CHAPTER - 2

STRUCTURE AND MANAGEMENT OF PRIVATE FINANCE CORPORATIONS
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STRUCTURE AND MANAGEMENT OF PRIVATE FINANCE CORPORATIONS

2.1 FORMATION OF A PRIVATE FINANCE CORPORATION:

Formation of Private Finance Corporations is a simple affair compared to other financial enterprises. People who have surplus money and are in search of the easiest of financial ventures to make money come together to set up a Private Finance Corporation.

The first step in the formation of Private Finance Corporation is Registration.

To start a Private Finance Corporation, firm registration is necessary, because Private Finance Corporations are partnership form of organisations. To register a firm the following documents should be submitted to the Registrar of firms.

1. Form of Registration
2. Deed of Partnership
3. Lease Deed or Affidavit
Proforma of Documents to be submitted to
Registrar for Registration of a Firm.

FORM No.1
(vide rule 3 of Andhra Pradesh
Partnership(Registration of Firms)Rules, 1951)

APPLICATION FOR REGISTRATION OF FIRMS

by the* ............................................

Presented/forwarded to the Registrar of Firms for filing by

We the undersigned, being the partners of the
firm* ............................................ hereby
apply for registration of the said firm and for that purpose
supply the following particulars, in pursuance of section 58
of the Indian Partnership Act, 1932:-

The firm name ............................................

Nature of Business ............................................

Place of Business a) Principal place
b) Other places

<table>
<thead>
<tr>
<th>Name of the partners in full</th>
<th>Date of joining the firm</th>
<th>Present Address in full</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
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</tbody>
</table>

DURATION OF THE FIRM
DECLARATION

1) We, solemnly and sincerely affirm and state that we, either individually or jointly are not involved directly in any activity which offend any rule of law or carrying out any business in contravention of any of the provisions of the State or Central Laws for the time being in force.

Station: ____________________________
Date: ____________________________

Signature of the Partners or their specially authorised agents.

DECLARATION

1. I ____________________________ S/W/of ____________________________ years of age of ______________ religion

__________________ do hereby declare that the above statement is true and correct to the best of my knowledge and belief.

Date: ____________________________
Witness: ____________________________

Signature

2. I ____________________________ S/W/of ____________________________ years of age of ______________ religion

__________________ do hereby declare that the above statement is true and correct to the best of my knowledge and belief.

Date: ____________________________
Witness: ____________________________

Signature
3. I ___________________ S/W/of ____________ years of age of ____________ religion ____________ do hereby declare that the above statement is true and correct to the best of my knowledge and belief.

Date: ___________________  
Witness: ___________________  
Signature: ___________________

4. I ___________________ S/W/of ____________ years of age of ____________ religion ____________ do hereby declare that the above statement is true and correct to the best of my knowledge and belief.

Date: ___________________  
Witness: ___________________  
Signature: ___________________

5. I ___________________ S/W/of ____________ years of age of ____________ religion ____________ do hereby declare that the above statement is true and correct to the best of my knowledge and belief.

Date: ___________________  
Witness: ___________________  
Signature: ___________________
6. I ___________________  S/U/of
   ___________________ years of age of __________ religion
   __________ do hereby declare that the above statement is
   true and correct to the best of my knowledge and belief.

   Date:
   Witness:  
          Signature

7. I ___________________  S/U/of
   ___________________ years of age of __________ religion
   __________ do hereby declare that the above statement is
   true and correct to the best of my knowledge and belief.

   Date:
   Witness:  
          Signature
DEED OF PARTNERSHIP

This deed of partnership is made and executed on this ____ day of ____, 199 by and between:

1) 

2) 

Herein after called the 1st and 2nd parties respectively.

Whereas the above said parties were carrying on the business of finance in partnership for the mutual benefit of all. Accepting Deposits, Gold loans, Chit funds and if any other ____ business.

And whereas the parties have desired to reduce into writing the terms and conditions under which they have agreed to avoid any room for misunderstanding.

