve (BDDR):** Rule 43 amp; Registrar Circulars; Mandatory provisioning against substandard, doubtful, and loss assets in conformity with NABARD/RBI norms.

A. Receipts and Disbursements Statement vs. Profit and Loss Account: In co-operative audit practice, the primary financial exhibit examined by departmental auditors is the Receipts and Disbursements Statement (R amp;D Statement):

- **R amp;D Statement:** R amp;D Statement: A Sum of marized cash and transfer record reflecting actual money that flowed into and out of the co-operative during the accounting year.
- **Profit and Loss Account:** An accrual-adjusted nominal statement including only revenue income earned and revenue expenses incurred during the year, accompanied by non-cash statutory provisions (depreciation, bad debt reserves, audit fee liabilities).

B. Master Proforma: Co-operative Balance Sheet Marshalling: LIABILITIES SIDE (Order of Permanence): 1. Share Capital: Authorized Capital bull; Subscribed amp; Paid-up Capital (Individuals + State Government).

C. Comprehensive Worked Numerical Master Problem: The following Trial Balance is extracted from the books of Alavil Service Co-operative Bank Ltd. (PACS No.

- **Interest accrued on performing advances:** #8377;1,40,000; Interest accrued on overdue loans: #8377;85,000 (Create corresponding Interest Overdue Reserve as per Rule 43).
- Interest accrued but not yet paid on Fixed Deposits: #8377;95,000.
- Provide depreciation at 5% on Bank Premises and 10% on Furniture and Dead Stock.
- Create a Bad and Doubtful Debts Reserve of #8377;1,20,000 against agricultural advances as per NABARD norms.
- Provide #8377;45,000 for statutory Audit Fees payable to the Co-operative Department.

Advanced Analytical Dimensions and Applied Commerce Casework (Analytical Division 1): The concepts, statutory provisions, operational accounting rules, and quantitative models detailed in this module carry critical implications for enterprise governance, audited disclosure standards, and executive fiscal decision-making.

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- **Ledger amp; Voucher Integrity:** ; Companies Act (Sec.
- **Revenue amp; Cost Allocation:** ; Ind AS 115 (Revenue from Contracts with Customers) amp; CAS 1 to 24 Cost Accounting Standards.
- **Fiscal Risk amp; Tax Compliance:** ; GST Law Section 16/36 Rules amp; Income Tax Act Transfer Pricing Provisions.
- **Working Capital Governance:** ; Tandon amp; Chore Committee Norms for Bank Working Capital Credit Appraisal.

Comparative Regulatory and Practical Implementation Standards: A rigorous examination of corporate commercial practice highlights the indispensable role of standardized accounting principles.

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MODULE III

1. OVERVIEW: CREDIT RISK & PRUDENTIAL PROVISIONING IN CO-OPERATIVE BANKING

NPA IDENTIFICATION CRITERIA

FOUR-TIER ASSET CLASSIFICATION

PROVISIONING ACCOUNTING ENTRIES

Concept of NPA and Determination in Co-operative Banks

A. Defining a Non-Performing Asset (NPA): An asset becomes non-performing when it ceases to generate income for the bank. In co-operative credit operations, an advance is classified as an NPA based on objective record of recovery:

- **Term Loans (Commercial / Personal / Housing):** ; RBI Master Circular on IRAC Norms for Urban amp; State Co-operative Banks.
- **Overdraft / Cash Credit (CC) Accounts:** ; Applies to working capital advances extended to traders, weavers, and agro-processing societies.
- **Government Guaranteed Advances:** ; However, interest cannot be recognized on accrual basis if overdue.

Asset Classification Creation of Provisions

A. The Four-Tier Asset Classification Framework: Co-operative bank loan assets are categorized into four standardized classes based on credit risk and duration of default:

- **1. Standard Assets (Performing Advances):** Loans that display zero default risk, with principal and interest serviced smoothly within contractual terms.
- **4. Loss Assets:** An asset identified by the bank, internal auditors, departmental auditors, or RBI/NABARD inspectors as completely uncollectible and of negligible salvage value.

C. Computation of Gross NPA vs. Net NPA: Gross NPA Ratio (%) = (Total Gross NPAs / Total Gross Advances) × 100. Net NPA = Gross NPAs - (BDDR Provision Held + Interest Overdue Reserve + DICGC/ECGC Claims Received).

Accounting Treatment of Provisions Member Capital Accounts

A. Accounting Entries for NPA Provisions and Write-Offs: 1. Creation of Annual Provision: Profit and Loss Account nbsp;Dr.

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Executive Synthesis, Governance Policy, and Continuing Professional Mastery: To conclude, mastery of the concepts examined throughout this module empowers students and commerce executives to evaluate complex fiscal data with precision, independence, and analytical clarity.

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MODULE IV

1. OVERVIEW: THE TAXATION LANDSCAPE OF CO-OPERATIVE SOCIETIES

TOTAL INCOME COMPUTATION

SECTION 80P DEDUCTIONS

AMT, AUDIT TAX PLANNING

Computation of Total Income and Deductions under Section 80P

B. Section 80P(4) and the Supreme Court Mavilayi Landmark Ruling (2021): The Legal Controversy: The Income Tax Department routinely denied Section 80P(2)(a)(i) deductions to Primary Agricultural Credit Societies (PACS) in Kerala, arguing that: (1) They provided commercial loans to nominal / associate members ('B' Class members) who lacked voting rights, and (2) Their non-agricultural lending (gold loans, housing loans) meant they were operating as commercial banks barred under Section 80P(4).

13: Income Tax Rates, Surcharge, and Alternate Minimum Tax (AMT)

B. Alternate Minimum Tax (AMT) under Section 115JC: Governing Mandate: To prevent societies with massive gross profits from paying zero tax by claiming 100% deductions under Section 80P, Section 115JC mandates that the tax payable cannot be less than 15% of Adjusted Total Income (+ surcharge + cess).

C. Comprehensive Worked Practical Numerical Problem: M/s Malabar Agro-Co-operative Society Ltd. reports the following financial particulars for the Assessment Year 2026-27 (Financial Year 2025-26):

- Profits from processing and marketing agricultural produce grown by members: #8377;18,00,000.
- Profits from running a retail consumer store for the general public: #8377;4,50,000.
- Interest received on fixed deposits held in Kerala State Co-operative Bank: #8377;2,50,000.
- Rental income derived from letting agricultural storage godowns: #8377;3,00,000.
- Interest received from investments in Government Securities: #8377;1,20,000.

A. Mandatory Tax Audit under Section 44AB: Under Section 44AB of the Income-tax Act, 1961, every co-operative society must have its accounts audited by a practicing Chartered Accountant and furnish the audit report electronically:

- **Turnover Threshold:** Applicable if total sales, turnover, or gross receipts from business exceed #8377;1 Crore in any previous year (increased to #8377;10 Crore if aggregate cash receipts and cash payments do not exceed 5% of total transactions).
- **Statutory Forms:** Furnished in Form No.
- **Filing Due Dates:** For societies subject to Tax Audit: 31st October of the Assessment Year.
- **31st July:** For societies not subject to Tax Audit: of the Assessment Year.
- **Form ITR-5:** Return Form: Filed electronically using with Digital Signature Certificate (DSC).

SEGREGATING MEMBER VS. NON-MEMBER BUSINESS

MAXIMIZING SECTION 80P(2)(d) DEPOSITS

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