

CH11. CORRESPONDING WITH BANKS

Q.1 a) Select the correct answer from the option given below and rewrite the statement:

1) A company usually opens..... Account in a bank.

a) Current b) Saving c) Recurring

2) Bank is a..... Institution.

a) Financial b) social c) cultural

3) The appointment of banker is usually made by the..... .

a) Board of Directors b) Secretary c) Chairman

4) Resolution for opening Bank Account is passed in the..... Meeting.

a) Board b) Statutory c) Annual General

5) Bank provides overdraft facility to..... Account holder.

a) Current b) Saving c) Fixed Deposit

6)..... Is used for depositing cash into a bank account. A) Pay-in-slip b) Withdrawal slip c) Cheque

7) Borrowing/Accepting and lending money are considered as functions of bank.

A) Primary .b) Secondary c) Agency

8) Withdrawals are not permitted from the..... Deposit account.

a) Fixed b) Current c) Savings

9).....Account is suitable to salaried people.

a) Savings b) Current c) Fixed.

10) Generally Interest is not paid on deposit account.

a) Current b) Saving c) Fixed

11) A deposit which is kept for fixed period in bank is called

A) Fixed 13) Current C) Recurring

B) Match the pairs:

Sr no	Group A	Answer
1	Lost cheque	Stop payment
2	Appointment of bankers	Board of directors
3	Cash credit	Separate account
4	Fixed deposit account	Higher rate of interest
5	Savings account	Restrictions of withdrawals
6	Pay-in-slip	Uses for domestic cash and cheque
7	Overdraft facility	Current account

C) Write a word or a term or a phase which can substitute each of the following statement:

1) A slip used for depositing cash and cheque in the Bank account.

Ans: Pay-in-slip

2) Permission to withdraw excess amount from Current Account.

Ans: Overdraft

3) Separate loan account under which the short term loan facility given by bank to the business

Ans: Cash credit

4) The short term credit facility given by bank to current account holder.

Ans: Overdraft

5) The account which is generally opened by business organization.

Ans: Current account

6) Request of Secretary to the bank not to make the payment of cheque.

Ans: Stop payment request

7) The type of account for which higher rate of interest is paid to bank depositors.

Ans: Fixed deposits account

8) The slip which is used for withdrawing money from Savings Account.

Ans: Withdrawals slip

9) Negotiable Instrument which can be discounted with the bank.

Ans: bill of exchange

D) State whether the following statement are true or false :

1) Joint Stock Company opens Current Account.

Ans: True

2) Generally no interest is paid by bank on Current Account.

Ans: True

3) In cash credit, customers account is credited by bank with sanctioned amount

Ans: True

4) Board resolution is not required to open the Current Account with the bank.

Ans: False

5) Bank account of company is operated by shareholder.

Ans: False

6) Overdraft facility is granted to Savings account holders.

Ans: False

7) Bank correspondence should be brief and to the point.

Ans: True

8) It is necessary to instruct the bank to stop payment of a cheque which is lost.

Ans: True

9) Bank overdraft facility is a long term facility.

Ans: False

10) Banks grant long term loans only.

Ans: False

E) Find the odd one:

1) Saving Deposit, Recurring Deposit, Cash Credit, Fixed Deposit.

Ans: Cash credit

(2) Overdraft, Fixed Deposit, Discounting of Bills, Cash Credit.

Ans: Fixed deposit

F) Complete the sentences:

(1) A financial institution which receives deposits and lends money is called as

Ans: Bank

(2) Accepting deposits and lending money are the primary functions of

Ans: Commercial bank

(3) A facility under which a customer can overdraw money from his account is called as _____.

Ans: Overdraft facility

(4) Overdraft facility is given to

Ans: Current account holder

G) Select the correct option from the bracket:

Sr no	Group A	Group B
1	Overdraft	Current account
2	Primary function	Accepting Deposits
3	International trade transaction	Letter of credit
4	Businessman	Current account

H) Answer in one sentences:

1) What is a Letter of Credit?

Ans. A Letter of Credit is a payment or method, generally used for an international trade transaction.

2) Which facility is given to Current Account holder?

Ans. Overdraft facility is given to Current Accountholder.

(3) What do you mean by stop payment of cheque?

