ORGANISATION AND MANAGEMENT OF CO-OPERATIVES WITH REFERENCE TO VARIOUS CO-OPERATIVE ACTS
CHAPTER - IV

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4.0 Introduction:

This chapter gives a review of various Co-operative acts in India with organisation and Management point of view. The organisation and management of credit Co-operative Societies is made according to the guidelines of these provisions of the act.

4.1 Co-operative Legislation in India:

Co-operative Societies Act 1904: The history of Co-operative legislation began in India when the first Co-operative societies Act was passed in 1904 the object of the Act as stated in preamble was to encourage, self-help and co-operation amongst agriculturist, artisans and persons of limited means. The Act was elastic and left sufficient latitude to the State Government to frame suitable rules for the control and development of co-operative movement in their respective areas.

4.2 Co-operative Societies Act 1912:

It was however, soon found that the 1904 Act was restricted in its scope in that it permitted registration of primary credit societies alone and left not credit societies and federal organisation of primary Co-operative credit societies are of its purview. These shortcomings
were removed by the co-operative societies Act 1912, which however retained the simplicity and elasticity of the earlier Act.

4.3 The Constitutional Reforms of 1919:

Co-operative legislation entered into its third phase with the constitutional reforms of 1919 under which co-operation becomes a transferred subject. Some of the states where the co-operative movement had considerable progress found that the multidimensional developments, which could not be adequately served by the simple act 1912. Bombay gave a lead in this regard and passed a new Act viz. the Bombay Co-operative Societies Act 1925, which came into force in the same year. This was followed by Madras, Bihar, Orisa and Bengal, which passed their own acts in 1932, 1935 and 1940 respectively. Although new laws were thus enacted in these states, the essential features of the Act 1912 were still retained in every one of them.

4.3.1 Committee on Co-operative Law:

An important landmark in the history of co-operative was the law by the Government of India in June 1956, Co-operation being the responsibility of state Governments, many of them had enacted comprehensive legislation which though based mainly on the 1912 Act differed in many respects.

For rationalisation and modernisation of existing laws relating to co-operative societies, the committee on co-operative law was
appointed by the Government of India submitted its report in May 1957.

In accordance with the terms of reference, the committee on Co-operative Law furnished a Model Co-operative Societies Bill and Rules and Model bye-laws for eleven types of co-operative institutions. The simple procedure for the amalgamation and division of co-operative societies was provided.

4.4 The Maharashtra Co-operative Societies Act 1960:

This Act considers the various Acts in India. The total provisions and rules are included in this Act of 1960. Various changes in the field of Co-operation have been considered in this Act.

Organisation and Management of Co-operatives according to the act are considered here.

Co-operation:

Co-operative movement started as a clear reaction against capitalistic method of production and distribution and for solving the problems of weaker sections of society like exploitation. It is a golden mean between capitalism and socialism. It is the synthesis of all the plans of socio-economic reforms. Co-operation moderates the extremities of capitalism and socialism. It is neither conservative nor a radical but it is a liberal idealistic movement.
In India Britishers exploited India's resources creating poverty all along rural indebtedness and frequent draughts increased the economic hardships of Indians. Under such circumstances, the only way out was progress through co-operation.

After independence, the country accepted mixed economy in which the private as well as the public sectors played equally important roles. In order to eliminate the drawbacks of both the sectors, co-operative sector has been given its due place. It acts as balancing the two main sectors.

Mr. V. S. Bhide Ex-registrar of co-operative societies of Bombay State writes - "Co-operation represents a happy mean between the forces of extreme individualism on one hand and extreme socialism on the other hand. It stands for individual rights based on justice, equity and fair deal between man and man which aims to prevent any sort of exploitation. Co-operation in short is a vast movement, which promotes voluntary association of individuals who strive for the achievement of common economic ends to bring economic and social upliftment (Kulkarni, 1968).

4.4.1 DEFINITION OF A CO-OPERATIVE SOCIETY:

Co-operative society was not clearly defined in Co-operative Societies Act 1904, but it was understood as a voluntary organisation of persons who associate on equal terms for the satisfaction of their common economic needs. From this the following salient features of co-operative organisation can be drawn (Gupte, 1961).
4.4.2 Features of Co-operative Organisation:

1. **One man one vote:**

   The decision-makers in co-operative are the member shareholders. In co-operative organisation voting is not linked to investment in shares. This itself divorces the centre of power from 'investment' to 'member' thus putting the person on a high pedestal.

2. **Need of the organisation for mutual economic interest:**

   Members need the organisation to meet some common economic needs and to earn return on capital invested.

3. **Member participation to be monitored and managed:**

   The diversity in needs and aspirations can pose problems to co-operation. The objective of fulfilling the needs of members is in focus. This imposes obligations on co-operation to reach members and insure that they participate in the economic activity.

4. **Leadership based on entrepreneurial and representational Abilities:**

   Leadership in any business organisation needs entrepreneurial qualities. In the case of co-operation an additional qualification required is the commitment of leadership to the collective cause of constituents or in other words the representational ability to the needs of members.
5. Co-operative responsibilities to the communities:

It discharges its responsibilities to the community. Organisations are defined as goal oriented collectives consisting of groups of individuals. These organisations are structured bodies designed to achieve specific objectives that are part of the large industrial process, the banking structure of the country, urban cooperative credit society is the smallest unit in this structure of cooperative banking (Belagali, 1989).

