

# FARMER PRODUCER ORGANIZATIONS

AN INNOVATIVE INSTITUTIONAL APPROACH  
FOR COLLECTIVE ACTION

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## CHAPTER- 7 FINANCIAL MANAGEMENT

## CHAPTER- 7: FINANCIAL MANAGEMENT

### 7.1 Introduction

The financial management of the FPO is an important aspect that decides the success or failure of a given FPO. The share capital or equity in the FPO means the total of the payments made to the FPO by all the shareholders Members (farmer producers/ institutions of farmer producers) on their shares. It represents a form of member commitment to the group and it defines each member's stake in the group. In a FPO registered as a Producer Company it shall consist of only equity shares. The important special aspects of equity share capital in case of FPO are,

- a. While finalizing the cost of share and the number of shares per member, the paying capacity of the economically deprived shareholders should also be considered.
- b. There is no bar on the number of shares per member in the company Act.
- c. It is suggested to have equal number of shares among the members to maintain a balance in the power structure of the company.
- d. The norms for distribution of share should be mentioned in the Articles of Association.
- e. The eligible community members may apply through a membership application form (specified in the Act.) to the BoD. The General Body (GB) is the final authority to approve or reject the membership application.
- f. The shareholders finalize the authorized capital of the company and the cost of each share.
- g. Transfer of Share capital is limited to members on par value in a producer company
- h. The amount collected through shareholders could be used for registration fees and other processing related expenditures like fees for Company secretary, stationary,

travel etc. In the books of accounts it can be shown as loan taken from the share capital. Once the company mobilizes resources through business it can be repaid.

i. Minimum number of producers required for forming a FPO or producer company (PC) is 10, while there is no limit for maximum number of members and it can be increased as per feasibility and need.

j. There cannot be any government or private equity stake in the producer companies, which implies that producer company form of FPO cannot become a public or deemed public limited company

### **7.2 Authorized capital:**

Capital that a FPO has been authorized to raise by way of equity shares through the Articles of Association /Memorandum of Association is called as authorized capital. The minimum authorized capital at the time of incorporation of FPO in the form of a producer company should be Rs.5 lakh.

### **7.3 Process for increasing the Authorized capital:**

a. The authorized capital could be increased keeping in view the requirements of the company, by creation of new shares by passing an ordinary resolution in the general body meeting. The resolution cannot compel the existing shareholders to take the additional shares.

b. The alteration does not affect the FPO's issued capital.

c. The Articles of Association of the FPO should confer this power, if not it should be suitably amended.

d. The changes will cost registration fee and notice of increase in share capital should be filed in Form No. 5 within 30 days of passing resolution for increasing the share capital along with the filing fee.

e. Amendment should be noted in every copy of Memorandum and Articles.

### **7.4 Procedure for Consolidation/Division/Cancellation of Share:**

A FPO has to follow the prescribed procedure involved in the consolidation or division or cancellation of share into larger/smaller amount. The procedure involved is given below.

a. For the consolidation/division/cancellation of shares, at first, it should be considered and approved by the Board of Management in its meeting. In the same meeting the date/time for the general body meeting and the notice of the meeting containing the necessary resolutions and explanatory statements may also be finalized and approved.

b. At the general meeting:

The necessary resolution should be passed. The Form No. 23 has to be filed within 30 days of passing the resolutions along with the filing fees and enclosures as prescribed in Schedule X to the Act with the Registrar of Companies.

c. In case of consolidation/division, the members must be issued new certificates in lieu of the existing share certificates, by making appropriate entries in the register of members. Whereas, in cancellation of shares, a notice to the Registrar of Companies in Form No. 5, along with the fees as prescribed in Schedule X to the Act.

### **7.5 Diminution of Capital:**

The procedure involved in diminution of capital is given below.

a. The producer company may diminish the amount of its authorized or nominal (but not issued) capital by cancelling shares which have not been issued or agreed to be issued, if its Articles authorize such cancellation.

b. The diminution may be affected and it must be given to the Registrar within 30 days thereafter in Form No. 5.

c. It must be noted that the resolution does affect the Company from subsequently increasing its nominal capital by passing an ordinary resolution in general meeting.

d. In case of diminution, the cancelled shares that have never been issued or allotted to anyone are extinguished.