Ans. A cheque in respect of which accountholder requests the bank not to make payment or stop payment on it, is called stop payment cheque.

I) Correct the underlined word and rewrite the following sentences:

1) Accepting deposits is the secondary function of Banks.

Ans: Accepting deposits is the Primary function of the bank.

2) Businessman opens Fixed Deposit Account.

Ans: Businessman opens Current account

3) Under Cash Credit facility businessman /Accountholder can overdraw from his account.

Ans: Under Overdraft facility businessman /Accountholder can overdraw from his account.

-

Q.2 Explain the following terms/concept:

1) Bank.

Ans.

1) Bank is a financial institution that deals in money. It is an institution which accepts money as deposits and lends money in different forms. It accepts money as deposits repayable on demand with interest, through cheques, draft, and order or otherwise. Bank earns a margin of profit by lending amount collected as deposits at a higher rate of interest to trade and industry. It is a financial institution in which those people who have surplus and idle funds deposit in it and those who need funds borrow from it.

(2) Bank is an important institution in the money market where money itself is a commodity. It provides various types of services by performing two types of functions viz. Primary functions and secondary functions. Primary function of the bank includes accepting deposits and lending funds. Section 5 (c) of the Banking Regulation Act, 1949 defines a Banking Company “as any company which transacts the business of banking in India.”

-

2) Demand Deposits.

Ans. 1) The deposits which are repayable on demand is called demand deposits. The demand deposits include saving deposits and current deposits. A saving deposits account aims at promoting the habit of saving among the fixed income earners. Interest at certain rates is paid on the minimum balance in this account. There are restrictions on the number of withdrawals. Pass book is issued to the depositor. E-statement issued to depositor only on demand.

2) A current deposit account is meant for businessmen and institutions. There are no restrictions on the number and amount of withdrawals from this account. Interest is not payable on the balance standing in this account. Overdraft facility is granted only to current accountholders after following the prescribed procedure of the bank.

3) Time Deposits.

Ans.

1) Any deposit which is not repayable on demand is called time deposit. Time deposits are repayable after specified period of time. Time deposits may be classified as fixed deposit and recurring deposit. Under Fixed deposit account certain amount is deposited for fixed period (minimum 45 days or more). Usually higher rate of interest is paid depending on the period. Interest is paid either at regular time interval or on maturity of deposits. Fixed Deposit Receipt (FDR) is issued to the depositor. Loan is given to depositor on the security of FDR.

2) Under Recurring deposit account, depositor is required to deposit with the bank a fixed sum of money every month for 12, 24, or 60 months. To encourage saving habit among the people bank allows depositors to open this account. On maturity, depositor gets the total amount deposited plus interest accrued on it. Pass book is issued to the depositor. E-statement is issued to the depositor only on demand.

4) Savings Deposits :

Ans: A current deposit account is meant for businessmen and institutions. There are no restrictions on the number and amount of withdrawals from this account. Interest is not payable on the balance standing in this account. Overdraft facility is granted only to current accountholders after following the prescribed procedure of the bank.

5) Current deposits:

Ans: A current deposit account is meant for businessmen and institutions. There are no restrictions on the number and amount of withdrawals from this account. Interest is not payable on the balance standing in this account. Overdraft facility is granted only to current accountholders after following the prescribed procedure of the bank.

6) Recurring deposits

Ans: Under Recurring deposit account, depositor is required to deposit with the bank a fixed sum of money every month for 12, 24, or 60 months. To encourage saving habit among the people bank allows depositors to open this account. On maturity, depositor gets the total amount deposited plus interest accrued on it. Pass book is issued to the depositor. E-statement is issued to the depositor only on demand.

7) Fixed deposits:

Ans: Any deposit which is not repayable on demand is called time deposit. Time deposits are repayable after specified period of time. Time deposits may be classified as fixed deposit and recurring deposit. Under Fixed deposit account certain amount is deposited for fixed period (minimum 45 days or more). Usually higher rate of interest is paid depending on the period. Interest is paid either at regular time interval or on

maturity of deposits. Fixed Deposit Receipt (FDR) is issued to the depositor. Loan is given to depositor on the security of FDR.

