

625/97  
3

# INDIAN COOPERATIVE REVIEW

## IN THIS ISSUE

INDIAN COOPERATIVE DEMOCRACY AT CROSS-ROADS

— *Dr. B.B. Goel*

AN EVALUATION OF COOPERATIVE LOAN WAIVE-OFF  
SCHEME IN JABALPUR DISTRICT, MADHYA PRADESH

— *Dr. H.C. Jain, M.K. Gupta & Rajesh Jain*

A CASE STUDY ON ADVANCES AND RECOVERY OF  
THE SANGRUR CENTRAL COOPERATIVE BANK  
LTD., SANGRUR, PUNJAB

— *Dr. N. Ganesan*

AGRICULTURAL CREDIT UTILISATION AND TRANSFER  
OF TECHNOLOGY IN KISAN SERVICE COOPERATIVE  
SOCIETY LTD. (ANDAMAN ISLAND) THROUGH  
INTENSIFICATION OF COOP. EDUCATION AND  
FARM GUIDANCE

— *Abul Hassan*

BONUS ACT AND COOPERATIVE ACCOUNTING  
PROCEDURE IN TAMIL NADU

— *Dr. R. Selvaraju & Dr. G. Veerakumaran*

APPRAISAL OF EFFECTIVENESS OF POST-SANCTION  
FOLLOW UP OF CREDIT

— *Dr. M.R. Shollapur*

PERFORMANCE OF VILLAGE CREDIT COOPERATIVES  
IN WESTERN MAHARASHTRA

— *P.P. Pawar & B.S. Kakad*

**NATIONAL COOPERATIVE UNION OF INDIA**

3, Siri Institutional Area, Khel Gaon Marg, Hauz Khas, New Delhi-110016



# Bonus Act and Cooperative Accounting Procedure in Tamil Nadu

DR. R. SELVARAJU\*

DR. G. VEERAKUMARAN\*\*

**C**OOPERATIVE Accounting is the traditional method of marshalling the receipts and payments on each head of account without inter-balancing, and the balance sheet of any cooperative society is drawn from this statement of receipts and payments, conforming to the stipulations laid down in the Cooperative Audit Manual, supplemented by the instructions of the Registrar for Audit from time to time. An accountant in a cooperative society has to learn the intricacies and nuances of cooperative accounting only from the Audit Manual and the auditors, as there is no prescribed code or authority for cooperative accountancy.

Carrying out the letter and spirit of the provisions of the payment of Bonus Act in cooperative accounting to impart the due deferred wage to the employees has, all along, been a subject of controversy. This paper is an attempt to highlight the areas in which more and relevant discussions would do well to strive towards a judicious blend of the Act and Accounting for the effective implementation of the Payment of Bonus Act.

1. **Number of employees :** In pursuance of the Payment of Bonus Act, the Tamil Nadu Government, by G.O.Ms. 833 Labour and Employment Department dated 2nd August, 1978 notified that the provisions of the Act will

---

\* Member of Senate and Reader in Commerce, Annamalai University, Tamil Nadu.

\*\* Assistant Professor, College of Cooperation, Mannuthi, Thrissur, Kerala.

apply to establishments in which less than 20 workers and not less than 10 workers are employed or were employed on any day during the accounting year. But, the accountants in cooperatives, not to speak of the auditors, seem to have a feeling that the establishment will come under the scope of this Act only when 10 or more employees are on their rolls as on the last day of the accounting year. If, on any day, the establishment has shown a strength of 10, the establishment shall have to be included as one has to pay bonus to its employees under the payment of Bonus Act.

2. Sweepers, Scavengers etc : Further, it has been observed that in many a cooperative society, sweepers and scavengers are not taken into account while calculating the number of employees, the explanation offered for such deletion being vague statements, such as

- i) they are not full time employees
- ii) they are not included in the rolls viz., in the attendance register
- iii) their appointment is not formal (ie.) no order of appointment has been issued etc.

Sec. 2(13) of the Bonus Act defines an employee to be "any person (other than an apprentice) employed on a salary or wage not exceeding two thousand and five hundred rupees per mensem in any industry to do any skilled or unskilled manual, supervisory, managerial, administrative, technical or clerical work for hire or reward, whether the terms of employment be express or implied".

