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B.COM HONOURS	SEMESTER 6	CALICUT UNIVERSITY	COURSE CODE: COM6EJ3065

CO-OPERATIVE MANAGEMENT AND ADMINISTRATION

EXAM REVISION NOTES

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MODULE I

1. OVERVIEW: THE DEMOCRATIC GOVERNANCE FRAMEWORK OF CO-OPERATIVES

DEMOCRATIC SOVEREIGNTY

STATUTORY DISCIPLINE FUNDS

LIQUIDATION ADJUDICATION

A. The General Body Representative General Body (Section 27): Under Section 27 of the Kerala Co-operative Societies Act, 1969, the ultimate authority of a co-operative society vests in the General Body of its Members:

- **Representative General Body:** In large federal, regional, or consumer societies where membership spans thousands of individuals across multiple districts (making physical general meetings practically unviable), the bye-laws may provide for a Representative General Body constituted by elected delegates representing geographical zones, branches, or primary affiliated societies.
- **Special General Body Meeting (Section 30):** The Managing Committee must call a Special General Body meeting within one month of receiving a written requisition signed by at least one-fifth of the total members or upon the statutory directive of the Registrar.

B. Democratic Election Mechanism State Co-operative Election Commission: To protect co-operative democracy from bureaucratic manipulation and ruling political party interference, Section 28B of the KCS Act established the independent State Co-operative Election Commission:

- **1. Autonomous Constitutional Mandate:** The superintendence, direction, and control of the preparation of electoral rolls and the conduct of all elections to the Managing Committees of co-operative societies in Kerala vest exclusively in the State Co-operative Election Commission.

Properties and Funds of Co-operatives Disposal of Net Profit

B. Statutory Investment of Funds (Section 57): Co-operative societies are prohibited from speculating in stock markets or real estate. Under Section 57 of the KCS Act, a society may invest or deposit its funds strictly in:

- The District / State Co-operative Bank (Kerala Bank).
- Any Central Co-operative Bank or Postal Savings Bank.
- Securities specified in Section 20 of the Indian Trusts Act, 1882 (Central and State Government Bonds, Sovereign Debentures).
- Shares or securities of any other co-operative society with the prior approval of the Registrar.
- Any scheduled commercial bank approved by the Registrar.

A. Winding Up of a Co-operative Society (Section 71): Winding Up (Liquidation) is the legal process by which the corporate existence of a co-operative society is brought to an end, its assets realized, debts discharged, and remaining surplus returned or transferred to the Reserve Fund:

- **1. Post-Inquiry / Audit Order:** The Registrar may order winding up after an inquiry under Section 65, an inspection under Section 66, or an audit under Section 64 reveals that the society is insolvent, hopelessly mismanaged, or cannot function viability.

B. Appointment and Powers of the Liquidator (Sections 72 73): Upon issuing a winding-up order, the Registrar appoints a competent departmental officer as Liquidator. Under Section 73, the Liquidator holds sweeping quasi-judicial powers:

- **Asset Custody amp; Realization:** ; Instituting legal suits, selling property by public auction, and collecting all outstanding loans from debtor-members.
- **Determination of Contribution:** ; Enforcing member liability (limited to unpaid share capital) to satisfy external creditor claims.
- **Claim Settlement amp; Priority:** ; Disbursing funds in statutory priority: (1) Liquidation costs, (2) Secured creditors, (3) Depositor savings, (4) Unsecured debts, (5) Share capital refunds.
- **Cancellation of Registration (Sec 74):** ; The Registrar issues a formal order canceling the society's registration, whereupon the co-operative legally ceases to exist as a corporate body.