And whereas all the partners have felt it convenient and expedient to reduce the terms of Partnership into writing least there might be misunderstanding at a later date. Hence this deed of Partnership.

NOW THIS DEED OF PARTNERSHIP WITNESSETH AS FOLLOWS:

1) That the name of the firm shall be ____________

2) That the principal place of business shall be at ____
3) That the Partnership shall be executed with effect from the ___ day of ______, 199

4) That the main object of the business shall be to carry on the business of Finance.

5) That the capital invested in the partnership business is Rs. ________ by each partner and shall bear interest and remuneration @ ___% per annum.

6) That the proper books of Accounts shall be kept and Profit and Loss Account shall be prepared on ____ day of every year after taking into account all incomes and after deduction of all expenses including the interest and remuneration of the partners.

7) The accounting year shall be Calendar Year and at least once in every month the accounting of the firm shall be examined and the correctness of the Profit & Loss Account and Balance Sheet shall be ascertained by all the partners.

8) That ________ shall be the Managing Partner of the business and all the functions in the normal course of business shall be attended by him; if any funds are required for the purpose of trading, the Managing
Partner _________ is eligible for taking loans from Friends, Relatives, Banks and any other Financial Institutions on behalf of the firm.

9) That the Bank Account or Accounts in any Bank or Banks in the name of the firm shall be opened in a Scheduled Bank or Banks which shall be operated by the Managing Partner _________.

10) That the _________ and _________ are working partners and shall be paid remuneration subjects to ceiling prescribed under the Income Tax Act u/s 40 (a) & (b) from time to time.

Firm Income

| A. On the first Rs. _____ of the Book Profits is more | Rs._____ or @ ___% the Book Profits is more |
| B. On the next Rs. _____ of the Book Profit | At the rate of ___% of Book Profit |
| C. On the balance of the Book Profit | At the rate of ___% of the Book Profit |

11) The partners shall be entitled to increase or reduce the above remuneration and further, here to may also agree to revise the mode of calculating the above said remuneration, as may be agreed to by and between the partners from time to time.
12) The remuneration payable to the partner shall be credited to their respective account at the close of the accounting period when final account of the partnership are made up and the amount of remuneration shall fall due to them on determining the same in the manner referred to hearing before.

13) The partners shall be entitled to draw their remuneration only after the end of the relevant accounting period. However, nothing herein contained shall preclude any of the said partners with drawing any amount from the partnership firm against the amount standing to capital and/or current and/or loan account or his share of profit for the relevant accounting year in such manner as may be decided by the partners by mutual consent.

14) The profits & losses of the firm shall be shared on by both the partners in the following ratio:

<table>
<thead>
<tr>
<th>Name</th>
<th>Profits</th>
<th>Losses</th>
</tr>
</thead>
<tbody>
<tr>
<td>A.</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>B.</td>
<td>50%</td>
<td>50%</td>
</tr>
</tbody>
</table>

15) No partner shall have right to sell, mortgage or encumber in any manner his right, title or interest in
the partnership business of its assets and shall do on cause to be done any such things on act where by his interest in the partnership business may in any manner be encumbered.

16) Anyone of the partners who wants to retire from the partnership firm may do so after giving three months notice to the other partners and the continuing partners will carry on the business and the credit balance standing to the credit of the retiring partner after Debiting/Crediting the Loss/Profit upto the date of his retirement shall be immediately transferred to the firm account and after taking into consideration of the existing circumstances at that time. The retiring partner may be paid, whatever amount as is decided by the continuing partners as fair and the above determined amount shall be final and binding and the retiring partner shall not have any right to dispute the above decision, further the retiring partner shall not be entitled to any good will whatsoever in the firm.

17) Any disputes arising out of this partnership deed shall be referred to Arbitration and the decision of such Arbitration shall be final and binding on the partners.
18) That for all other matters not specifically mentioned in the Partnership Deed, the provision of the Indian Partnership Act, 1932 shall apply.