8) Loans:

Ans: 1) Loan is an arrangement by which the bank advances an amount against securities like shares and debentures, government bonds insurance policies or valuables like gold ornaments, jewelers, etc. This amount is either paid in one sum or is credited to a separate loan account in the name of the customer. It is granted for a fixed period. Interest is payable on the entire amount sanctioned irrespective of the amount actually withdrawn by the borrower.

2) Short term loans are provided for the period of not more than 1 year. It is required by businessman to meet the need of working capital. Bank charges interest at the rate higher than is charged on overdraft. Medium term loans are provided for a period from 1 year up to 5 years. Interest charged on this type of loan is higher than interest rate charges on short term loan. Long term loans are provided by the bank for the period more than 5 years. It is given for growth and development of the business. Interest charged on the long term loans is higher than that is charged on Medium term loans.

9) Advances.

Ans:

(1) A credit facility provided by the bank to its customers for a shorter period is called advances. Advances are usually granted by the bank to the business to meet day-to-day requirements of a business. Interest is charged only on the amount actually withdrawn and not on the amount sanctioned.

(2) The amount received by the bank by way of deposits through various accounts is utilised for granting advances or loans to trade and industry. The bank adopts the following devices to advance short term finances:

i) Bank overdraft, (ii) Cash credit and (iii) Discounting Bills of Exchange.

10) Cash Credit.

Ans.

(1) Under this arrangement, a banker asks the borrower to open a separate account. Then bank places sanctioned loan amount to the credit of this account. The customer is allowed to withdraw from this account as and when he needs money and is allowed to deposit in his account any surplus that he has.

The customer is charged interest on the actual amount utilised by him.

(2) Cash credit arrangement is for a longer period than an overdraft. The customer can

save interest by depositing the excess amount not needed and withdrawing the amount as and when he needs it. This system of lending is very popular only in India among traders, industrialists, etc. Bank demands some tangible securities such as stock of raw material, finished goods, etc

11) Overdraft.

Ans.

(1) A bank overdraft is an arrangement by which a customer, usually a current account holder, is allowed to overdraw, i.e. withdraw money in excess of his own balance, up to a certain limit sanctioned by the bank for a specified period.

(2) Bank charges interest on the actual amount overdrawn every day. This facility is extended on the basis of collateral security of goods, raw materials, shares, bonds, Government promissory notes, Fixed Deposit Receipt (FDR), LIC policies, etc.

Businessmen meet their temporary working capital requirements by taking advantage of overdraft facility.

12) Discounting of Bills.

Ans (1) Banks offer financial assistance to commerce and industry through discounting bills of exchange and promissory notes. A creditor holding a bill of exchange duly accepted by his debtor can discount it at a bank. The bank pays the amount of the bills after deducting some nominal amount as discount. This discount represents the interest on the amount for the unexpired or the remaining period of the bill.

(2) On maturity, the bank collects the proceeds of the bill from its acceptor. If the bill of exchange is dishonored, the customer of the bill of exchange along with interest expenses, etc. Sometimes, banker who discounted the bill of exchange is liable to pay to the bank the whole amount themselves accept hundies on behalf of the customers and arrange to pay for the bill of exchange on maturity. This facility helps traders in securing ready money for their day-to-day business.

(13) Letter of Credit.

Ans. (1) A Letter of Credit is 'an undertaking given by the importer's bank stating that the payment for the goods imported will be made to the exporter if the required documents of title are presented to the bank'. Issuing a Letter of Credit is a method of making payment to the exporter by the importer for the goods imported. Under this method the importer maintains a bank account with a banker and purchases a Letter of Credit (L/C) from the banker.

(2) In the Letter of Credit, the banker of the importer writes to the banker of the exporter to make the payment of a certain amount to the exporter on the delivery of certain

specified export documents by the exporter. The Letter of Credit is sent to the exporter after complying with the shipment formalities the exporter submits this letter to his bank along with necessary documents and can secure the payment in his own country and in his own currency. Thereafter, the exporter's bank sends these documents to the importer's bank. The importer's bank delivers them to the importer. The importer can produce these documents to the Port authorities and get his goods.

(14) Stop payment of cheque.

Ans.

(1) Businessmen and commercial organisations issue cheques to various parties in settlement of their dues or bills. These cheques may be sent by post or may be collected by hand delivery. Sometimes cheques may be lost during transit or misplaced and so cannot be traced. It is possible that the finder of such cheque may fraudulently encase it from the bank.

