Module 5: Financials and Funding of FPCs

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Learning Objectives

By the end of this module, participants will be able to:

- Understand the **structure of capital and member contributions**
- Comprehend **government support schemes** such as the Equity Grant and Credit Guarantee
- Navigate **working capital financing and loan procedures**
- Follow the rules for **maintaining books of accounts** under Section 128 of the Companies Act

🔹 Section 1: Share Capital and Member Equity

A Farmer Producer Company is formed by equity contributions from its **producer members**, similar to a company but with cooperative principles.

Types of Capital:

Type	Description
Authorized Capital	Maximum capital FPC is permitted to issue (stated in MoA)
Issued Capital	Portion of authorized capital issued to members
Paid-up Capital	Amount actually paid by members against issued shares

Member Shareholding:

- Each member must contribute equity capital (e.g., ₹100/share)
- Shares are **transferable only to other producer members** (Section 378ZC)
- Members receive **patronage bonus** and **limited return (dividend)** based on shareholding and participation

Legal Basis:

- Governed by **Chapter XXIA** of Companies Act
- Voting is still **one member = one vote**, regardless of capital contribution (Section 378D)

🔹 Section 2: Equity Grant Scheme

This is a central scheme offered by **SFAC (Small Farmers' Agribusiness Consortium)** to strengthen FPC equity base.

Scheme Features:

Feature	Details
Eligibility	Registered FPCs with a valid PAN and active members
Amount	₹2,000 per farmer member (max ₹15 lakh per FPC)
Usage	To match member equity and improve debt-equity ratio
Mode	Credited to FPC's bank account, reflected as share capital
Governing Body	SFAC or NABARD through CBBO partners

Application Requirements:

- MoA and AoA of FPC
- List of members with shareholding
- PAN, bank account, CIN, GST (if applicable)
- Resolution of Board seeking grant

Impact:

- Enhances credibility for bank loans
- Increases member ownership
- Reduces burden on small farmers for upfront equity

🔹 Section 3: Credit Guarantee and Working Capital Loans

FPCs often lack collateral to raise bank finance. To resolve this, the **Credit Guarantee Scheme** under SFAC/NABARD supports banks and FPCs.

Credit Guarantee Fund (CGF):

- Covers **up to 85%** of loan default for banks
- Applicable on **term loans and working capital loans**
- Banks feel more confident to lend without security

Working Capital Loans:

- Needed to:
    - Purchase inputs in bulk
    - Procure produce from members
    - Finance custom hiring or processing operations
- Can be availed from:
    - **NABARD**, **District Co-op Banks**, **Commercial Banks**, **NCDC**, etc.
- Interest rate: 7–12% (based on credit profile)
- Repayment: Seasonal or annual depending on business

Required Documents:

- Business plan
- KYC of directors
- MoA/AoA and incorporation documents
- Bank statement and equity status
- Sanction letter (if availing guarantee)

🔹 Section 4: Maintaining Books of Accounts – Section 128

Legal Provision (Section 128, Companies Act, 2013):

Every company, including FPC, must:

- Maintain **books of account and financial statements**
- Keep records at the **registered office**
- Preserve accounts for **8 years**
- Prepare and file:
    - **AOC-4** (Financial Statement)
    - **MGT-7A** (Annual Return for small companies)
- Have accounts audited by a **Chartered Accountant**

Types of Records to Maintain:

Record Type	**Description**
Cash Book	All cash transactions
Sales Register	Sales to buyers, traders, processors
Purchase Register	Inputs purchased and distributed to members
Member Ledger	Equity, transactions, patronage calculation
Asset Register	Machinery, equipment, CHC assets
Statutory Registers	As per Companies Act – shares, meetings, directors

Best Practices:

- Use **accounting software** (e.g., Tally, Marg, or simple Excel)
- Prepare **monthly financial reports** for Board review
- Match physical stock with books (stock audit quarterly)
- Ensure **GST and TDS** compliance if applicable

Section 1: Share Capital and Member Equity (10 MCQs)