IN THE WITNESS WHEREOF THE PARTIES HAVE SET THEIR HANDS TO THIS DEED ON THIS DAY AND YEAR MENTIONED ABOVE.

Witness:  
1)  
2)  

Signatures:

1)  
2)  

LEASE DEED

This Agreement of Lease is made this the ___ day of ___

BETWEEN

Mr. __________ s/o __________, Hindu, aged about __ years, R/o __________. Hereinafter called the lessor which expression shall mean and include his heirs, executors, administrators, successors, legal representatives and assigns:

AND

On the terms and conditions hereinafter mentioned:

1) That the "Lessor" has agreed to give on lease and the "Lease" has agreed to take on lease the Premises No. __________ for their business
belonging to the Lessee for a period of ____________ months on a monthly rent of Rs. ___ (Rupees ......) and Advance of Rs. ____ for the premises payable every month in advance on or before ____ of every month to the Lessor at his residence. The lease of the premises starts from _____, 199. In default of payment of rent in time as stipulated, the Lessor shall have the right of entry without reference to the period of Lease.

2) The Lessee has agreed to increase the rent by Rs. ____ every year.

3) The Lessee shall pay all the Electricity, Telephone charges etc., incurred in respect of the shop premises.

4) The Lessee shall pay the Association fee as fixed per month being the charges for the use of life, common bathroom, water lifting and other incidental charges.

5) The property tax levied by the Municipal Corporation will be paid by the Lessor.

6) The Lessee shall keep the shop premises in tenable condition and maintain electric, water sanitary and
other installations and fixtures, fitting in the shop premises without causing any damage and in proper condition.

7) The Lessee shall not make any alterations in the shop premises except with the prior written permission of the Lessor.

8) The Lessee shall not use the shop premises for purpose other than agreed for and shall not install any machinery or other heavy appliances which are likely to cause damage to the premises.

9) The Lessee shall not be entitled to sub-lease or assign or transfer his lease hold interest to any other person.

10) That the Lessee shall keep open the premises leased for the inspection by the Lessor, or his agent at the all reasonable time.

11) That the Lessee agreed to give vacant possession of the leased premises to the Lessor, on the expiry of the Lease period or renew of the lease on mutually agreed to terms and conditions for the further period. If the Lessee fails to renew the lease after the expiry of lease period of ____ months, the Lessee has to pay double the rent.
12) That Lessee shall use the leased premises in such a manner as not to cause nuisance or inconvenience to any of the tenants or owners of the other adjacent premises.

13) That the Lessee shall have the quiet enjoyment of the Leased premises by the Lessor or his successors with immediate effect.

14) On breach of any of or all the terms and conditions in this Lease Deed the Lessee shall forfeit the Deposit and all these rights and interest in the shop premises.

15) The Lessee will not vacate the premises during the lease period of ___ months. If he wants to vacate there after he has to give ___ days clear notice before vacating.

IN WITNESS WHEREOF THE PARTIES AFORESAID HAVE PUT THEIR HANDS TO THIS DEED IN TOKEN OF THEIR ACCEPTANCE OF TERMS AND CONDITIONS.

In the present of:

WITNESS: LESSOR: LESSEE:

1)

2)
If the place of the business is owned by any partner, instead of lease deed he has to execute an affidavit in the following manner.

AFFIDAVIT

I, the undersigned Sri ________ s/o _________ aged about ____ Managing Partner/Partner of M/S _________ Finance Corporation, office at ________.  

Solemnly affirm and state as under:

1) That the Firm of partnership is mutually agreed between the partners.

2) That the premises of the business is owned by me and will fully _____ of me I have given for running of the Finance Business.

3) That all the partners residential addresses and signatures are true and correct which mentioned in Partnership Deed and Form No.1. It was verified by witness.

4) That the Firm Registration Certificate is required to run the finance business.

To the best of my knowledge and belief the above stated facts are true and correct.