(2) If any cheque issued by the company is lost or misplaced, the Company Secretary must inform the bank immediately by telephone about the loss of cheque with a request to stop payment on such lost cheque. Subsequently he is required to write a letter to the bank giving details of lost cheque such as cheque number, date of issue, amount of cheque, name of the party in whose favour cheque is drawn, etc. This helps the bank to stop or deny the payment on the lost cheque.

Q.3 Distinguish between the following:

1) Current account and saving account:

Ans:

Current account	Saving account
An account which is opened and operated by the businessmen, company, firm and others who have regular banking transactions is called Current Account.	An account which is opened and operated by an individual or the fixed income earners to save part of their income is called Savings Account.
Current Account holders can withdraw money from the bank by using cheques. There are no restrictions on the Withdrawal of money from this account provided there is sufficient balance in the account.	Savings Account holders can withdraw money from the bank either by use of cheques or by use of withdrawal slips. There are certain restrictions on the number of withdrawals and amount to be withdrawn at a time.
Account holders get Pass book, cheque	Account holders get Pass book, cheque

book, pay-in-slip and statement of accounts from the bank.	book and pay-in-slip from the bank.
Generally, no' interest is paid on the balance standing in this account. It may be given at nominal rate.	Interest is paid periodically on the minimum balance in this account. The rate of interest is higher than the rate of interest paid on current account.
Overdraft and cash credit facilities are given to the current accountholders only.	Such facilities are not given to these accountholders.
It is suitable for traders, businessmen, firms and institutions.	It is suitable for regular income earners and salaried people.

2) Loan and overdraft:

Ans:

Loan	Overdraft
Any accountholder (i.e., current, savings or fixed deposit), or any other person can get a loan facility.	Only current accountholders are eligible for an overdraft facility.
Bank opens a separate account for the amount of the loan and the borrower Withdraws from this account.	Bank allows the accountholder to overdraw (i.e., draw in excess of his balance in his account) from his existing Current Account.
The purpose of loan is to provide finance for some project or expansion of business.	The purpose of overdraft is to meet working capital requirements.
Loan is sanctioned for a relatively longer period such as 3 years, 5 years or even more.	Overdraft is generally sanctioned for a short duration such as 1 month, 2 months, etc.
Interest is calculated on the sanctioned amount and the rate of interest is a little higher than that of overdraft	Interest is calculated on the amount actually withdrawn and the rate of interest is lower than that of loan.
The loan amount has to be repaid fully on the due date or it is repaid in suitable installments.	The overdraft amount is gradually reduced with the deposits made in the current account.

3) Fixed deposit account and recurring deposit account:

Ans

Fixed deposit account	Recurring deposit account
A Fixed Deposit Account is 'a type of bank	Recurring Deposit Account is a type of

account under which a certain fixed amount is deposited for a definite period.	account under which a certain fixed amount of money is deposited at regular interval for a fixed duration.
No withdrawal is permitted before the date of maturity. However, a certain amount by way of loan can be granted against the security of the Fixed Deposit Receipt (FDR).	Withdrawal or payment is obtained only on the expiry of the fixed period. If amount withdrawn earlier, the rate of interest will be less than Applicable.
Account holder gets only Fixed Deposit Receipt (FDR).	Only Pay-in-slip book and Pass book are issued to The account holder.
Banks offer higher rates of interest. Longer the period, higher will be the rate of interest and vice versa Interest is paid periodically or on the maturity.	Interest is paid on the amount deposited into the account. The rate of interest is higher than Savings Account but less than that is paid on Fixed Deposit Account. Interest is paid on maturity only.
This account is suitable for individuals or traders or social institutions having surplus money not immediately required by them.	This account is suitable for the lower and middle class people who desire to build up a substantial amount through small but regular savings accumulated with interest thereon.
In fixed deposit account, entire amount deposited only once at the beginning of fixed period.	In Recurring deposit account, depositor is required to deposit fixed amount several times each at regular interval of time.

Q.4 Answer in brief:

1) What are the points to be kept in mind by a Secretary while corresponding with Banks?

Ans. The points to be kept in mind by a Secretary while corresponding with banks:

(1) Prompt reply: In certain cases such as loss of a cheque, mistakes or wrong entries in the pass book, etc. communication to the bank must be prompt. Replies to letters from the bank must be sent promptly.