C. Dispute Settlement, Execution, Appeals The Co-operative Tribunal: The co-operative legal architecture deliberately excludes civil courts to ensure rapid, affordable justice:

- **Bar of Jurisdiction of Civil Courts (Section 100):** No civil or revenue court has any jurisdiction in respect of any matter required to be resolved by arbitration under Section 69 or orders of the Registrar.
- **The Co-operative Arbitration Court (Section 70A):** Hears non-monetary and employment disputes between societies and employees.
- **Execution of Decrees and Awards (Section 76):** Every decision or award granted under Section 70 or 69 is executed by the Registrar's recovery officers through the attachment and sale of the debtor's property, carrying the full legal weight of a civil court decree.
- **The Kerala Co-operative Tribunal (Section 81):** An independent appellate judicial body headed by a District Judge.
- **Revision and Review (Sections 84 amp; 85):** Revision and Review (Sections 84 amp; 85): The High Court of Kerala and the Tribunal retain powers of revision to prevent miscarriage of justice or jurisdictional error.

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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.

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

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.

Empirical Casework: Forensic Analysis, Audit Trail Verification, and Internal Controls: Empirical accounting investigations across modern industrial enterprises illustrate that financial distortion, fraud, and misstatement rarely occur as isolated incidents; rather, they stem from structural vulnerabilities within accounting workflows, segregation-of-duties lapses, or inadequate internal audit scrutiny.

- **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.

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MODULE II

1. OVERVIEW: THE MANAGEMENT DUALISM OF CO-OPERATIVE ENTERPRISES

THEORETICAL SYNTHESIS

PROFESSIONALIZATION

STRUCTURAL ARCHITECTURE

Co-operative Management — Integrating Co-operation and Management

B. Integrating ICA Principles of Co-operation with Henri Fayol's Principles: Effective co-operative governance requires synthesizing the International Co-operative Alliance (ICA) Manchester Declaration Principles (1995) with classical and modern management thought:

- **1. Voluntary amp; Open Membership:** Equal Opportunity Employment amp; Market Segmentation; Eliminating discrimination; structuring services that cater to vulnerable smallholder farmers and urban micro-entrepreneurs.
- **2. Democratic Member Control:** Participative Management amp; Stakeholder Governance; Electing representative boards while maintaining transparency through open General Body meetings and digital dashboards.
- **3. Member Economic Participation:** Equity Capital Structuring amp; Incentive Alignment; Accumulating internal owned capital; distributing surpluses via patronage refunds based on member business turnover.
- **4. Autonomy and Independence:** Strategic Autonomy amp; Agency Theory; Securing government partnership and state aid without permitting bureaucratic domination or political hijacking.

Professional Management for Co-operatives

A. The Imperative for Professionalization: Historically, co-operative societies in India suffered from the "Amateur Committee Pathology" mdash;where politically elected board members without training in banking, financial analysis, or digital IT directly interfered in daily loan sanctions, staff postings, and procurement.

C. Co-operative Training Ecosystem in India: Professional competence is nurtured through a three-tier institutional training architecture under the National Council for Cooperative Training (NCCT):

- **VAMNICOM (Vaikunth Mehta National Institute of Cooperative Management, Pune):** The apex national institute offering postgraduate management degrees and executive leadership programs for top-tier co-operative executives, registrars, and board chairpersons.
- **Institutes of Co-operative Management (ICMs):** 14 regional institutes (such as ICM Thiruvananthapuram and ICM Kannur) providing specialized diploma courses (HDCM), executive training in banking technology, and statutory audit certification.
- **Junior Co-operative Training Centres (JCTCs):** District-level training centers managed by State Co-operative Unions providing foundational training for junior clerical and secretarial staff of primary societies.

Organizational Structure of Co-operatives

A. The Three-Tier Federal Structure in Indian Co-operation: India's co-operative credit and marketing movements are organized in an integrated, pyramidal Three-Tier Federal Architecture:

C. Peter Drucker's Management by Objectives (MBO) Applied to Co-operative Banks: Management by Objectives (MBO), formulated by Peter Drucker, provides a powerful tool for aligning individual employee efforts with the broader social and financial missions of a co-operative bank:

- **1. Goal Cascade:** 5%, mobilize #8377;25 crore in low-cost CASA deposits, achieve 100% digital passbook adoption).
- **3. Periodic Milestone Reviews:** Monthly performance dashboards track variance against targets, allowing rapid corrective intervention without waiting for annual departmental audits.