DEPONENT.
Along with above documents a Fee Rs.100/- per each partner should be paid to Registrar of Firms. After submitting the documents if the Registrar is satisfied that legal formalities are fulfilled by the firm, he issues a Registration Certificate bearing a particular number.

After Registration of the Firm obtaining the moneylending license from local M.R.O. or District Collector is the second important step in the formation of Private Finance Corporation.

To obtain moneylending certificate, application form along with Registration Certificate should be submitted to the concerned authority. If he satisfied as to the completion of formalities he would issue the moneylending certificate to the Firm.

Chartered Accountants play an important role in the formation of a Private Finance Corporation. People who want to start a Private Finance Corporations, approach the Chartered Accountants. Chartered Accountants are persons who are behind the screen to get all these things done. They charge Rs. 500/- to Rs.1000/- as their fee for registration. Tax returns of these organisations are filed in the Income Tax Commissioner's Office by the same Chartered Accountants.
2.2 ACCOUNTING PROCEDURE:

Private Finance Corporations follow the double entry book keeping system. The following records are maintained to suit the above system.

- DEBIT, CREDIT & TRANSFER VOUCHERS
- CASH BOOK
- DAY BOOK
- LEDGER
- TRIAL BALANCE

Basing on the Debit, Credit and Transfer Vouchers, the transactions are recorded in the Cash Book. In the cash book all the receipts and payments are recorded.

From the Cash Book the transactions are entered into the Day Books according to day wise totals. From the Day Books the transactions are posted into the Ledger. Basing on the Ledger Trial Balance is prepared.
### Debit Voucher

<table>
<thead>
<tr>
<th>No.</th>
<th>Date</th>
<th>DEBIT</th>
<th>Rs.</th>
<th>Ps.</th>
</tr>
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<tbody>
<tr>
<td></td>
<td></td>
<td>To</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Total</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total Rupees</td>
<td>Cashier</td>
<td>Ledger Folio</td>
<td>Accountant</td>
</tr>
</tbody>
</table>

By...

### Credit Voucher

<table>
<thead>
<tr>
<th>No.</th>
<th>Date</th>
<th>CREDIT</th>
<th>Rs.</th>
<th>Ps.</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>To</td>
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<tr>
<td></td>
<td></td>
<td>Total</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total Rupees</td>
<td>Cashier</td>
<td>Ledger Folio</td>
<td>Accountant</td>
</tr>
</tbody>
</table>

By...
TRANSFER VOUCHER

No. ............

Date ............

OFFSET .................. (TRANSFER) .... CREDIT ..................

By ..................................................

Rupees ....................... Rs. ..........

Cashier .......... Ledger Folio .... Accountant .......... Manager ......

By .........................

CASH BOOK

Date | Particulars | LF | Rs. | Date | Particulars | LF | Rs. |

DUMMY BOOKS

Date | Total Amount Received | Date | Total Amount Paid |
2.3 AUDIT PROCEDURE:

Basing on the records mentioned every year final accounts are prepared. These records are audited by the Chartered Accountants. After obtaining the audit certificate, tax returns should be filed with income tax authorities for payment of tax.

Procedure of Filing. Tax Returns:

For payment of tax every year along with tax returns the following documents are submitted to income tax authorities.

- Profit and Loss Account
- Balance Sheet
- Audit Certificate
- Return of Income in Form No.2
Every year accounts are settled by submitting the returns and paying the tax.