(2) Brevity/Conciseness: The letter/correspondence with the bank should be brief, compact and to the point. The letters should not contain unnecessary details.

(3) Courtesy: The letter drafted to the bank should be courteous and polite. Secretary should not use harsh or rude, offending words in the correspondence.

(4) Clarity: The wording and the construction of the letter must be clear and understandable to the reader. The Secretary should provide true, factual clear and

update information of his organisation to the banker.

(5) Accuracy: The letter to a bank must be accurate in all respects. The facts, figures, statistical data, amounts, names of the parties, etc. mentioned in the letter must be properly verified before mentioning them in the letter.

(6) Secrecy: As far as possible confidential information should not be communicated in writing as it may harm the interests of the company.

(7) Legal procedure: Wherever applicable, the Secretary must ensure that the statutory provisions and requirements are complied with while drafting letters to the bank. The Secretary must ensure that the enclosures referred to in the body of the letter tally with those actually enclosed.

(2) Under what circumstances will a Secretary correspond with the Banks?

Ans. The circumstances under which a Secretary correspond with the bank:

(1) Letter for opening the current account in the name of the company. Separate accounts may be opened for receiving application money, allotment money, call money, distribution of dividend, etc.

(2) Letter requesting the bank to stop the payment of a cheque issued but reported lost. In the case of wrong payment against a cheque issued by the company, either the banker or the company may be put to loss. In such a case, therefore, the Secretary first instructs the bank by telephone to stop the Payment of such a cheque and then subsequently sends a letter confirming the instruction.

(3) Letter requesting the banker to grant overdraft facility or cash credit or loan for meeting the financial needs of the company. It is short term credit facility, which a bank gives to current account holders. Bank fixes overdraft limit against securities given by the borrower.

(4) Letter requesting the banker to issue Letter of Credit. Letter of Credit is generally used for an international trade transaction. It is issued by the bank on behalf of his client promising to pay certain amount of money to the seller in case buyer fails to pay.

3) State the Agency functions of Banks.

Ans.

The bank performs some functions on behalf of its customers. These agency functions are:

(1) Collecting the amount of the cheques and bills deposited by its customers.

(2) Collecting dividend, interest, salary, pension, etc... on behalf of the customers.

- (3) Making periodic payments such as annual subscriptions, rent, interest, taxes, Insurance premium, electricity bill, etc. as per standing instructions.
- (4) Buying and selling securities such as shares, debentures and other securities on behalf of customers. Bank also plays role of Depositor Participant (DR).
- (5) Remitting funds from one place to another by means of bank drafts, mail transfer, telegraphic transfer, etc.
- (6) Carrying out or fulfilling standing instructions of depositors.
- (7) Acting as administrator, trustee, executor of W111 and attorney on behalf of its customers.
- (8) Act as Banker to the issue. Lead manager, etc behalf of the Companies.

4) State the utility Function of banks:

Ans: Utility functions of the Banks :

- (1) Providing safe deposit vaults to the customers for keeping their valuables like gold ornaments, securities, valuable documents, etc. in safe custody.
- (2) Issuing Letter of Credit to the clients for making payment in international trade transactions.
- (3) Dealing in foreign exchange and assisting in the Completion of formalities in foreign trade transactions.
- (4) Providing the facility of withdrawing cash anytime through ATM (Automated Teller Machine). Issuing credit cards to their customers. Issuing debit cards to their customers for buying goods and services.
- (5) Acting as a referee for the financial position and business standing of their customers Bank also draft financial position status report by considering frequency of banking transactions of its clients.
- (6) Underwriting for shares and debentures issued by companies providing consultancy services in the matter of issuing of shares, taxation, etc, to the companies.
- (7) Issuing travelers' cheques to the tourists.
- (8) Performing functions like RTGS (Real Time Gross Settlement), a system generally employed for large value interbank funds transfer, NEFT (National Electronic Funds Transfer), NACH (National Automated Clearing House) and ECS (Electronic Clearing Service).

5) Explain the different types of deposits:

Ans: The bank accept two types of deposits via

- a) Demand deposits:** (1) The deposits which are repayable on demand is called

'demand deposits'. The demand deposits include saving deposits and current deposits. A saving deposits account aims at promoting the habit of saving among the fixed income earners. Interest at certain rates is paid on the minimum balance in this account. There are restrictions on the number of withdrawals. Pass book is issued to the depositor. E-statement issued to depositor only on demand.