4.4.3 Definition and organisation of Non-agricultural Co-operative Credit Societies:

"The Non-agricultural Co-operative Credit Societies is an association of borrowers and non-borrowers residing in one locality, knowing one another and who are interested in the economic development. The membership is kept open to all the persons irrespective of their caste and creed" (Belagali, 1989)

This definition brings out following salient features of credit co-operative organisation.

4.4.4 Salient features of Non-agricultural Co-operative Credit Societies:

1. Need of organisation for mutual economic interest:

The members living in the same locality need organisation to cater to their financial needs. So they come together to fulfil their economic needs and for the credit co-operative society.
2. One man one vote:

The voting is not linked to investment in shares, but there is one vote for one person. Thus involvement of persons is important.

3. Open membership:

The open membership means that the membership of a credit co-operative society will be available to all members without any restrictions and members will have equal voting rights. A person having financial needs can thus become a member irrespective of caste and creed.

4. Economic values are important:

As it is a financial unit, the economic values are very important. The members come together only for their economic growth and prosperity through co-operation. So the co-operative organisation should adopt appropriate strategy so that results bare achieved.

5. Leadership base:

Leadership needs entrepreneurial qualities as well as representational ability, persons having good knowledge of financial needs of people and ability to take appropriate decisions can lead a credit co-operative.

6. Exposure to political pressures:

When the leaders get close to their constituents to know their needs, aspirations and hopes and take efforts to meet them, these things help them to build an image of themselves among the people.
This image could be exploited by a political party or by the leaders themselves to fulfil their political aspirations. This situation makes a credit co-operative society constantly exposed to external political pressures. These external pressures influence the internal decision process.

7. Co-operative responsibilities to community:

It implies a system of social relationship characterised by values like participation, self-regulation, leadership development it helps to raise the standard of living of particular locality by catering to the financial needs of the community. Thus the community prospects.

4.4.5 Functions of the non-agricultural co-operative credit society:

Non-agricultural co-operative credit society is a financial organisation. This is the smallest financial unit in the structure of co-operative credit. Its functions are classified as follows:

A) Primary functions,
B) Secondary functions,

c) Social functions

4.4.5.1 Primary Functions:

Primary functions are classified as follows:

1) Acceptance of Deposits
2) Advancing loans
1. Acceptance of Deposits:

Non-agricultural Co-operative Credit Societies accepts various types of deposits. They are as follows.

A. Fixed deposits:

When the depositors deposit certain amount for a specific time period, that amount remains with Non-agricultural Co-operative Credit Societies till its maturity. The rate of interest is fixed as agreed. This is fixed for minimum period of three months and maximum period of five years Non-agricultural Co-operative Credit Societies pay a higher rate of interest as compared to that in other financial institutes.

B. Recurring – Deposits:

Recurring means re-occurring. Depositors should deposit certain specific amount of regular intervals for specific period. At the end of the period, the depositors would get the lump-sum amount together with interest. This cultivates the habit of savings.

C. Saving Deposits:

The depositors can deposit their small savings in the saving account. The savers are allowed to withdraw once or twice in a week. This account is convenient for businessman, salary-earners, pensioners, etc. The rate of interest is more than current deposits and less than fixed deposits.
D. Current deposits:

The current depositor can pay in or withdraw several times in a day.

4.4.5.2 Advancing loans:

The Non-agricultural Co-operative Credit Societies give the following types of loans:

1. Loan against deposits:

The loan can be given against term deposit recurring deposit and daily deposit. This type of loan is given to depositor to the extent of 80% of the deposits. Generally rate of interest on loan is 2% higher than the rate of interest given on the deposit.

2. Guarantee Loan:

This loan is given on the shareholders to facilitate them to purchase expensive goods. This loan is governed by the Hire-Purchase Act 1965.

3. Gold Loan:

It is advanced against the security of the gold. Generally the loan is given to the extent of 50% or 60% of the cost of gold.

4. Housing loan:

It is advanced for the construction of the house of the shareholder. The building is taken as security.
5. Hypothecation:

This loan is given to the shareholder against the security of the stock of goods equal to the 50% of the value of the closing stock.

6. Emergency Loan:

This loan is given immediately on the personal security of shareholders. It is given to meet the financial needs of shareholder in the event of illness, accident etc. of himself or his family members.

4.4.5.3 Secondary functions:

Some credit co-operative societies work as agents. The following are the agency/Secondary functions of the credit co-operatives.

A. A collection of electricity Bills:

The Non-agricultural Co-operative Credit Societies collect the amount of electricity bills from clients on behalf of Maharashtra State Electricity Board.

B. A Demand draft facility:

The Non-agricultural Co-operative Credit Societies provide draft facility with the help of co-operative and other banks.

C. Investment advise:

The Non-agricultural Co-operative Credit Societies have a team of experts that can work as investment adviser for its members.
4.4.5.4 Social functions:

Some Non-agricultural Co-operative Credit Societies create various funds for different reasons out of their profits. Non-agricultural Co-operative Credit Societies provide various special services to their members and the community. Some of them are as follows.

