

ALLOCATION AND DISTRIBUTION OF NET SURPLUS

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ARTICLE 86. Net Surplus. - Notwithstanding the provisions of existing laws, the surplus of cooperative shall be determined in accordance with its by-laws. Every cooperative shall determine its net surplus at the close of every fiscal year and at such other time as may be prescribed by the by-laws.

The net surplus shall not be construed as profit but as an excess of payments made by the members for the loans borrowed, or the goods and services bought by them from the cooperative and which shall be deemed to have been returned to them if the same is distributed as prescribed herein.

ARTICLE 87. Order of Distribution.- The net surplus of every cooperative shall be distributed as follows:

(1) An amount for the reserve fund which shall be at least ten percent (10%) of the net surplus:

(a). The reserve fund shall be used for the stability of the cooperative and to meet net losses in its operations. The general assembly may decrease the amount allocated to the reserve fund when reserve fund already exceeds the share capital.

Any sum on items previously charged to the reserve fund shall be credited to such fund.

(b). The reserve fund shall not be utilized for investment, other than those allowed in this Code. Such sum of the reserve fund in excess of the share capital may be used at anytime for any project that would expand the operations of the cooperative upon the resolution of the general assembly.

(c). Upon the dissolution of the cooperative, the reserve fund shall not be distributed among the members. The general assembly may resolve:

(i) To establish usufructuary trust fund for the benefit of any federation or union to which the cooperative is affiliated; and

(ii) To donate, contribute, or otherwise dispose of the amount for the benefit of the community where the cooperative operates. If the members cannot decide upon the disposal of the reserve fund, the same shall go to the federation or union to which the cooperative is affiliated.

(2) An amount for the education and training fund, which shall not be more than ten per centum (10%) of net surplus. The by-laws may provide that certain fees or fines or a portion thereof be credited to such fund.

(a) Half of the amount for the education and training fund annually under this subsection may be spent by the cooperative for education and training and other purposes; while the other half shall be credited to the education and training fund of the respective apex organization of which the cooperative is a member. An apex organization may be a federation or union.

(b) Upon the dissolution of the cooperative, the unexpended balance of the education and training fund appertaining to the cooperative shall be credited to the cooperative education and training fund of the abovementioned apex organization.

RULES AND REGULATIONS IMPLEMENTING CERTAIN PROVISIONS OF THE COOPERATIVE CODE OF THE PHILIPPINES

Rule 4. - Interest on share capital and Patronage Refund

Section 1. Legal basis. The legal basis for this rule is Article 76 of the Code quoted as follows:

"Article 76 - Interest on Share Capital - Interest on share capital shall not exceed the normal rate of Return on Investment as determined by the Cooperative Development Authority and such interest shall be non-cumulative."

Section 2. Rate of Interest. - Unless otherwise provided in the by-laws of the cooperative, share capital shall earn an interest, the rate of which shall be computed as follows:

$$\text{Rate of Interest} = \frac{X_1 (\text{Net Surplus less Statutory Reserves})}{\text{Total Average Share month}}$$

Where X shall be a percentage to be determined by the Board of Directors allocated for interest on share capital; Provided however, that the amount allocated for patronage refund shall not be less than thirty per cent (30%) of the net surplus after deducting the statutory reserves based on the principle of equity; Provided further, that in no case shall the rate of patronage refund be more than twice the rate of interest on share capital; and provided finally, that no allocation of interest on share capital shall be made without the approval of the general assembly which may increase or decrease any or both.

Section 3. Payment of Interest. - Unless otherwise provided in the by-laws, payment of a member's interest on paid share capital must be made on such date as may be determined by the Board of Directors. The general assembly, however, upon the recommendation of the Board of Directors, may defer payment of such interest including patronage refund to raise revolving capital in accordance with Article 80 and 87 of the Code.

Section 4. Prohibition on Cumulative Interest. - No cumulative interest shall be allowed for any kind or class of share issued by the cooperative.

Section 5. Principle of Limited Interest. - Share capital shall receive a strictly limited rate of interest, as herein provided in Section 2 of the rule.

Section 6. Patronage Refund. - The principle of patronage refund is a principle of equity wherein an equal right of members to participate in the organization and to equitably share in the benefits accruing is established. Under this principle, the net surplus shall not be construed as profit but as excess of payments made by the members for the loans borrowed, or the goods and services bought by them from the cooperative and which shall be deemed to have been returned to them if the same is distributed as prescribed in the Code and this rule.

PROCEDURE IN COMPUTING INTEREST ON SHARE CAPITAL AND PATRONAGE REFUND

Interest on Share Capital:

1. Update postings to the individual subsidiary ledgers of members up to the end of the year being computed.
2. Prepare a 20-column worksheet.

Enter the names of members on the first column (Column 1).

1	2	3	4	5	6	7	8	9	10	11	12	13
MEMBERS	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Juan	500	1,000	1,500	2,000	2,500	3,000	3,500	4,000	4,500	5,000	5,500	6,000
Jose	1,000	1,000	2,000	2,000	3,000	3,000	4,000	4,000	5,000	5,000	6,000	6,000
Maria	-	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Pedro	-	-	-	-	-	10,000	10,000	10,000	10,000	10,000	-	-
Ana	-	-	2,000	2,000	2,000	2,000	2,000	7,000	7,000	7,000	7,000	7,000
Miguel	0	0	0	0	0	0	0	0	0	0	0	0

For the next twelve (12) money columns (January to December, Columns 2 to 13) post outstanding monthly balances of each member's paid-up contributions. Cut-off date of members' contribution on the 7th day of the month for the current month and from the 8th to the 31st for the succeeding month.