#### **7.6 Issue of Bonus Shares:**

The procedure involved in issue of bonus shares is as below.

a. Any FPO may, upon recommendation of the Board of Management and passing of resolution in the general body meeting, issue bonus shares by capitalization of amounts from general reserves in proportion to the shares held by the members on the date of the issue of such shares.

b. Proposed bonus shares should be well within the authorized capital of the FPO.

c. If not, necessary steps should be taken to increase the authorized capital of the FPO by amending the capital clause of the Memorandum of Association.

d. A resolution should be passed in the general meeting duly convened and filed with the Registrar within 30 days together with requisite documents and fees.

e. Where the FPO has availed of any loan facility from term lending institutions, prior permission is to be obtained from the institution as per the term lending agreement.

f. Form-2 should be filed with the Registrar within 30 days also with requisite fees.

#### **7.7 Advancing of loans by FPO:**

The board of FPO may, subject to provisions in articles, provide financial assistance to the members of the FPO by way of:

a. Credit facility, to any member, in connection with the business of the company, for a period not exceeding six months.

b. Loans and advances, against security specified in articles to any member, repayable within a period exceeding three months but not exceeding seven years from the date of disbursement of such loans or advances.

#### **7.8 Investments by FPO:**

The general reserves of the FPO should be invested to secure the highest returns available from approved securities, fixed deposits, units and bonds issued by the nationalized bank or co-operative bank or scheduled bank or in any other prescribed mode.

a. AFPO may acquire the shares of another FPO /producer company.

b. By passing a special resolution, it can also subscribe to the share capital, or enter into any agreement or other arrangement, whether by way of formation of its subsidiary company, joint venture or in any other manner with anybody corporate, for the purpose of promoting the objectives of the producer company.

c. Any FPO, either by itself or together with its subsidiaries, may invest, by way of subscription, purchase or otherwise, shares in any other company, other than a FPO, for an amount not exceeding thirty per cent of the aggregate of its paid-up capital and free reserves. However, with the prior approval of the Central Government by passing special resolution, a producer company can invest even in excess of 30 per cent of the aggregate of its paid up capital and free reserves.

d. All investments by a FPO/producer company may be made if such investments are consistent with the objectives of the FPO.

e. The FPO, at its registered office, shall maintain a register containing particulars of all the investments, showing the names of the companies in which shares have been acquired, number and value of shares; the date of acquisition; and the manner and price at which any of the shares have been subsequently disposed of. It shall be open to inspection by any member.

#### **7.9 Maintaining Reserves:**

a. Every FPO shall maintain a general reserve in every financial year, in addition to any reserve maintained by it, as may be specified in articles.

b. In a case where the FPO does not have sufficient funds in any financial year for transfer to maintain the reserves as may be specified in articles, the contribution to the reserve shall be shared amongst the members in proportion to their patronage in the business of that FPO in that year.

#### **7.10 Book keeping:**

a. Each FPO has to maintain 'books of account' for all the transactions.

b. Chief Executive Officer (CEO), every Director of the company (in absence of CEO), and every officer and other employee and agent of the company is responsible for keeping of 'Books of Accounts'.

c. Proper 'books of account' of FPO should be kept at its registered office with respect to,

- i. all sums of money received and expended by the FPO and the matters in respect of which the receipts and expenditure take place.
- ii. all sales and purchase of goods by the FPO; the instruments of liability executed by or on behalf of the FPO/Producer Company.
- iii. the assets and liabilities of the FPO

d. in case of a FPO or a producer company engaged in production, processing and manufacturing, the particulars relating to utilization of materials or labour or other items of costs.

#### **7.11 Voucher:**

A voucher should be prepared for each transaction and supporting documents (in original) should be attached to it, such as invoice, challan, bills, purchase orders etc.).

a. All the vouchers should be approved by the authorised official.

b. There are 3 types of vouchers to be maintained viz.; (1) Cash Voucher for cash transaction, (2) Bank Voucher for bank transaction and (3) Journal Voucher for internal adjustments.

c. Vouchers should be serially numbered along with the ongoing financial year and filed in a sequential order along with supporting documents.

d. Separate files should be maintained for Cash, Bank and Journal vouchers.

#### **7.12 Preparing Balance Sheet and Profit and Loss account:**

Each FPO should prepare a balance-sheet and profit and loss account (along with needed annexure) of each financial year, which will be laid before the shareholders at the annual general body meeting of the company.

a. The balance sheet and 'profit and loss' account should be signed by two Directors (on behalf of BoD) and CEO of the company.

b. Every producer company has to file its Directors' Report, the audited balance sheet and profit and loss account along with the proceedings and the annual return with the Registrar within 60 days from the day on which the balance sheet and profit and loss account were laid before the members at the annual general meeting.

