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B.Com Honours | Semester VI | Calicut University

ACCOUNTING AND TAXATION OF CO-OPERATIVES

Course Code: COM6EJ305 • Module 3 Notes

Module III: NPA, Treatment of Provisions, & Surplus Allocation

Covers Non-Performing Assets (NPA) in cooperative banks, RBI prudential asset classification, provisioning norms, statutory reserve allocations, member capital accounts, and dividend distribution under KCS Act.

Unit 8: Concept of NPA & Determination in Cooperative Banks

NPA Definition: Loan or advance where interest/installment remains overdue for period exceeding 90 days. Agricultural loans: Overdue for 2 crop seasons (short duration) or 1 crop season (long duration).

Unit 9: Asset Classification & Statutory Provisioning Norms

Asset Categories & RBI Provisioning:
- **Standard Asset:** 0.40% general provision.
- **Substandard Asset ($le 12$ months overdue):** 15% provision (25% for unsecured).
- **Doubtful Asset (>12 months):** D1 (up to 1 yr = 25%), D2 (1-3 yrs = 40%), D3 (>3 yrs = 100%).
- **Loss Asset:** 100% provision or write-off.

Unit 10: Accounting Treatment of Provisions & Net Surplus Distribution

Statutory Profit Allocation Hierarchy under KCS Act:
1. Statutory Reserve Fund (Minimum 25% of Net Surplus) $ ightarrow$ 2. Co-operative Education Fund (5%) $ ightarrow$ 3. Member Dividend (Max 15-25%) $ ightarrow$ 4. Patronage Rebate & Building Fund.

Practical Case Framework 1 (Cooperative Bank NPA Asset Classification & Provisioning Matrix): Compare asset category, overdue duration threshold, mandatory provision percentage, and financial impact.

Asset Classification & Provisioning Rates Table:

Asset Classification	Overdue Period Duration	Mandatory Provision Rate
Standard Asset	No overdue / Default <90 days	0.40% General Provision
Substandard Asset	Overdue >90 days up to 12 months	15% Secured / 25% Unsecured
Doubtful Asset (D1 / D2 / D3)	Doubtful for 1 yr / 1-3 yrs / >3 yrs	25% (D1) / 40% (D2) / 100% (D3)
Loss Asset	Identified uncollectible by RBI / Auditor	100% Full Provisioning

Practical Case Framework 2 (KCS Act Net Surplus Distribution Hierarchy Matrix): Detail statutory allocation priority, reserve fund name, statutory percentage requirement, and KCS rule section.

Statutory Surplus Allocation Hierarchy Table:

Allocation Priority	Statutory Fund / Distribution Purpose	Statutory Percentage Requirement
Priority 1 (Mandatory Apex)	Statutory Reserve Fund	Minimum 25% of Net Profits
Priority 2 (State Co-op)	Co-operative Education Fund	5% of Net Surplus
Priority 3 (Members)	Dividend on Member Share Capital	Maximum 15% (or 25% per society bye-laws)