1. What is *authorized capital* in an FPC?

a) Amount deposited in bank

b) Maximum capital the company can issue

c) Paid-up share capital

d) Loan amount sanctioned

✅ **Answer:** b) Maximum capital the company can issue

2. Shares in an FPC are:

a) Freely tradeable on stock market

b) Transferable only to producer members

c) Sold through banks

d) Allotted by the ROC

✅ **Answer:** b) Transferable only to producer members

3. Voting rights in an FPC are based on:

a) Number of shares held

b) One member, one vote principle

c) Landholding

d) Age of member

✅ **Answer:** b) One member, one vote principle

4. The minimum equity share value typically issued by FPCs is:

a) ₹10

b) ₹100

c) ₹500

d) ₹1,000

✅ **Answer:** b) ₹100

5. What type of return is allowed to members on share capital?

a) Unlimited dividend

b) Interest-free loan

c) Limited return (as per Section 378ZJ)

d) Salary

✅ **Answer:** c) Limited return (as per Section 378ZJ)

6. Who approves the issue of bonus shares in an FPC?

a) CEO

b) Registrar of Companies

c) Board and General Body

d) SFAC

✅ **Answer:** c) Board and General Body

7. The issued capital must always be:

a) More than authorized capital

b) Less than authorized capital

c) Equal to paid-up capital

d) Equal to borrowed capital

✅ **Answer:** b) Less than authorized capital

8. Share capital raised from members is:

a) A liability

b) Treated as equity

c) Deducted from profit

d) Considered grant income

✅ **Answer:** b) Treated as equity

9. FPCs distribute surplus as:

a) Fixed interest

b) Patronage bonus

c) Capital gain

d) Salary

✅ **Answer:** b) Patronage bonus

10. In case a member exits, their shares can be:

a) Sold on NSE

b) Cancelled by the Board

c) Transferred to another producer member

d) Seized by the bank

✅ **Answer:** c) Transferred to another producer member

Section 2: Equity Grant Scheme

1. What is the maximum equity grant amount an FPC can receive?

    a) ₹5 lakh

    b) ₹15 lakh

    c) ₹50,000

    d) ₹10 lakh

    ✅ **Answer:** b) ₹15 lakh

2. The equity grant is provided by:

    a) RBI

    b) SFAC or NABARD

    c) ROC

    d) State government

    ✅ **Answer:** b) SFAC or NABARD

3. Equity grant per member is:

    a) ₹1,000

    b) ₹1,500

    c) ₹2,000

    d) ₹5,000

    ✅ **Answer:** c) ₹2,000

4. Equity grants are used to:

    a) Buy office furniture

b) Pay salaries

c) Strengthen member capital base

d) Pay taxes

✅ **Answer:** c) Strengthen member capital base

5. The equity grant must be matched with:

a) Government subsidy

b) Bank loan

c) Member contribution

d) None

✅ **Answer:** c) Member contribution

6. A precondition for equity grant eligibility is:

a) FPC must be a cooperative

b) FPC must have at least 300 members

c) FPC must be registered and active

d) FPC must be profitable

✅ **Answer:** c) FPC must be registered and active

7. What official ID is needed for equity grant disbursal?

a) Aadhar of director

b) CIN

c) RoC certificate

d) DIN

✅ **Answer:** b) CIN

8. The equity grant amount must be:

a) Refunded within 5 years

b) Treated as loan

c) Reflected in FPC's share capital

d) Paid to directors

✅ **Answer:** c) Reflected in FPC's share capital

9. Equity grant improves:

    a) Patronage rules

    b) Board performance

    c) Debt-equity ratio and creditworthiness

    d) Staff training

    ✅ **Answer:** c) Debt-equity ratio and creditworthiness

10. Equity grant scheme is implemented via:

    a) Direct transfer to members

    b) Support to banks

    c) CBBO or POPI facilitation

    d) Election committee

    ✅ **Answer:** c) CBBO or POPI facilitation

Section 3: Credit Guarantee & Working Capital Loans (10 MCQs)