### 7.13 Delegation of Financial Powers:

#### Delegation of Financial Powers to Chief Executive Officer (CEO) of FPO

- a. CEO can withdraw cash up to the limit of Rs. 5000.00 from the FPO's bank account.
- b. The cash payment against any purchase of goods or services in any circumstances shall be limited to Rs. 500.00
- c. All payments above Rs. 500.00 shall be paid by cheque only. In case of non-acceptance of cheque by any institution or individual, cash payment only with the approval of a committee comprising of 3 directors.
- d. Purchase of all consumable goods and services for use by the FPO for its business operations or managing its affairs up to Rs.5000.00 following the stipulated purchase procedure.

### 7.14 Advance from the FPO

- a. The work advance may be taken from the office by staff for the following purpose:
  - Travel expenses and Daily Allowance(s);
  - Procurement of official item(s);
  - Any other purpose(s).
- b. Scrutinize advance account of staff by concerned employee to ensure that previous outstanding balance(s) has been cleared;
- c. Ensure proper approval of departmental head on the payment voucher or application for advance, before fresh advance is given to any staff.

### 7.15 Accounting for advance taken from the FPO

- a. Before request for advance is granted, ensure that the proposed expense is within the limits of plan and budget for the relevant year

- b. Ensure that purpose of work advance is mentioned on the voucher
- c. Also ensure that advance should be sanctioned only when the previous drawings are settled and it is urgent.
- d. Ensure that accounts are settled within 15 days or immediately after the work is completed whichever is earlier.
- e. Auditing: It is compulsory to conduct Internal Audit in the case of FPO. Internal audit of its accounts should be carried out, at such interval and in such manner as may be specified in its Articles of Association, by a chartered accountant.

### 7.16 Statutory financial compliance:

Electronic filing is mandatory. As a part of annual filing, companies incorporated under the Companies Act, 1956 are required to file the following documents along with the e-Forms to the Registrar of Companies (RoC):

#	Document	e-Form
1	Balance-Sheet	Form 23AC to be filed by all companies
2	Profit & Loss Account	Form 23ACA to be filed by all companies
3	Annual Return	Form 20B to be filed by companies having share capital
4	Annual Return	Form 21A to be filed by companies without share capital

### Some Important Frequently asked Questions and Answers:

#### 1) What is share capital?

Share capital or equity means the total of the payments made to the company/society by all the shareholders Members (farmer producers/ institutions of farmer producers) on their shares. It represents a form of member commitment to the group and it defines each member's stake in the group. In a Producer Company it shall consist of only equity shares.

## **2) What are the special aspects of equity share capital in case of producer organizations?**

- a. While finalizing the cost of share and the number of shares per member, the paying capacity of the economically deprived shareholders should also be considered.
- b. There is no bar on the number of shares per member in the company Act.
- c. It is suggested to have equal number of shares among the members to maintain a balance in the power structure of the PC.
- d. The norms for distribution of share should be mentioned in the Articles of Association.
- e. The eligible community members may apply through a membership application form (specified in the Act.) to the BoD. The General Body (GB) is the final authority to approve or reject the membership application.
- f. The shareholders finalize the authorized capital of the company and the cost of each share.
- g. Transfer of Share capital is limited to members on par value in a PC
- h. The amount collected through shareholders could be used for registration fees and other processing related expenditures like fees for Company secretary, stationary, travel etc. In the books of accounts it can be shown as loan taken from the share capital. Once the company mobilises resources through business it can be repaid.
- i. Minimum number of producers required to form a PC is 10, while there is no limit for maximum number of members and it can be increased as per feasibility and need.
- j. There cannot be any government or private equity stake in the producer companies, which implies that PC cannot become a public or deemed public limited company

## **3) What is the authorised capital?**

Capital that a company/organisation has been authorized to raise by way of equity shares through the Articles of Association/Memorandum of Association. The minimum authorized capital at the time of incorporation of Producer Company should be Rs.5 lakh.

## **4)What is the issued capital?**

The share capital that has been issued to the members in their names is called issued capital.

## **5) What is the process for increasing the Authorised capital?**

- a. The authorised capital could be increased keeping in view the requirements of the Company, by creation of new shares by passing an ordinary resolution in general meeting. The resolution cannot compel the existing shareholders to take the additional shares.
- b. The alteration does not affect the company's issued capital.
- c. The Articles of Association of the company should confer this power, if not it should be suitably amended.
- d. The changes will cost registration fee and notice of increase in share capital should be filed in Form No. 5 within 30 days of passing resolution for increasing the share capital along with the filing fee.
- e. Amendment should be noted in every copy of Memorandum and Articles.