(2) A current deposit account is meant for businessmen and institutions. There are no restrictions on the number and amount of withdrawals from this account. Interest is not payable on the balance standing in this account. Overdraft facility is granted only to current accountholders after following the prescribed procedure of the bank.

b) Time deposit: (1) any deposit which is not repayable on demand is called time deposit. Time deposits are repayable after specified period of time. Time deposits may be classified as fixed deposit and recurring deposit. Under Fixed deposit account certain amount is deposited for fixed period (minimum 45 days or more). Usually higher rate of interest is paid depending on the period. Interest is paid either at regular time interval or on maturity of deposits. Fixed Deposit Receipt (FDR) is issued to the depositor. Loan is given to depositor on the security of FDR.

(2) Under Recurring deposit account, depositor is required to deposit with the bank a fixed sum of money every month for 12, 24, or 60 months. To encourage saving habit among the people bank allows depositors to open this account. On maturity, depositor gets the total amount deposited plus interest accrued on it. Pass book is issued to the depositor. E-statement is issued to the depositor only on demand.

Q.5 Justify the following statement:

1) The secretary has to correspond with bank under certain circumstances?

Ans: The circumstances under which a Secretary correspond with the bank:

(1) Letter for opening the current account in the name of the company. Separate accounts may be opened for receiving application money, allotment money, call money, distribution of dividend, etc.

(2) Letter requesting the bank to stop the payment of a cheque issued but reported lost. In the case of wrong payment against a cheque issued by the company, either the banker or the company may be put to loss. In such a case, therefore, the Secretary first instructs the bank by telephone to stop the Payment of such a cheque and then subsequently sends a letter confirming the instruction.

(3) Letter requesting the banker to grant overdraft facility or cash credit or loan for meeting the financial needs of the company. It is short term credit facility, which a bank gives to current accountholders. Bank fixes overdraft limit against securities given by the

borrower.

(4) Letter requesting the banker to issue Letter of Credit. Letter of Credit is generally used for an international trade transaction. It is issued by the bank on behalf of his client Promising to pay certain amount of money to the seller in case buyer fails to pay.

2) The secretary should observe certain precautions while corresponding with the bank?

Ans: The points to be kept in mind by a Secretary while corresponding with banks:

(1) Prompt reply: In certain cases such as loss of a cheque, mistakes or wrong entries in the pass book, etc. communication to the bank must be prompt. Replies to letters from the bank must be sent promptly.

(2) Brevity/Conciseness: The letter/correspondence with the bank should be brief, compact and to the point. The letters should not contain unnecessary details. I

(3) Courtesy: The letter drafted to the bank should be courteous and polite. Secretary should not use harsh or rude, offending words in the correspondence.

(4) Clarity: The wording and the construction of the letter must be clear and understandable to the reader. The Secretary should provide true, factual clear and update information of his organisation to the banker.

(5) Accuracy: The letter to a bank must be accurate in all respects. The facts, figures, statistical data, amounts, names of the parties, etc. mentioned in the letter must be properly verified before mentioning them in the letter.

(6) Secrecy: As far as possible confidential information should not be communicated in writing as it may harm the interests of the company.

(7) Legal procedure: Wherever applicable, the Secretary must ensure that the statutory provisions and requirements are complied with while drafting letters to the bank. The Secretary must ensure that the enclosures referred to in the body of the letter tally with those actually enclosed.

3) The primary function of commercial banks include-Accepting deposits and leading funds?

Ans: The primary functions of Commercial banks include:

(1) Accepting deposits: A bank accepts deposits from the public and business organisation under the following heads, viz.

(1) Demand deposits and (2) Time deposits.

(a) Demand deposits include saving deposits and current deposits. A saving deposit account aims at promoting the habit of saving among the fixed income earners. Interest at certain rates is paid on the minimum balance in this account. There are restrictions on the number of withdrawals. A current deposit account is meant for businessmen and institutions. There are no restrictions on the number and amount of withdrawals from this account there is sufficient balance in the account. Interest is not payable on the balance

standing in this account. Overdraft facility is granted only to current accountholders.