1. Non-agricultural Co-operative Credit Societies help their shareholders in the event of severe illness and natural calamities.

2. They provide book banks for students.

3. They conduct refresher courses or training courses of their staff, directors and others.

4. They give educational material to the children of the shareholders. They encourage the students by giving prizes.

5. Other social activities like blood donation camps, educational programme etc. is also undertaken by them.

4.5 Formation of a credit co-operative society:

The Maharashtra co-operative societies Act 1960 has not laid down any specific procedure for formation of co-operative society. It deals with the registration procedure only. The procedure for forming a co-operative depends on custom, conventions and the procedure of the Department.
The chief promoter and other promoters are expected to have knowledge and information regarding the social, economic and agricultural background of the area. Due precautions are to be taken by the promoters from the foundation stage itself. The chief promoter has to take the following steps to form the credit co-operative society.

A. To call first general meeting:

The chief promoter should call the first general meeting of the prospective members of Non-agricultural Co-operative Credit Societies. The following resolutions should be passed in this meeting:

1. To form Non-agricultural Co-operative Credit Societies.
2. To determine 3 names for the proposed Non-agricultural Co-operative Credit Societies.
3. To elect the chief Promoter and 10 other promoters.
4. To delegate authority to the chief promoter for further procedure of the formation of Non-agricultural Co-operative Credit Societies.
5. To fix the place of office of Non-agricultural Co-operative Credit Societies.
6. To pass resolution in respect of opening current A/c in the nearest District Central Co-operative Bank.
B. The copies of the above resolutions including other relevant information should be submitted to the District Deputy Registrar.

C. After obtaining the permission from Deputy District Registrar to open the current A/c in District Central Co-operative Bank, the promoters should collect the necessary share capital and entrance fees from the members of the proposed Non-agricultural Co-operative Credit Societies within prescribed time limit.

D. The collection of necessary share capital and entrance fees should be deposited in the current A/c in District Central Co-operative Bank. The promoter should obtain the balance confirmation certificate of the funds collected by him.

E. The promoter should send the proposal of the society to the Deputy District Registrar in 4 copies of form A along with bank balance certificate for final approval of the society.

Following documents should be attached along with the proposal of the society.

1. The list of members giving the information about name of the member, age, address, occupation, caste number of shares held, and the receipt number of the same.

2. The receipt and payment A/c of the Pre-registration Period of the society.

3. Bank balance certificate from Deputy District Registrar.
4. The Plan for further activities and business of the society and its working area.

5. The budget for the 3 years of the society.

6. The resolution for delegation of authority of signing necessary documents of the society.

7. Four copies of model by laws. The Deputy District Registrar scrutinises the above proposal and gives registration certificate.

When the proposed Non-agricultural Co-operative Credit Societies obtains the registration certificate from Deputy District Registrar it becomes a limited Non-agricultural Co-operative Credit Societies. The chief promoter should call the annual general meeting within 3 months from date of obtaining such registration certificate. In this meeting following resolutions should be passed:

1) Approval of income and expenditure A/c of the pre-registration period of Non-agricultural Co-operative Credit Societies.

2) Election of first managing committee of Non-agricultural Co-operative Credit Societies.

3) Appointment of internal auditor of Non-agricultural Co-operative Credit Societies.
Co-operative credit structure in India:

In India, the co-operative movement was started on the federal lines. The co-operative credit structure in India consists of 3 tiers. This Pyramidal structure has a broad base. It is spread over almost all the villages in India. All these units form the blocks of an integrated system and all these small and big units perform different credit functions. Following chart shows the structure of co-operative credit in India.

The Chart clearly indicates that co-operative credit structure is integrated one because of its three tiered structure, which extends credit to farmers' artisans and small business operator.

The primary societies are working in various towns and villages. The central banks are at the district headquarters. The state co-operative banks are at the state capitals. They are called the apex banks. The Reserve Bank of India assists the state co-operative bank through the agricultural credit department. In this way the whole system is integrated with the banking structure of the country. This can be shown in the following way.

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**Co-operative banking systems**

State Co-operative Banks  
(Apex)

Central co-operative banks  
(District)

Primary Non-agricultural Credit Societies (Local)

Employees  
Credit Co-operative Societies  
Consumer’s Co-operative Societies  
Urban/Rural Credit Co-operative Societies  
Housing Co-operative Societies

Source: Goel and Goel (1979).

District central co-operative banks are usually known as central banks. They are spread in all districts of the country. They link the credit societies and state co-operative banks. It is federation of
Primary societies. It has two types. The first having a membership confined to societies and known as banking union and the second having a mixed membership of individual and societies. The membership is given to middle class individuals who have the knowledge of banking business. The primary societies have also the membership of ordinary individuals. The excess funds of these primary credit societies can be utilised to obtain membership in the central co-operative banks. So the voice of the primary credit societies will be heard. The management will be in the hands of majority of the primary credit societies.

4.6 Co-operative administration at central, state and local levels:

Co-operative activity has an important place in the developmental process of the country. It is an activity included in both the central and the state agenda usually; it is given a place at the ministry level along with industry and civil supplies.