1	2	3	4	12	13	14	15	16	17
MEMBERS	JAN	FEB	MAR	NOV	DEC	Total Share Months	Ave. Share Months	Int. on S.C.	Int. on Loan
Juan	500	1,000	1,500	5,500	6,000	39,000	3,250	1,645	3,000
Jose	1,000	1,000	2,000	6,000	6,000	42,000	3,500	1,771	2,500
Maria	-	5,000	5,000	5,000	5,000	55,000	4,583	2,319	4,600
Pedro	-	-	-	-	-	50,000	4,167	2,108	-
Ana	-	-	2,000	7,000	7,000	45,000	3,750	1,898	1,340
Miguel	0	0	0	0	0	-	-	-	-
Other Members						384,000		194,309	833,560
TOTAL							403,250	204,050	845,000

3. Add horizontally the share months of each member to get their individual and eventually the total share month (TSM, Col. 14).
4. Divide TSM by 12 to get Average Share Month (ASM, Col. 15).
5. Add individual ASM to arrive at the Total Average Share Month (TASM).

6. Determine the rate by using Rule 4, Section 2 of the Implementing Rules and Regulations:

$$\text{Rate of Interest} = \frac{X_1 (\text{Net surplus less Statutory Reserves})}{\text{Total Average Share Month (TSM)}}$$

Note: The rate of interest should be taken up to the 7th digit so that the total amount available for interest on share capital shall be distributed up to the last centavo.

Sample Data:

Assumptions on Operation				
	Interest Income on Loan	845,000		
	Service Fees	47,000		
	Membership Fees	2,000		
	Gross Surplus	894,000		
	Less: Operating Expenses	311,000		
	Net Surplus for Allocation and Distribution	583,000		
Allocation of Net Surplus				
	Reserve Fund (10%)	58,300	}	174,900
	Education and Training Fund (10%)			
	Due to CETF (Apex) 1/2 of ETF	29,150		
	Local ETF 1/2 of ETF	29,150		
	Optional Fund (10%)	58,300		
				Remainder to be allocated for interest on capital and patronage refund
				408,100
Allocation of Remainder for Interest and Patronage				
Percentage declared by the board	Interest on Share Capital	50%	204,050	}
	Patronage Refund	50%	204,050	
	Net Surplus Allocated and Distributed		583,000	

Formula in computing Rate of Interest on Capital

$$\text{Rate of Interest on Share Capital} = \frac{X_1 \times (\text{Net Surplus less Statutory Reserves})}{\text{Total Average Share Months (TSM)}} = \frac{50\% (583,000 - 174,900)}{\text{PHP } 403,250}$$

Assuming:	X_1	50%	-	Interest on Share Capital	{	Percentage Declared by the Board	=	$\frac{50\% \times 408,100}{403,250}$	=	$\frac{204,050}{403,250}$
	X_2	50%	-	Patronage Refund						
		100%								

= 0.506013639

1	2	3	4	12	13	14	15	16
MEMBERS	JAN	FEB	MAR	NOV	DEC	Total Share Months	Ave. Share Months	Int. on S.C.
Juan	500	1,000	1,500	5,500	6,000	39,000	3,250	1,645
Jose	1,000	1,000	2,000	6,000	6,000	42,000	3,500	1,771
Maria	-	5,000	5,000	5,000	5,000	55,000	4,583	2,319
Pedro	-	-	-	-	-	50,000	4,167	2,108
Ana	-	-	2,000	7,000	7,000	45,000	3,750	1,898
Miguel	0	0	0	0	0	-	-	-
Other Members							384,000	194,309
TOTAL							403,250	204,050

7. Multiply the ASM of each member by the rate of interest obtained in Procedure No. 6 to arrive at the individual interest on share capital (Col. 16)

Interest on Share capital = ASM X Rate of Interest (per member).

8. Use column 17 to 19 for the computation of patronage refund. See Procedures for computation of Patronage Refund.

MEMBERS	Interest on Loan Collected from the Members for the Whole Year	Pat. Refund
Juan	3,000	724
Jose	2,500	604
Maria	4,600	1,111
Pedro	-	-
Ana	1,340	324
Miguel	-	-
Other Members	833,560	201,287
TOTAL	845,000	204,050

Formula in computing Rate of Patronage Refund

$$\text{Rate of Interest on Share Capital} = \frac{X_2 \times (\text{Net Surplus less Statutory Reserves})}{\text{Total Volume of Business}^1} = \frac{50\% (583,000 - 174,900)}{\text{PHP } 845,000}$$

Assuming:	X_1	50%	-	Interest on Share Capital	{	Percentage Declared by the Board	=	$\frac{50\% \quad 408,100}{845,000}$	=	$\frac{204,050}{845,000}$	
	X_2	50%	-								Patronage Refund
		100%									

Total Volume of Business¹ = Total Interest on Loan

= 0.24147929