Proforma of Documents submitted to Income Tax Authorities

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED________________________

<table>
<thead>
<tr>
<th>TO</th>
<th>DEPR. ON FURNITURE</th>
<th>By Discount</th>
</tr>
</thead>
<tbody>
<tr>
<td>TO</td>
<td>PRINTING &amp; STATIONERY</td>
<td></td>
</tr>
<tr>
<td>TO</td>
<td>MISC. EXPENSES</td>
<td></td>
</tr>
<tr>
<td>TO</td>
<td>SALARIES</td>
<td></td>
</tr>
<tr>
<td>TO</td>
<td>COMMISSION</td>
<td></td>
</tr>
<tr>
<td>TO</td>
<td>TA &amp; DA</td>
<td></td>
</tr>
<tr>
<td>TO</td>
<td>RENT</td>
<td></td>
</tr>
<tr>
<td>TO</td>
<td>INTEREST PAID ON DEPOSIT</td>
<td></td>
</tr>
<tr>
<td>TO</td>
<td>AUDITOR FEES</td>
<td></td>
</tr>
<tr>
<td>TO</td>
<td>ELECTRICITY BILL</td>
<td></td>
</tr>
<tr>
<td>TO</td>
<td>INCOME TAX</td>
<td></td>
</tr>
<tr>
<td>TO</td>
<td>RESERVE FUND</td>
<td></td>
</tr>
<tr>
<td>TO</td>
<td>NET PROFIT</td>
<td></td>
</tr>
</tbody>
</table>

BALANCE SHEET AS AT ________________________________

<table>
<thead>
<tr>
<th>LIABILITIES</th>
<th>AMOUNT</th>
<th>ASSETS</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partners Capital A/C</td>
<td></td>
<td>Cash on Hand</td>
<td></td>
</tr>
<tr>
<td>Fixed Deposit A/C</td>
<td></td>
<td>Cash at Bank</td>
<td></td>
</tr>
<tr>
<td>Hundi Daily A/C</td>
<td></td>
<td>T.B.D. A/C</td>
<td></td>
</tr>
<tr>
<td>Reserve Fund A/C</td>
<td></td>
<td>Hundi Stamps</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Furniture</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Less: Depr.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Printing &amp; Stationery</td>
<td></td>
</tr>
</tbody>
</table>
RETURN OF INCOME IN FORM No.2
C.PROFITS AND GAINS OF BUSINESS OR PROFESSION

In case you have more than one business or profession, attach separate sheet to the return giving computation for each such business or profession. Show the aggregate figures for the items 3 to 19 in this page. If you have a business mentioned in section 44AD or section 44AE and opt to show income in accordance with the rates prescribed therein, you need not fill in items 1 and 2 and show the net income against item No.3.

Income from sources other than speculation business

1. Net profit/loss as per Profit and Loss Account

Rs. ____________

2. Adjustments: Indicate additions and deductions of amounts which have not been adjusted in the Profit and Loss Account in accordance with ss.28 to 44C.

<table>
<thead>
<tr>
<th>Add</th>
<th>Deduct</th>
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<tbody>
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<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Total of adjustments</td>
<td></td>
</tr>
<tr>
<td>----------------------------------------------------------</td>
<td>----------------------</td>
</tr>
<tr>
<td>3. Balance after adjustments (1+2)</td>
<td>Rs. ______</td>
</tr>
<tr>
<td>4. Share in profit/loss of firm(s) (upto A.Y. 199-9)</td>
<td>Rs. ______</td>
</tr>
<tr>
<td>5. Interest and remuneration from the firm (upto A.Y. 199-9)</td>
<td>Rs. ______</td>
</tr>
<tr>
<td>6. Share in profit/loss of URF/ADP/BOI</td>
<td>Rs. ______</td>
</tr>
<tr>
<td>7. Chargeable income from business/profession (other than speculation business (3+4+5+6))</td>
<td>Rs. ______</td>
</tr>
</tbody>
</table>

**Speculation Business**

<table>
<thead>
<tr>
<th>Speculation Business</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>8. Net profit/loss from speculation business (after adjustments in accordance with ss.28 to 44C, if necessary)</td>
<td>Rs. ______</td>
</tr>
<tr>
<td>9. Brought forward speculation loss adjusted with income at item 8</td>
<td>Rs. ______</td>
</tr>
<tr>
<td>10. Balance speculation profit (8-9)</td>
<td>Rs. ______</td>
</tr>
<tr>
<td>11. Total of amounts at items 7 and 10 (if the amount at item 10 is negative, show the amount at item 16(i) and write only amount at item 7 here)</td>
<td>Rs. ______</td>
</tr>
<tr>
<td>12. Other brought forward loss from business/profession, if any, set off with the income at item 11</td>
<td>Rs. ______</td>
</tr>
<tr>
<td>13. Balance income (11-12)</td>
<td>Rs. ______</td>
</tr>
<tr>
<td>14. Brought forward allowances adjusted: U/s________</td>
<td>Rs. ______</td>
</tr>
</tbody>
</table>