4.6.1 Co-operative administration at the central level:

The central Government had set up a small co-operation Division in the ministry of food and Agriculture in 1955. Co-operation Division was upgraded to the full-fledged Department of co-operation in 1958. In January 1966, the work of this ministry was transferred to the ministry of Food and Agriculture. The name of the Ministry was changed to the ministry of Agriculture and co-operation on 21st May 1971. The ministry had 4 different departments. They were
1. Department of Agriculture
2. Department of Food
3. Department of community
4. Department of co-operation.

In August 1976 a separate ministry was again formed as the Department of Civil Supplies and Co-operation. Recently, it has become a part of commerce and civil supplies Department.

Administration of the co-operative Department at the Central level

The Minister (The political Head)
(Assisted by State Minister and Parliamentary Secretaries)

Secretarial Organisation
(Administrative level)

Executive organisation of the department of Co-operation


4.6.2 Co-operative administration at the State level:

At the state level there is full-fledged ministry for co-operation with all the necessary functionaries and with all the necessary administrative set up. In practical sense, the co-operative administration starts from the level of the Registrar of co-operative societies who is the Head of the Department of co-operation at the State level. In Maharashtra the co-operative societies are governed
by Maharashtra co-operative societies Act 1960. The Registrar, Co-operative societies are appointed by the Government of Maharashtra through the ministry of co-operation. The Ministry appoints the other officers.

The working of co-operative administration at the state level is shown in chart below.

Co-operative Administrative at the State level:

```
The Registrar

Additional Registrar (Functional)

Planning  Marketing  Consumers Dy. registrar  Credit  Milk
Banking  Marketing  Consumers Development  Farming  Establish.

Assistant Registrar  Account Officer

Inspector Gr. I

Inspection Gr. II
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4.6.3 Co-operative Administration at the local level:
The lowest unit of administration is a village unit. Block unit is established by grouping village units. Various block units grouped together from a District and the 4 to 6 groups make a Region or a Division.

The following chart shows the co-operative Administration at the district level.

Co-operative Administration at the district level.

Assistant Registrar (In-charge of District)

Additional Assistant Registrar

(Depending on work)

Additional District co-operative officers

Marketing General Consumer Farming Statistics

Co-operative Inspectors

Audit Liquidation Collection Special societies.

Assistant Inspectors

Source: Kulkarni (1990)

In Maharashtra all the development departments, of which co-operation is a part, are under the administrative control of district
planning officer. All administrative powers rest with district planning officers.

4.7 Organisation of Non-agricultural co-operative credit society:

The Non-agricultural co-operative credit society is an association of borrowers and non-borrowers residing in one locality knowing one another and who are interested in the economic development. The membership is kept open to all the persons irrespective of their caste and creed.

The internal organisational and administrative structure of a credit co-operative society:

The credit co-operative society is democratically managed on one member one vote basis. The affairs of society should be administered by elected persons. Prof. Lambert stated that each member has a vote solely by virtue of the fact that he is a natural person. A co-operative organisation is democratic unit in the sense that control of such association vest with every member. The supreme authority of the society is vested in the general body of the members regarding policy, Programme, management, distribution of profits etc (Krishnaswamy and Khlandaiswami 1992).

The managing committee i.e. the board of directors is elected by the members is elected by the members of the society. There are
13 members in the board of directors. The board is constituted as follows:

1. Nine members are elected by the members of society.
2. One seat is reserved for economically backward class.
3. One seat is reserved for scheduled castes and tribes.
4. Two seats are reserved for female candidates.

- The elections for board of directors are held every 5 years.

The internal structure of a credit co-operative society can be shown as follows:

```
Shareholders (owners)
    ↓
Managing committee
    ↓
Chairman
    ↓
Secretary/Manager
    ↓
Office staff
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4.7.1 The duties of functionaries at different levels are as follows:

A. The powers and duties of shareholders:

Shareholders are the ultimate owners of the Non Non-agricultural Co-operative Credit Societies. Their duties and rights are as follows:

1. To attend the annual general meeting.

2. To elect the managing committee of Non-agricultural Co-operative Credit Societies to act on behalf of them.

3. To get information about the working of the Non-agricultural Co-operative Credit Societies.

4. To see the documents of Non-agricultural Co-operative Credit Societies.

5. To approve the profit and loss A/c and Balance sheet, budget, audit report and its compliance by Non-agricultural Co-operative Credit Societies.

6. To approve the distribution of profits.

7. To call special general meeting as per the provision of the Act.

4.7.2 The powers and duties of directors:
The board of directors looks after the business of Non-agricultural Co-operative Credit Societies on behalf of the shareholders. Their rights and duties are as follows.

1. To admit new members.

2. To appoint the employees of the society.

3. To fix the salary and allowances of employees and to make them permanent in the service or to terminate their services.

4. To near the complaints of the customers and to take proper measures to redress their complaints.

5. To consider loan applications and sanction them.

6. To verify the accounts.

7. To prepare profit and loss A/c and Balance sheet and other relevant documents to put forth to the annual general meeting.