## **6) What is the procedure for Consolidation/Division /Cancellation of Share into Larger/Smaller Amount?**

- a. For the consolidation/division/cancellation of shares, at first, it should be considered and approved by the Board in its meeting. In the same meeting the date/time for the general meeting and the notice of the meeting containing the necessary resolutions and explanatory statements may also be finalised and approved.

b. At the general meeting:

- The necessary resolution should be passed,  
- Form No. 23 has to be filed within 30 days of passing the resolutions along with the filing fees and enclosures as prescribed in Schedule X to the Act with the Registrar of Companies.

c. In case of consolidation/division, the Members must be issued new certificates in lieu of the existing share certificates, by making appropriate entries in the register of members. Whereas, in cancellation of shares, a notice to the Registrar of Companies in Form No. 5, along with the fees as prescribed in Schedule X to the Act.

#### **7) What is the procedure for Diminution of Capital?**

a. The Company may diminish the amount of its authorised or nominal (but not issued) capital by cancelling shares which have not been issued or agreed to be issued, if its Articles authorise such cancellation.

b. The diminution may be affected and it must be given to the Registrar within 30 days thereafter in Form No. 5.

c. It must be noted that the resolution does affect the Company from subsequently increasing its nominal capital by passing an ordinary resolution in general meeting.

d. In case of diminution, the cancelled shares that have never been issued or allotted to anyone are extinguished.

#### **8) What is the procedure for issue of Bonus Shares?**

a. Any Producer Company may, upon recommendation of the Board and passing of resolution in the general meeting, issue bonus shares by capitalization of amounts from general reserves in proportion to the shares held by the Members on the date of the issue of such shares.

b. Proposed Bonus Shares should be well within the authorised capital of the Company.

c. If not, necessary steps should be taken to increase the authorised capital, by amending the capital clause of the Memorandum of Association.

d. A resolution should be passed in the general meeting duly convened and filed with the Registrar within 30 days together with requisite documents and fees.

e. Where the Company has availed of any loan facility from term lending institutions, prior permission is to be obtained from the institution as per the term lending agreement.

f. Form 2 should be filed with the Registrar within 30 days also with requisite fees.

#### **9) Whether a Producer Company can give loans to its members?**

The Board may, subject to provisions in articles, provide financial assistance to the members of the Producers Company by way of:

a. Credit facility, to any member, in connection with the business of the Company, for a period not exceeding six months.

b. Loans and advances, against security specified in articles to any Member, repayable within a period exceeding three months but not exceeding seven years from the date of disbursement of such loans or advances.

#### **10) Whether a registered society can give loan to its members?**

A registered society can give loans only to its members. However, it can give loan to another registered society with permission of the Registrar. [Section 29(1)]. A society with unlimited liability cannot lend money on security of movable property without sanction of the Registrar. [Section 29(2)]. State Government, by issuing a general or special order, can



prohibit or restrict lending of money on mortgage of immovable property by any registered society or class of registered society.

### **11) Whether a Producer Company can invest in Other Companies?**

The general reserves of any Producer Company should be invested to secure the highest returns available from approved securities, fixed deposits, units and bonds issued by the Government or co-operative or scheduled bank or in any other prescribed mode.

- a. A Producer Company may acquire the shares of another Producer Company.
- b. By passing a special resolution, it can also subscribe to the share capital, or enter into any agreement or other arrangement, whether by way of formation of its subsidiary company, joint venture or in any other manner with anybody corporate, for the purpose of promoting the objectives of the Producer Company.
- c. Any Producer Company, either by itself or together with its subsidiaries, may invest, by way of subscription, purchase or otherwise, shares in any other company, other than a Producer Company, for an amount not exceeding thirty per cent of the aggregate of its paid-up capital and free reserves. However, with the prior approval of the Central Government by passing special resolution, a Producer Company can invest even in excess of 30% of the aggregate of its paid up capital and free reserves.
- d. All investments by a Producer Company may be made if such investments are consistent with the objectives of the Producer Company.
- e. The Producer Company, at its registered office, shall maintain a register containing particulars of all the investments, showing the names of the companies in which

shares have been acquired, number and value of shares; the date of acquisition; and the manner and price at which any of the shares have been subsequently disposed of. It shall be open to inspection by any Member.

### **12) Whether it is necessary to maintain general and other reserves?**

- a. Every Producer Company shall maintain a general reserve in every financial year, in addition to any reserve maintained by it, as may be specified in articles.
- b. In a case where the Producer Company does not have sufficient funds in any financial year for transfer to maintain the reserves as may be specified in articles, the contribution to the reserve shall be shared amongst the members in proportion to their patronage in the business of that company in that year.