D. Comparative Architecture: Co-operative Federalism vs. Corporate Holding Companies

- **Power Flow amp; Ownership:** ; Top-Down Dominance: Parent holding company owns majority equity in operating subsidiaries; board controls subsidiaries via voting stock.
- **Autonomy of Lower Tiers:** ; Subsidiaries are legally subordinated business units bound by holding company executive mandates.
- **Surplus Flow:** ; Dividends and cash flow stream upward from operating units to enrich the holding company equity shareholders.
- **Primary Objective:** ; Consolidated balance sheet expansion, enterprise valuation, and quarterly return on equity (ROE).

Empirical Co-operative Management Case Studies: Context: Founded in 1946 by Tribhuvandas Patel under the guidance of Sardar Vallabhbhai Patel and engineered by Dr.

- **Village Level:** Village Dairy Co-operative Societies (VDCS) run democratically by dairy farmers who bring milk twice daily, tested instantly with electronic fat testing machines and paid in cash.
- **District Level:** District Co-operative Milk Producers' Union owning modern processing plants (pasteurization, milk powder, butter).
- **State Level:** Gujarat Co-operative Milk Marketing Federation (GCMMF), managing national distribution, cold-chain logistics, and world-class brand advertising.
- **The Professional Mandate:** The farmer board sets strategic goals, but day-to-day processing, food technology, brand marketing, and financial treasury management are led strictly by elite professional managers and food technologists.
- **Technological Vanguard:** Developed the world's first patented Nano Urea and Nano DAP through internal research and development, drastically cutting agricultural input costs and chemical soil pollution.

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

MODULE III

1. OVERVIEW: THE FINANCIAL STEWARDSHIP OF CO-OPERATIVE ENTERPRISES

CAPITAL COMPOSITION LEVERAGE

WORKING CAPITAL LIQUIDITY

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ETHICS FIDUCIARY FIDELITY

A. The Fiduciary Objectives of Co-operative Finance: Co-operative finance navigates a complex multi-objective optimization problem:

- **Maintenance of Cost-Price Equilibrium:** Providing credit and agricultural inputs at the lowest sustainable cost margin, avoiding the usurious interest rates typical of non-banking financial companies (NBFCs) and informal money-lenders.
- **Capital Preservation amp; Indivisible Reserves:** Capital Preservation amp; Indivisible Reserves: Accumulating an expanding Statutory Reserve Fund (minimum 15% of annual net profits under Section 56 of the KCS Act) that belongs to the institution in perpetuity and cannot be privatized or distributed to members upon liquidation.
- **Liquidity Buffer Maintenance:** Complying with Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR) mandates under the Banking Regulation Act to guarantee immediate encashment of member savings and fixed deposits.
- **Equitable Distribution of Operational Surplus:** Ensuring that surplus is distributed not based on invested share capital, but primarily through patronage dividends (bonus on purchases or rebates on borrowings) and restricted share dividends (maximum 25% under Rule 57 of the KCS Rules).

C. Key Financial Ratios Solvency Indicators in Co-operatives: Co-operative managers and departmental auditors rely on specialized financial indicators to assess health:

- **Credit-Deposit (CD) Ratio:** Total Loans amp; Advances / Total Deposits × 100.
- **Cost of Management to Working Capital Ratio:** Total Establishment amp; Contingent Expenses / Working Capital × 100.
- **Gross and Net Non-Performing Assets (NPA) Ratios:** Measures impaired loan quality.
- **Capital to Risk-Weighted Assets Ratio (CRAR):** In licensed Urban Co-operative Banks and State Co-operative Banks, RBI mandates a minimum CRAR of 9% to 12% to absorb systemic shocks.