8. To accept deposits and to raise loans as per provisions of the bylaws.

9. To file the suits against the defaulters on behalf on Non-agricultural Co-operative Credit Societies.

10. To make investments for security.

11. To check cash balance daily.
12. To submit reports and other information to the co-operative department as per their demand.

13. To appoint sub-committees of directors to perform various functions and to fix their responsibilities.

14. To create reserves and funds as per provisions of co-operative Act.

15. To appoint internal auditor.

16. To put audit report and its compliance before the annual general meeting.

17. To formulate the policy for the business activities.

18. To fix rate of interest on deposits and loans.

19. To prepare annual budget and to get approval of annual general meeting for the expenditure made by the board of directors.

20. To delegate authority to the managers, treasurers, and other employees for the smooth functioning of the business.

21. To take necessary steps for election of new managing committee before the expiry of the period of the existing committee.

22. To fix the date, time and place of the annual general meeting and to call the meeting.

4.7.3 The powers and duties of the chairman of the society:
The chairman of the society discharges following duties:

1. To act as chairman for the meetings of managing committee and sub-committees.

2. To supervise the activities of the Non-agricultural Co-operative Credit Societies.

3. To observe the implementation of resolutions passed by the managing committee.

4. To supervise the office-staff and day-to-day transactions of NACCS in the absence of chairman the vice-chairman has to perform the duties of the chairman.

4.7.4 The powers and duties of secretary/Manager:

The following are the duties of secretary/Manager:

1. To look after the correspondence of Non-agricultural Co-operative Credit Societies.

2. To keep proper documents and books of accounts.

3. To accept all types of deposits and to give receipts to that effect and passbooks.

4. To keep loan applications before the board of directors for sanction.
5. To prepare vouchers and necessary agreements according to the orders of managing committee and the chairman.

6. To issue share certificates to the shareholders.

7. To appoint the employees according to the orders of managing committee.

8. To execute the orders of managing committee.

9. To make the division of work among the staff members and to supervise their work.

10. To act as legal representative for the society.

4.8 Financial aspects of credit co-operatives:

Financial transactions are the basic activity of Non-agricultural Co-operative Credit Societies. Success of Non-agricultural Co-operative Credit Societies depends upon proper financial management.

4.8.1 Financial management concept and definitions:

Financial management is one of the important functional areas of management. It is concerned with the effective and efficient raising and utilisation of funds. It is defined as follows:

1. "Financial Management is the application of the planning and control functions to the finance function" - Howard and Upton.
2. "Financial management is the operational activity of a business that is responsible for obtaining and effectively utilising the funds necessary for efficient operations" - Joseph and Massie (Praveen, 1995).

An analysis of the above definitions makes it clear that financial management is that specialised activity which is responsible for obtaining and effectively utilising the funds for the efficient functioning of the business. In order to ensure the availability of sufficient capital in the business enterprises, financial management assesses the needs of the business in advance and then sets itself into motion to procure funds from various sources. Financial management has to see that funds are properly utilised and they do not remain idle.

4.8.2. The need for financial management in Non-agricultural Co-operative Credit Societies:

Financial management is specialised function of general management Business organisations adopt financial management to ensure proper and economical use of their resources.

Though Non-agricultural Co-operative Credit Societies are different in nature as compared to commercial organisation, financial management is beneficial for this smallest financial unit also. The main business activity of Non-agricultural Co-operative Credit Societies is to accept the deposits and to lend money. The main sources of finance of Non-agricultural Co-operative Credit Societies
are equity share capital, reserves and funds, deposits, and loans from District Central Co-operative Bank and other nationalised banks.

It is observed that in many Non-agricultural Co-operative Credit Societies the large amount of funds remains idle. The directors do not want to bear the risk of giving the loans. This reduces the profits of Non-agricultural Co-operative Credit Societies. On the other hand in many Non-agricultural Co-operative Credit Societies the directors do not know the liquidity ratio. They disburse all the available cash for giving the loans. Such Non-agricultural Co-operative Credit Societies are taking the risk of over trading unknowingly. It is also observed that some Non-agricultural Co-operative Credit Societies are running in losses as they are under trading.

The knowledge of financial management will be helpful to them in utilising their resources economically and properly. Cash budget, fund flow statements, ratio analysis and internal check system are tools of financial management that are helpful for Non-agricultural Co-operative Credit Societies.

4.9 Scope and objectives of financial management in Non-agricultural Co-operative Credit Societies:

The main objective of financial management is to procure funds at the minimum possible cost and to put them into productive channels.
Finance functions may be classified into two groups:

1) Executive finance functions
2) Incidental finance functions

4.9.1 Executive finance functions:

The executive finance functions are as follows:

Determining the allocation of net profits are follows:

1. The financial management involves decisions in following respects while allocating the net profits of Non-agricultural Co-operative Credit Societies.

2. Paying dividends to the shareholders as a return upon their investment.

3. Creating various funds for the stability of Non-agricultural Co-operative Credit Societies.

4. Retaining earnings for the expansion of business.

5. Estimating and controlling cash flows and requirements.

It is the prime responsibility of the financial manager to see that an adequate supply of cash in-hand at the proper time for the smooth flow of operations of Non-agricultural Co-operative Credit Societies.