The definition brushes away any shade of doubt as to the employment status of sweepers and scavengers by the prescriptive phrases for hire or reward and express or implied. Irrespective of the facts whether the work be hired or paid in remunerative scales, and whether the terms of employment be expressed in a formal order or implied by oral instructions, such persons shall have to be reckoned as employees and be included in the list of employees. Simple logic tinged with common sense would make it clear that a sweeper cannot sweep the floor all through the working hours of the establishment (for 8 hours or so). And, just because, one fulfills the warrants of his job within half an hour or so, he cannot be listed as a part-time employee. In as much as the terms of employment are transacted in full by the sweeper or scavenger, and the establishment does not have to employ any other person to complete the job, he is to be treated a full fledged employee.

### III. Schedule III and Form 'A'

According to Sec. 6(d) of the payment of Bonus Act, the following sums are deductible from gross profits, as envisaged in Schedule III.

Item No. 4 (i) Such sum worked out to be 8.5% of the capital invested by such society in its establishment as at the commencement of the accounting year.

Item No. 4 (ii) Such sum as has been carried forward to a reserve fund in respect of the accounting year under any law relating to the cooperative societies for the time being in force.

While calculating the sum deductible under item 4(i), the accountants seldom take into account the capital invested outside the establishment and thereby deduct an undue and exorbitant sum, affecting the quantum of bonus payable to the employees.

### Illustration

A primary cooperative agricultural bank has invested a sum of Rs. 1,00,000 in fixed deposits with the financing bank. Capital invested in it's establishment shall have to be calculated by adding up the sum of Rs. 1,00,000 invested outside it's establishment. The stance will get it's justification from the facts that investing in fixed deposits is not the stipulated function of the society and income from such deposits are treated as miscellaneous to the business of the society.

Under item 4(ii), only such sum, as has been carried forward to reserve fund under any law relating to cooperative societies for the time being in force, has to be deducted. Sec. 72(2) of the Tamil Nadu Cooperative Societies Act speaks of Reserve Fund, the amount to be carried forward or credited, being such sum as not less than 20% of the net profits.

While 20% of the net profit is legally deductible, the Auditors proceed a little further, deducting another 3 and 2% the net profits being the contributory sum to Cooperative Research and Development Fund and Cooperative Fund respectively, without any justification, for the funds are not to stay with the societies to strengthen their fiscal structure; instead, they are to be transmitted onwards to the Tamilnadu Cooperative Union and hence not to be deducted while computing the available surplus for payment of bonus.

More grave and disturbing is the fact that they do work out such sums as deductible from gross profits even when the society has only a current profit with accumulated losses in larger proportions at the end of the previous year. In such cases, with due consideration of the explanation given in Sec. 69 of the Tamil Nadu Cooperative Societies Act, the current profit is to be treated as "notional net profit" of the society and no sum shall be deducted from the gross profits under item 4(ii) of the III schedule.

### Set On

Sec. 15 provides for the excess of allocable surplus over the maximum amount of Bonus payable to be "set on" for the purpose of payment of bonus in the ensuing 3 years. Misinterpretation of the provisions of this section has led to many a debacle such as charging the amount of "set on" in the profit and loss account, refusing to utilise the set on for payment of more than the minimum bonus when the society incurs a loss etc.

At this outset of facts, it is pertinent to note that bonus is no longer a gratuitous payment. It has attained the status of deferred wage since the celebrated verdict given on the L.I.C. case by Justice V.R. Krishna Iyer. Equally forcible is clause (c) of subsection (1) of Sec. 9 of the Tamil Nadu Cooperative Societies Act, when it stipulates that a society be registered if only the proposed bylaws of the society are not contrary to the provisions of the Cooperative Societies Act as well as to any other law applicable to be society.

Unfortunately, we have, among ourselves, created a race with so much of exclusiveness as to be reluctant to review or accept criticism. While letting the cautious accountant or auditor to check our enthusiasm so as to keep the funds of the society in tact, let us also allow ourselves the basic need of pouring warmth and blood into the fruits of our scholarship to extend the due benefit to the employees of the societies, falling in line with the letter and spirit of labour legislations, if not of all, at least of the payment of Bonus Act.