### **13) Whether it is necessary to maintain the Books of Accounts by a PC?**

- a. Each Company, has to maintain 'books of account' for all the transactions.
- b. Chief Executive Officer (CEO), every Director of the company (in absence of CEO), and every officer and other employee and agent of the company is responsible for keeping of 'Books of Accounts'.
- c. Proper 'books of account' of Producer Company should be kept at its registered office with respect to:
  - i. all sums of money received and expended by the Producer Company and the matters in respect of which the receipts and expenditure take place;
  - ii. all sales and purchase of goods by the Producer Company; the instruments of liability executed by or on behalf of the Producer Company;
  - iii. the assets and liabilities of the Producer Company;

d. in case of a Producer Company engaged in production, processing and manufacturing, the particulars relating to utilization of materials or labour or other items of costs.

#### **14) What is a Voucher?**

A voucher should be prepared for each transaction and supporting documents (in original) should be attached to it, such as invoice, challan, bills, purchase orders etc.).

- a. All the vouchers should be approved by the authorised official.
- b. There are 3 types of vouchers to be maintained viz.; (1) Cash Voucher for cash transaction, (2) Bank Voucher for bank transaction and (3) Journal Voucher for internal adjustments.
- c. Vouchers should be serially numbered along with the ongoing financial year and filed in a sequential order along with supporting documents.
- d. Separate files should be maintained for Cash, Bank and Journal vouchers.

#### **15) Whether it is necessary to prepare Balance Sheet and Profit and Loss account?**

Yes. Each Producer Company/organisation should prepare a balance-sheet and profit and loss account (along with needed annexure) of each financial year, which will be laid before the shareholders at the AGM of the company.

- a. The balance sheet and 'profit and loss' account should be signed by two Directors (on behalf of BoD) and CEO of the company.
- b. Every producer company has to file its Directors' Report, the audited balance sheet and profit and loss account along with the proceedings and the annual return with the Registrar within 60 days from the day on which the balance sheet and profit and loss account were laid before the members at the annual general meeting.

#### **16) What is the delegation of Financial Powers?**

##### **A. To CEO**

- a. He can withdraw cash up to the limit of Rs. 5000/ (Rs. Five thousand) from the Company's bank account;
- b. The cash payment against any purchase of goods or services in any circumstances shall be limited to Rs. 500/- (Rs. Five Hundred Only).
- c. All payments above Rs. 500/- (Rs. Five Hundred Only) shall be paid by cheque only. In case of non-acceptance of cheque by any institution or individual, cash payment only with the approval of a committee comprising of 3 directors.
- d. Purchase of all consumable goods and services for use by the Company for its business operations or managing its affairs up to Rs. 5000/- (Rs. Five Thousand Only) following stipulated purchase procedure.

##### **B. Advance from the Company**

- a. The work advance may be taken from the office by staff for the following purpose:
  - Travel expenses and Daily Allowance(s);
  - Procurement of official item(s);
  - Any other purpose(s).
- b. Scrutinise advance account of staff by concerned employee to ensure that previous outstanding balance(s) has been cleared;
- c. Ensure proper approval of departmental head on the payment voucher or application for advance, before fresh advance is given to any staff.

##### **C. Accounting for Advance Taken from the Company**

- a. Before request for advance is granted, ensure that the proposed expense is within the limits of Plan & Budget for the relevant year;

- b. Ensure that purpose of work advance is mentioned on the voucher;
- c. Also ensure that advance should be sanctioned only when the previous drawings are settled and it is urgent.
- d. Ensure that accounts are settled within 15 days or immediately after the work is completed whichever is earlier.

**17) Whether it is compulsory to get the Audit of accounts?**

It is compulsory to conduct Internal Audit in the case of Producer Company/Organisation. Internal audit of its accounts should be carried out, at such interval and in such manner as may be specified in its Articles of Association, by a chartered accountant.

**18) What are the Statutory Financial Compliance to be submitted by a producer company?**

Electronic filing is mandatory. As a part of Annual Filing, companies incorporated under the Companies Act, 1956 are required to file the following documents along with the e-Forms to the Registrar of Companies (RoC):

#	Document	e-Form
1	Balance-Sheet	Form 23AC to be filed by all companies
2	Profit & Loss Account	Form 23ACA to be filed by all companies
3	Annual Return	Form 20B to be filed by companies having share capital
4	Annual Return	Form 21A to be filed by companies without share capital