The financial manager would like to match the inflow of cash to the out flow of cash so that after providing enough cash to meet
current obligations, there would be no idle cash balance. It is the dilemma of liquidity V/s profitability.

A. Deciding upon needs and new external sources of financing:

The financial managers on the basis of their forecasts of the volume of operations may have to plan for borrowing. The Non-agricultural Co-operative Credit Societies can take loan from District Central Co-operative Bank and other nationalised banks. Another principal method of external financing is the sale of additional shares.

B. Estimating the requirements of Capital:

The requirement of capital must be carefully estimated. The Non-agricultural Co-operative Credit Societies requires funds both for initial stage and for the long-term purposes. Estimating the requirement of funds involves the use of techniques of long range planning. The financial manager must prepare the budgets of various activities to estimate the financial requirements of Non-agricultural Co-operative Credit Societies.

4.9.2 Incidental Functions:

The incidental functions are as follows:

1. Supervision of cash receipts and disbursement and the safeguarding of cash balances.
2. Custody and safeguarding of securities, other documents and other valuable papers.

3. Taking care of mechanical details of financing.

4. Record keeping and reporting.

4.10 Sources of Finance of Non-agricultural Co-operative Credit Societies:

The main sources of finance available for Non-agricultural Co-operative Credit Societies are as follows.

4.10.1 Share capital:

The Non-agricultural Co-operative Credit Society is the co-operative organisation. The people in the same locality come together and form the co-operative credit society. The chief promoters collect the required initial capital by way of ordinary shares. The ordinary shareholders are the owners of Non-agricultural Co-operative Credit Societies and they undertake the risks of Non-agricultural Co-operative Credit Societies. They elect the directors to run the Non-agricultural Co-operative Credit Societies. They have the ultimate control over the management of Non-agricultural Co-operative Credit Societies. Shares can be paid off only in the event of liquidation or in the event of death of shareholder.

This source has the least risk involved shareholders can be paid dividend only when there is distributable profit. However the cost of the ordinary share is usually the highest. This is because
such shareholders expect a higher rate of return on their investment as compared to the other suppliers of long-term funds. Secondly the dividend payable on shares is an appropriation of profit and not a charge against profits.

4.10.2 Deposits:

The Non-agricultural Co-operative Credit Societies is the financial unit. It's activity is to accept the deposits and give loans. They are doing business on the public deposits. Hence public deposit is the main source of finance of Non-agricultural Co-operative Credit Societies. Non-agricultural Co-operative Credit Societies accepts fixed deposits, savings deposits and recurring deposits.

The financial manager must take due precautions in utilising the deposits. The Non-agricultural Co-operative Credit Societies has to pay interest on deposits and as such deposit money should not be kept idle. At the same time all deposits cannot be disbursed by giving loans. It may create difficulty in paying back deposit on demand. The deposit money can be invested in other financial institutions. But it is likely to reduce the profit margin.

4.10.3 Bank Loan:

Non-agricultural Co-operative Credit Societies can take loan from District Central Co-operative Bank and other nationalised banks. Generally, Non-agricultural Co-operative Credit Societies need short term finance. Banks give short-term loan facility by granting cash-credit and overdraft facility. They can take long-term loan also but
there are many difficulties for Non-agricultural Co-operative Credit Societies in taking from District Central Co-operative Bank. They are as follows:

1. There is 10% deduction for shares.

2. There is 2% deduction for margin money.

The Non-agricultural Co-operative Credit Societies has to adopt one representative on board of directors of Non-agricultural Co-operative Credit Societies.

It is observed that the Non-agricultural Co-operative Credit Societies are normally unwilling to take loan from District Central Co-operative Bank.

4.10.4 Retained Earnings:

The Non-agricultural Co-operative Credit Societies can set aside some amount from the net profits. They can create the reserve fund, building fund, sinking fund and other reserves. These reserves help Non-agricultural Co-operative Credit Societies in financial crisis.

4.11 Working capital Management:

4.11.1 Concept and definitions:

Working capital may be regarded as life-blood of business. A study of working capital is of major importance to internal and external analysis because of its close relationship with day to day operations of business.
In accounting terms, working capital is the difference between inflows and outflows of funds. In other words it is the net cash inflows. The whole of the current or working capital of a firm is frequently termed as Gross working capital.

There is also another opinion regarding the concept of working Capital.

*Prof. H.G.Guthan and H.E.Douall* define working capital as follows:

“The excess of current assets that remain in the firm if all its current liabilities are paid”

Working Capital = current assets- current liabilities (Praveen, 1995).

This type of working capital is called net working capital. Non-agricultural Co-operative Credit Societies is a financial unit. The researcher thinks that the working capital for such financial unit can be defined as “The excess of paid up share capital, reserve and deposits over the fixed assets.

Working capital =Paid up Capital +Reserves + Deposit - fixed assets.

4.11.2 Determinant of working capital of Non-agricultural Co-operative Credit Societies:

There are no hard and fast rules to determine the working capital requirements. The determinants of working capital are as following:
The size of business "The general principal is big size requires the large amount of working capital".

1. Seasonal variation:

   It is observed that generally the months of August, September and October are the slack seasons of Non-agricultural Co-operative Credit Societies. The number of transactions is comparatively less in these months. During this period, Non-agricultural Co-operative Credit Societies require less amount of working capital. March, April, May and June are most busy months. The requirement of working capital is large in these months.