Capital Composition, Financing Sources Maximum Borrowing Power (MBP)

OWNED CAPITAL (INTERNAL FUNDS)

B. State Aid to Co-operatives: Under Chapter VI of the Kerala Co-operative Societies Act, the government provides comprehensive financial and developmental assistance to co-operatives:

- **Direct Equity Participation (Sec. 43):** The State Government subscribes to the share capital of selected societies, enhancing their net owned funds and allowing them to expand their Maximum Borrowing Power.
- **Subsidies and Managerial Grants (Sec. 45):** Capital subsidies for constructing godowns, purchasing modern grading machinery, computerizing branch networks, and initial managerial subsidies to pay qualified secretaries in newly registered societies.
- **Government Loan Guarantees (Sec. 44):** The State Government guarantees the repayment of principal and payment of interest on debentures issued by Land Development Banks and loans sanctioned by NABARD.

Long-Term Financial Planning, Capital Budgeting Working Capital

A. Capital Budgeting Techniques in Co-operative Enterprises: Co-operatives frequently invest capital in long-term infrastructure: agro-processing plants (rubber, tea, coffee, copra), modern cold storage facilities, rural supermarkets, and digital core banking systems.

- **Payback Period (PBP):** Limitation: Ignores the time value of money and all cash flows generated after payback.
- **Accounting Rate of Return (ARR):** Limitation: Ignores cash flows and discounting.
- **Net Present Value (NPV):** Limitation: Requires precise determination of cost of capital (k).
- **Internal Rate of Return (IRR):** Limitation: Can yield multiple rates for unconventional cash flows.

C. Working Capital Cycles in Credit and Marketing Societies: Working capital management in co-operatives involves maintaining adequate cash and inventory liquidity while mitigating seasonal risk:

- **The Agricultural Credit Cycle:** Credit societies experience an extreme surge in loan demand during pre-sowing months (April ndash;June and October ndash;November) followed by sharp cash recoveries during post-harvest marketing (January ndash;March).
- **Marketing Societies Inventory Cycle:** , rubber, copra, cardamom) purchase member produce during peak harvest.
- **Cash Chest Limit Management:** , maximum #8377;2 lakh at close of business).

Ethical Fiduciary Governance, AML/CFT Depositor Protection

INSIDER LENDING ABUSES

CONFLICT OF INTEREST CODES

C. Anti-Money Laundering (AML) Counter-Terrorist Financing (CFT): Urban Co-operative Banks and Primary Societies are mandated by the Reserve Bank of India and the Prevention of Money Laundering Act (PMLA), 2002 to enforce stringent compliance:

- **Customer Due Diligence (CDD / KYC):** Verifying official identity documents (Aadhaar, PAN, voter ID) and physical address proof prior to opening accounts or accepting fixed deposits.
- **Enhanced Due Diligence (EDD):** Enforced for Politically Exposed Persons (PEPs), high-net-worth non-resident depositors, and complex multi-layered transactions.
- **Cash Transaction Reporting (CTR):** Statutory submission of monthly CTRs to the Financial Intelligence Unit - India (FIU-IND) for all cash transactions exceeding #8377;10,00,000 (Ten Lakh Rupees).
- **Suspicious Transaction Reporting (STR):** Filing STRs within 7 working days upon detecting unusual, unstructured, or economically irrational cash deposits or wire transfers.

Empirical Case Studies in Co-operative Financial Management: Context: Primary Agricultural Credit Societies across Kerala faced shrinking interest margins due to stiff competition from commercial banks and digital payment apps.

- **Total Capital Outlay:** 80 Crore long-term loan from NABARD at a subsidized 4% net interest rate and #8377;40 Lakh from internal owned building reserves.
- **Financial Returns:** Generated annual operating revenues of #8377;85 Lakh through member milling charges and branded sales of organic rice.
- **Violation of Maximum Borrowing Power:** The bank accepted deposits far exceeding statutory MBP limits without building commensurate owned share capital.
- **Insider Lending amp; Benami Loans:** Insider Lending amp; Benami Loans: Over #8377;100 Crore was disbursed to board members and their associates using fake title deeds and inflated property valuations.
- **Absence of Asset-Liability Management:** Short-term public deposits were channeled into unrecoverable long-term real estate projects, triggering total liquidity freeze.