**INCOME CHARGEABLE UNDER THE HEAD "PROFITS AND GAINS OF BUSINESS OR PROFESSION" (including positive income from speculation, if any) (13-14)**

| Rs. ______ |

**16. Current year's losses remaining unadjusted, if any**

| Rs. ______ |

i) speculation loss (the amount at item 10, if negative)

| Rs. ______ |

ii) other loss from business/profession (the amount at item 13, if negative) | Rs. ______ |
Income from business referred to in sections 44AD & 44AE

17 In case you were engaged in the business of civil construction or supply of labour for civil construction during the previous year, please give the following information for the purposes of section 44AD:
   i) Gross receipts
   ii) Net profit of such business shown included in item 3
   iii) Net profit as a percentage of gross receipts

18 In case you owned not more than 10 goods carriages and were engaged in the business of plying, hiring or leasing of such carriages, please give the following information for the purposes of section 44AE:

   No. of months during which owned

   No. of heavy goods vehicle
   No. of other goods carriage

19 Whether the income shown at item No.17 or 18 is less than the amount prescribed U/s 44AD/44AE (a) income at item No.17(s.44AD)
   Yes/No (b) income at item No.16(s.44AE):

2.4 ORGANISATION AND MANAGEMENT OF PFCS:

An organisation is a group of individuals motivated to achieve a particular goal.

Private Finance Corporations consist of Partners and Employees being a partnership form of organisation, the minimum number of partners is two and the maximum
number is Ten. All the partners act as Board of Directors. One of the partners would act as Managing Partner, who looks after the day-to-day business affairs. For this purpose he is paid a monthly salary of Rs. 3000/- to Rs. 5000/-.

Employees of the Organisation:

In most of the Private Finance Corporations four to five persons are employed. Their designations are as follows:
- Cashier
- Accountant
- Office Attendant
- Cash Collection Clerk

The Cashier looks after the daily collections and payments of the organisation. He would be a graduate. His salary is Rs. 500/- to Rs. 700/- per month. The accountant also is a graduate. He maintains day books as well as ledgers. His salary is Rs. 400/- to Rs. 600/- per month. Office attendant assists the cashier and accountant, his salary being Rs. 300/- to 400/- per month. Cash Collection Clerk's job is recoveries of loans; so he
is the field worker. He is paid Rs. 300 to 400/- per month. For Office Attendant, Cash Collection Clerk qualification is not prescribed.

There are no clear cut guidelines regarding the employees of a Private Finance Corporation. According to Shops and Establishment Act, they are eligible for minimum wages, working hours are restricted to 8 hours, and employment guarantee is to be provided. Contrary to this Act they are paid very low wages, working hours are not fixed. There are no such things as guarantee, probation and regularisation of the service.

Table 2.1
Organisational structure of PRIVATE FINANCE CORPORATION

PARTNERS

MANAGING PARTNER

\--------------------\
|                    |
|                    |
|                    |
| CASHIER            |
| ACCOUNTANT         |
| ATTENDANTS/        |
| CASH COLLECTION CLERK |

Theoretically all the partners have equal rights in managing the affairs of a Private Finance Corporation. While taking any decision the consent of all the partners
is necessary. Practically one of the partners acts as Managing Partner, he looks after the affairs of the organisation, with the help of other employees.

In our country most of the partnership organisations have failed due to lack of mutual confidence among the partners. Private Finance Corporations are not an exception to this. The managing partners develop certain self interest, they mismanage the affairs, commit fraud; the result would be in insolvency position of the organisation.

Most of the Private Finance Corporations close down due to the above reasons.