2. Turnover of circulating Capital:

   The main activity of Non-agricultural Co-operative Credit Societies is giving loans. The short-term loans circulate the capital speedily. In such a case, the requirement of working capital is less because such type of loaning generates money. But long-term loans require large amount of working capital as the cash are blocked for the long term.

3. Conversion of current assets into cash:

   Non-agricultural Co-operative Credit Societies invest money in banks for short term. These investments can easily be converted into cash at any time in such case loss amount of working capital is needed.

4. Growth and expansion of business:
The growing Non-agricultural Co-operative Credit Societies requires large working capital. It is observed that many Non-agricultural Co-operative Credit Societies are intending to open branches and want to expand their activity. They need large amount of working capital.

5. The number of shareholders:

Non-agricultural Co-operative Credit Societies established to cater to the needs of its shareholders. The cost of share is less so the amount of paid up share capital is less. But the number of shareholder is large, generally the shareholder takes the share with the expectations that he would get loan from Non-agricultural Co-operative Credit Societies. It is found that demand for the loan proportionately increases with the number of shareholders. The need of working capital also increases with the increase in the number of shareholders.

Limits of loan:

Non-agricultural Co-operative Credit Societies have to fix the limits of loan amount for every type of loan. If the amount of loan limit is large, the large amount of working capital is needed.

4.11.3 Management of working capital of Non-agricultural Co-operative Credit Societies:

Non-agricultural Co-operative Credit Societies are financial institution they accept deposits and give loans. They conduct their
business on the basis of faith of depositors. If the depositors receive the deposit as and when demanded their faith in Non-agricultural Co-operative Credit Societies increases. So Non-agricultural Co-operative Credit Societies must be very keen in returning deposits on demand. To ensure this, many Non-agricultural Co-operative Credit Societies keep more cash in hand than necessary. As a result they have loan returns. Some Non-agricultural Co-operative Credit Societies are using more money in lending loans. They are taking risks. If the loaners fail to pay the loans, it will be difficult for Non-agricultural Co-operative Credit Societies to pay the deposit money on demand.

The ratio analysis of working capital can be used by management, means of checking upon the efficiency of utilisation of working capital of Non-agricultural Co-operative Credit Societies.

The important ratios are:

1. Fixed assets to total deposits.
2. Turnover to working capital ratio.

A. Ratio of fixed deposits to total deposits:

The main sources of working capital of Non-agricultural Co-operative Credit Societies are deposits, Non-agricultural Co-operative Credit Societies accept following deposits.

- Fixed deposits.
- Recurring deposits.
- Saving deposits
• Current and daily deposits.

Non-agricultural Co-operative Credit Societies have to pay high rate of interest on fixed deposits. This is a costly source of finance. However, Non-agricultural Co-operative Credit Societies can lend the amount on fixed deposits safely, as they know the exact date of maturity on the deposits. The amount, thus, is not kept idle.

The amount of recurring, saving and daily deposits is also considerably large in case of Non-agricultural Co-operative Credit Societies. This is less expensive source of finance, as the rate of interest is low but Non-agricultural Co-operative Credit Societies cannot take full advantage of this amount as the depositors can demand the amount of such deposits any time. In order to take advantage of both, i.e. time and cost of finance, Non-agricultural Co-operative Credit Societies must keep proper proportion between fixed deposits and total deposits. Generally, out of deposits collected by Non-agricultural Co-operative Credit Societies fixed deposit to the extent of 50% are desirable for sound financial position.

B. Ratio of turnover to working capital:

The Non-agricultural Co-operative Credit Societies are required to be externally careful while lending money. The Non-agricultural Co-operative Credit Societies is the smallest financial unit. So it is not desirable for them to give long-term loans. The amount of loan has also to be moderate the long term loans block the working capital. If the long-term loans fail to repay the loan, Non-agricultural
Co-operative Credit Societies have to face the financial crises. So they normally concentrate on short-term loans of small amounts. It helps increase the cycle of money rotation. It facilitates Non-agricultural Co-operative Credit Societies to create more cash. The financial manager has to fix the amount of loan and duration of loans. Generally Non-agricultural Co-operative Credit Societies have to get the loan limit sanctioned in the general meeting of shareholders and then it must be approved by the co-operative Department. The management can use the following ratio to measure the rate of working capital utilisation:

An increasing ratio indicates that working capital is more active than it has been in the past. A decreasing ratio indicates that Non-agricultural Co-operative Credit Societies is using working capital less economically. It usually indicates relative inefficiency in the use of capital from the profit viewpoint. It may also show that management is protecting the capital for business and it’s shareholders.

4.12 Financial Forecasting:

Financial forecasting is a system of estimating financial resources. Estimation for future can be made if we have past records of financial resources. Thus process of financial forecasting involves proper use of past records and funds flow behaviour. In other works it can be said that financial forecasting is a sort of working plan. Such a plan is finalised by arranging future activities.
4.12.1 Tools of financial forecasting:
There are normally two important approaches of financial forecasting. Both these approaches help in finding financial position of the firm on the one hand and it's financial requirements on the other. These approaches are as follows:

- Preparation of financial statements
- Preparation of cash budget

4.12.1.1 Financial statement:

Financial statement refers to two statements. One is balance sheets and the second is income statement or profit and loss statement showing the results achieved during a certain period.