MODULE IV

1. OVERVIEW: THE STATUTORY ARCHITECTURE OF CO-OPERATIVE AUDIT

INDEPENDENT AUDIT DIRECTORATE

AUDIT CLASSIFICATION RATINGS

Nature, Features Comparative Dimensions of Co-operative Audit

B. Comprehensive Comparison: Co-operative Audit vs. General (Company) Audit: Joint-stock companies are governed by the Companies Act, 2013, whereas co-operatives are governed by State Co-operative Societies Acts and the Banking Regulation Act (AACS).

- **Governing Statute:** ; Section 63 amp; 64 of Kerala Co-operative Societies Act, 1969 amp; Rules.
- **Appointing Authority:** ; Appointed and assigned by the Director of Co-operative Audit.
- **Auditor Cadre:** ; Departmental Co-operative Auditors or empanelled Chartered Accountants.
- **Primary Objective:** ; Ensure financial truth, evaluate administrative propriety, verify compliance with bye-laws, and safeguard depositor funds.

FINANCIAL AUDIT

The Co-operative Auditor — Duties, Rights, Powers and Liabilities

C. Statutory Rights and Powers of the Auditor: To discharge duties without obstruction, the auditor is armed with formidable legal powers:

- **Right of Free Access (Sec. 64(2)):** Absolute right of access at all times to all books, ledgers, accounts, securities, cash, vouchers, and title deeds of the society.
- **Power to Summon Persons:** Power to Sum of mon any officer, agent, servant, or member of the society who has custody of documents or funds, and interrogate them under oath.
- **Power to Require Production of Documents:** Legally compel any bank or financial institution dealing with the society to furnish account statements and confirmation of balances.
- **Right to Attend General Body Meetings:** Receive notice of and attend any general body meeting where the audited accounts or audit report are to be tabled and discussed.

Stages of Audit Work, Audit Program, Vouching Verification

STAGE 1: PRELIMINARY PLANNING

STAGE 3: FINAL AUDIT YEAR-END WORK

B. Preparation and Design of an Audit Program: An Audit Program is a comprehensive written plan containing detailed instructions to audit staff regarding the procedures to be followed in verifying each account head:

- **Tailored to Society Type:** An audit program for a Primary Agricultural Credit Society focuses on KCC crop loans, gold loans, and fertilizer distribution, whereas a program for a Consumer Co-operative focuses on stock inventory, dead stock, and sales counter cash leakage.
- **Audit Checklist Components:** Explicit steps for verifying member eligibility, share allotment, Maximum Borrowing Power compliance, bank reconciliations, statutory reserve allocations, and staff gratuity funds.

Reserves, Audit Memorandum, Classification Audit Fees

B. Structure and Contents of the Audit Memorandum (Audit Report): The Audit Memorandum is the official statutory report compiled by the co-operative auditor. It is divided into three distinct parts:

PART II: FINANCIAL ACCOUNTS EXAMINATION

D. The Statutory Audit Certificate: Upon concluding the audit, the auditor issues an official Audit Certificate attached to the audited financial statements.

- **Unqualified (Clean) Opinion:** All records are true and accurate; accounts present a true and fair view in conformity with the Act and Rules.
- **Qualified Opinion:** , inadequate bad debt provisioning or unresolved cash discrepancies).
- **Adverse / Disclaimer Opinion:** Accounts are fraudulent, books are incomplete, or severe irregularities prevent the auditor from forming an opinion.

Code of Co-operative Governance: The Code of Co-operative Governance represents a modern reform framework introduced to institutionalize ethical transparency, member democracy, and risk management:

- **Board Independence and Integrity:** Directors must function as fiduciaries, avoiding related-party contracts, disclosing conflicts of interest, and refraining from interfering in operational loan underwriting.
- **Empowerment of the Audit Committee:** Large societies and co-operative banks are mandated to establish an independent Audit Committee of the Board to oversee internal audit systems, review concurrent audit reports, and interface with external auditors.
- **Transparency and Member Disclosures:** Publishing annual audited balance sheets, audit classifications, and performance metrics on digital portals and prominently displaying them in branch premises prior to the Annual General Meeting.
- **Whistleblower and Compliance Culture:** Formulating structured grievance mechanisms for employees and members to report ethical violations without fear of retribution.

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