(b) Time deposits: Any deposit which is not repayable on demand is called time deposit. Time deposits may be classified as fixed deposit and recurring deposit. Under Fixed deposit account, certain amount is deposited for fixed period (minimum 45 days or more). Usually higher rate of interest is paid depending on the period. Under Recurring deposit account depositor is required to deposit with the bank a fixed sum of money every month for 12, 24, or 60 months. On maturity, depositor gets the total amount deposited plus interest accrued on it.

(2) Lending money: The deposits accepted by banks are used for lending money to the people who need it for different periods. Short-term loans are advanced in the form of overdrafts, cash credits and discounting of bills. The bank also advances medium-term and long-term loans to businessmen and industrialists. In overdraft facility the bank allows the current accountholder to overdraw from his existing current account up to a specified limit. Under cash credit, borrower is required to open a separate account where bank credits the sanctioned loan amount. Besides, the bank discounts bills and hundies and provides ready money to the traders. The bank charges interest on the amount it lends.

4) The bank accept two types of deposits from the public i.e. demand and time deposit?

Ans: 1) Demand Deposits.

Ans. (1) the deposits which are repayable on demand is called 'demand deposits'. The demand deposits include saving deposits and current deposits. A saving deposits account aims at promoting the habit of saving among the fixed income earners. Interest at certain rates is paid on the minimum balance in this account. There are restrictions on the number of withdrawals. Pass book is issued to the depositor. E-statement issued to depositor only on demand.

(2) A current deposit account is meant for businessmen and institutions. There are no restrictions on the number and Amount of withdrawals from this account. Interest is not payable on the balance standing in this account. Overdraft facility is granted only to current accountholders after following the prescribed procedure of the bank.

(2) Time Deposits.

Ans. (1) any deposit which is not repayable on demand is called time deposit. Time deposits are repayable after specified period of time. Time deposits may be classified as fixed deposit and recurring deposit. Under Fixed deposit account certain amount is deposited for fixed period (minimum 45 days or more). Usually higher rate of interest is paid depending on the period. Interest is paid either at regular time interval or on maturity of deposits. Fixed Deposit Receipt (FDR) is issued to the depositor. Loan is

given to depositor on the security of FDR.

(2) Under Recurring deposit account, depositor is required to deposit with the bank a fixed sum of money every month for 12, 24, or 60 months. To encourage saving habit among the people bank allows depositors to open this account. On maturity, depositor gets the total amount deposited plus interest accrued on it. Pass book is issued to the depositor. E-statement is issued to the depositor only on demand.

5) There is a difference between Loans and Advances given by the Bank.

Ans. The difference between Loans and Advances:

(1) A loan is an arrangement under which a certain amount is advanced to the borrower for a certain fixed period. An advance is a credit facility provided by the bank to its customers. Loans are granted for a longer period of time, but advances are usually given for a shorter period of time.

(2) The purpose of granting loan is to meet long term financial needs of the business organisations such as working capital need, fund for growth and development, funds for modernisation, etc. The purpose of granting advances is to meet day-today financial requirements of a business.

(3) In the case of loan interest is charged by the bank on the entire amount sanctioned and credited to the account of the borrower. However in case of advances bank charges interest only on the amount actually withdrawn from the bank and not on the amount sanctioned.

(4) The rate of interest charged on the loan depends on the period of time for which loan is given. Usually it is a little higher than the rate of interest charged on the advances.

6) Overdraft facility is given only to current depositors?

Ans: 1) A bank overdraft is an arrangement by Which a customer, usually a current account holder, is allowed to overdraw, i.e. withdraw money in excess of his own balance, up to a certain limit sanctioned by the bank for a specified period. By an agreement, the banker undertakes to honor cheques up to a certain limit. This is a kind of temporary loan for which the bank charges interest on the actual amount overdrawn and only for the period for which it is used.

(2) This facility is extended only to current account holders on the basis of collateral (additional) security of goods, raw materials. Shares, bonds, etc. or sometimes even on the personal guarantee of the customer. Businessmen meet their temporary working capital requirements by taking advantage of this facility. The overdrawn amount gets reduced as and when the deposits are made by the account holder. If required, the overdraft facility can be renewed from time to time because every time it is granted for a short duration like a couple of months, or so.