According to the American Institute of Accounts, "Financial statement reflects a combination of recorded facts, accounting conventions, and personal judgement and the conventions applied affect them materially" (Maheswari, 1995).

The Non-agricultural Co-operative Credit Societies have to prepare their financial accounts every year. The directors have to get these financial accounts approved in the general meeting. They have to mention the last year figures along with the figures of current year. This enables the shareholders as well as directors to compare the financial results of current year to those of last year. This comparison also enables management to detect the cases of inefficiency if any.
A cash budget is a detailed estimate, for some future period of time, of cash inflows from all sources and cash disbursement for all purposes and the resultant cash balances. It can be prepared for a year, for six months, for month or a week also. The cash budget plays very important role in the financial management. The Non-agricultural Co-operative Credit Societies can achieve the following advantages by preparing a cash budget.

1. It enables to ascertain cash position to ensure prompt payment of debts as well as the amount of fixed deposit on maturity dates without adversely affecting cash resources.

2. It enables to determine the quantum and the timing of and the period for which surplus funds can be loaned out or invested in some other ways or used for expansion.

3. Good cash budgeting can help in increasing the volume of business without any corresponding increase in working capital by facilitating the flow. Thus cash budget is extremely useful as a forecasting and planning tool.

Preparation of cash budget for Non-agricultural Co-operative Credit Societies:

A cash budget is prepared strictly on cash basis and not accrual basis. It starts with opening balance of cash in hand and at
bank. Receipts are added to this and payments are deducted therefrom, resulting in the balance i.e. deficiency or surplus.

A) Estimating the cash receipts of Non-agricultural Co-operative Credit Societies:

It is the prediction or estimation of cash receipts from deposits, recovery of loans, non-operating incomes, sales of assets, issue of shares etc.

B) Estimating Disbursements of Non-agricultural Co-operative Credit Societies:

The disbursement may also be for operating expenses, non-operating expenses, capital transactions, repayment of deposits on maturity or demand, loans to be sanctioned etc.

4.13 Financial planning:

Financial planning refers to the plans and policies regarding financial activities of the business. It is concerned with the determination of financial policies and developing financial procedures. Financial planning broadly covers various activities relating to preparation and use of

1. Cash budget
2. Flow of funds statement
3. Capital budget.
4.13.1 Flow of funds statements:

The flow of funds refers to transfer of economic values from one asset to another from one equity to another, from one asset to equity or vice versa or a combination of any of these. According to working capital concept of funds, the flow of funds refers to movements of funds described in terms of flow in an out of the working capital area.

Fund flow statement is an attempt to report the flow of funds between the various asset and equity items during an according period. Thus it provides a missing link in the completion of final account statements.

The fund flow statement is useful tool in the financial manager's analytical kit. It facilitates better as well as more detailed analysis and understanding of changes in the distribution of resources between balance sheet dates.

It acts as an instrument for the allocation of resources. The need for resources is always more than what is available. Fund flow statement enables management to decide an order of priorities.

It points to the effectiveness with which management has handled working capital during the period under review and also adequacy or otherwise of the present funds. It can tell the shareholders. Investors about management plans for the future (Maheswari and Goyal, 1978).
4.13.2 Cash flow analysis:

A cash flow statement is not much different from a funds flow statement. In the preparation of cash flow statement we restrict ourselves strictly to sources and uses of cash alone and even a most liquid current assets like book-debts is excluded for the purpose since the ideal of preparing the cash flow statement is to show the impact of various transaction on the cash position of a firm it takes into account only transactions immediately resulting from cash inflows and cash out flows (Gupta and Radhaswany, 1983).

The cash flow statement is prepared on an estimated basis for the next accounting period. It enables the management to plan and co-ordinate financial operations properly. The Management knows how much funds are needed, how much can be generated internally and for how much it should arrange from outside. Thus cash flow analysis is especially useful to management in preparing cash budgets.

It is useful to internal financial management in considering the possibility of repaying long-term debt, in planning replacement of facilities and in formulating dividend policies.

The importance of cash flow analysis is development upon the time period involved in the decision shorter the period covered by the analysis is greater than the importance of cash flow analysis.
Capital budget is the planning of expenditure whose returns strengthens themselves beyond one-year time interval. It is the process of deciding whether or not to commit resources to a project whose benefits would be spread over several years. It considers proposed capital outlays and their financing. The main exercise involved in capital budgeting is to relate the benefits to costs in some reasonable manner, which would be consistent with the profit maximising objective of the business. Capital budgeting decisions belong to the most important areas of managerial decisions as they involve more extended estimation and prediction of events to come. A high intellectual ability is required for such economic ability (Manmohan and Goyal, 1978).

Capital budgeting has two aspects:

It ranks various proposals by measuring their profitability in descending order.

It uses the Non-agricultural Co-operative Credit Societies minimum rate of return as the cut off point for determining, whether projects should be accepted or rejected.