1. Credit guarantee is primarily used to:

    a) Waive bank loans

    b) Reduce collateral requirement

    c) Avoid financial statements

    d) Increase dividends

    ✅ **Answer:** b) Reduce collateral requirement

2. Working capital is used for:

    a) Land acquisition

    b) Paying bonus

    c) Running day-to-day operations

d) AGM arrangements

✅ **Answer:** c) Running day-to-day operations

3. Which institution offers credit guarantee to banks?

   a) RBI

   b) NABARD/SFAC

   c) CBIC

   d) SEBI

   ✅ **Answer:** b) NABARD/SFAC

4. FPCs can get loans from:

   a) Local MPs

   b) GSTN

   c) Co-op banks, NABARD, NCDC

   d) Election Commission

   ✅ **Answer:** c) Co-op banks, NABARD, NCDC

5. Repayment of seasonal crop-based loans is typically:

   a) Monthly

   b) Daily

   c) Annual or seasonal

   d) Quarterly

   ✅ **Answer:** c) Annual or seasonal

6. What document is essential for loan sanction?

   a) FSSAI License

   b) Member address proof

   c) Business Plan

   d) TIN

   ✅ **Answer:** c) Business Plan

7. Which ratio improves with equity grant?

a) Dividend ratio

b) Return on equity

c) Debt-to-equity ratio

d) TDS ratio

✅ **Answer:** c) Debt-to-equity ratio

8. The credit guarantee covers:

a) Full loan

b) 50% of loan interest

c) Up to 85% of defaulted loan

d) Bonus amounts

✅ **Answer:** c) Up to 85% of defaulted loan

9. Working capital helps in:

a) Holding board meetings

b) Procurement and sales operations

c) FPO registration

d) Tax returns

✅ **Answer:** b) Procurement and sales operations

10. Loan eligibility is evaluated using:

a) ROC registration only

b) Business viability and capital base

c) Number of directors

d) Legal address only

✅ **Answer:** b) Business viability and capital base

Section 4: Maintaining Books of Accounts (10 MCQs)

1. Section 128 of the Companies Act relates to:

a) Shareholder voting

b) Maintenance of accounts

c) Profit distribution

d) AGM notices

✅ **Answer:** b) Maintenance of accounts

2. Books of account must be kept for:

   a) 2 years

   b) 5 years

   c) 8 years

   d) Indefinitely

   ✅ **Answer:** c) 8 years

3. Books of account must be kept at:

   a) Director's home

   b) Auditor's office

   c) Registered office of the company

   d) ROC

   ✅ **Answer:** c) Registered office of the company

4. Which form is used to file annual financial statements?

   a) INC-22

   b) AOC-4

   c) DIR-12

   d) MGT-14

   ✅ **Answer:** b) AOC-4

5. Financial statements must be signed by:

   a) Accountant only

   b) Auditor only

   c) CEO and at least one director

   d) ROC

   ✅ **Answer:** c) CEO and at least one director

6. Which of these is not a statutory register?

    a) Register of Members

    b) Register of TDS challans

    c) Register of Directors

    d) Register of Shares

    ✅ **Answer:** b) Register of TDS challans

7. FPCs are legally required to get accounts audited:

    a) Every 5 years

    b) Only in profit years

    c) Annually

    d) Never

    ✅ **Answer:** c) Annually

8. MGT-7A is the annual return form for:

    a) Listed companies

    b) LLPs

    c) Small companies including FPCs

    d) Trusts

    ✅ **Answer:** c) Small companies including FPCs

9. The cash book records:

    a) Stock movement

    b) Income tax refunds

    c) All cash receipts and payments

    d) Meeting minutes

    ✅ **Answer:** c) All cash receipts and payments

10. Which software is commonly used to maintain accounts in FPCs?

    a) GSTN

    b) SFMS

c) Tally or Excel

d) MCA portal

✅ **Answer:** c) Tally or Excel