

Chapter 11: Correspondence with Banks

EXERCISE 1 [PAGES 169 - 171]

Exercise 1 | Q 1.01 | Page 169

QUESTION

Select the correct answer from the options given below and rewrite the statement.

A company usually opens _____ account in a bank.

- Current
- Saving
- Recurring

SOLUTION

A company usually opens **Current** account in a bank.

Exercise 1 | Q 1.02 | Page 169

QUESTION

Select the correct answer from the options given below and rewrite the statement.

Bank is a _____ institution

- financial
- social
- cultural

SOLUTION

Bank is a **financial** institution

Exercise 1 | Q 1.03 | Page 169

QUESTION

Select the correct answer from the options given below and rewrite the statement.

The appointment of banker is usually made by the _____.

- Board of Directors
- Secretary
- Chairman

SOLUTION

The appointment of banker is usually made by the **Board of Directors**.

Exercise 1 | Q 1.04 | Page 169

QUESTION

Select the correct answer from the options given below and rewrite the statement.

Resolution for opening Bank Account is passed in the _____ meeting.

- Board
- Statutory
- Annual General

SOLUTION

Resolution for opening Bank Account is passed in the **Board** meeting.

Exercise 1 | Q 1.05 | Page 169

QUESTION

Select the correct answer from the options given below and rewrite the statement.

Bank provides overdraft facility to _____ account holder.

- Current
- Saving
- Fixed Deposit

SOLUTION

Bank provides overdraft facility to **Current** account holder.

Exercise 1 | Q 1.06 | Page 169

QUESTION

Select the correct answer from the options given below and rewrite the statement.

_____ is used for depositing cash into a bank account.

- Pay-in-slip
- Withdrawal slip
- Cheque

SOLUTION

Pay-in-slip is used for depositing cash into a bank account.

Exercise 1 | Q 1.07 | Page 169

QUESTION

Select the correct answer from the options given below and rewrite the statement.

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

- Primary
- Secondary
- Agency

SOLUTION

Borrowing/Accepting and lending money are considered as **Primary** functions of bank.

Exercise 1 | Q 1.08 | Page 169

QUESTION

Select the correct answer from the options given below and rewrite the statement.

Withdrawals are not permitted from the _____ deposit account.

- Fixed
- Current
- Savings

SOLUTION

Withdrawals are not permitted from the **Fixed** deposit account.

QUESTION

State whether the following statement is true or false :

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

- True
- False

SOLUTION

True

QUESTION

Select the correct answer from the options given below and rewrite the statement.

Generally Interest is not paid on _____ deposit account

- Current
- Saving
- Fixed

SOLUTION

Generally Interest is not paid on **Current** deposit account

QUESTION

Match the pairs.

Group 'A'	Group 'B'
a) Lost cheque	1) Board of Directors
b) Appointment of Banker	2) Higher rate of interest
c) Cash credit	3) Used for depositing cash and cheque
d) Fixed Deposit Account	4) Stop Payment
e) Savings Account	5) Restrictions on withdrawals
f) Pay-in-slip	6) Separate Account

g) Overdraft facility	7) Current Account
	8) Recurring Account
	9) Shareholders
	10) No interest is paid
	11) Used for withdrawing amount from account
	12) Long term credit facility
	13) Certain restrictions on withdrawals
	14) Dealing in foreign exchange

SOLUTION

Group 'A'	Group 'B'
a) Lost cheque	4) Stop Payment
b) Appointment of Banker	1) Board of Directors
c) Cash credit	6) Separate Account
d) Fixed Deposit Account	2) Higher rate of interest
e) Savings account	5) Restrictions on withdrawals
f) Pay-in-slip	3) Used for depositing cash and cheque
g) Overdraft facility	7) Current Account

Exercise 1 | Q 3.1 | Page 170

QUESTION

Write a word or a term or a phase which can substitute the following statement:

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

SOLUTION

Pay-in-slip

Exercise 1 | Q 3.2 | Page 170

QUESTION

Write a word or a term or a phase which can substitute the following statement:

Permission to withdraw excess amount from Current Account.

SOLUTION

Overdraft

Exercise 1 | Q 3.3 | Page 170

QUESTION

Write a word or a term or a phase which can substitute the following statement:

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

SOLUTION

Exercise 1 | Q 3.4 | Page 170

QUESTION

Write a word or a term or a phase which can substitute the following statement:

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

SOLUTION

Overdraft

Exercise 1 | Q 3.5 | Page 170

QUESTION

Write a word or a term or a phase which can substitute the following statement:

The account which is generally opened by business organization.

SOLUTION

Current account

Exercise 1 | Q 3.6 | Page 170

QUESTION

Write a word or a term or a phase which can substitute the following statement:

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

SOLUTION

Stop payment request

Exercise 1 | Q 3.7 | Page 170

QUESTION

Write a word or a term or a phase which can substitute the following statement:

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

SOLUTION

Fixed deposits account

Exercise 1 | Q 3.8 | Page 170

QUESTION

Write a word or a term or a phase which can substitute the following statement:

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

SOLUTION

Withdrawals slip

Exercise 1 | Q 3.9 | Page 170

QUESTION

Write a word or a term or a phase which can substitute the following statement:

Negotiable Instrument which can be discounted with the bank.

SOLUTION

Bill of exchange

Exercise 1 | Q 4.01 | Page 170

QUESTION

State whether the following statement is true or false :

Joint Stock Company opens Current Account.

- True
- False

SOLUTION

True

Exercise 1 | Q 4.02 | Page 170

QUESTION

State whether the following statement is true or false :

Generally no interest is paid by bank on Current Account.

- True
- False

SOLUTION

True

Exercise 1 | Q 4.03 | Page 170

QUESTION

State whether the following statement is true or false :

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

- True
- False

SOLUTION

True

Exercise 1 | Q 4.04 | Page 170

QUESTION

State whether the following statement is true or false :

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

- True
- False

SOLUTION

False

Exercise 1 | Q 4.05 | Page 170

QUESTION

State whether the following statement is true or false :

Bank account of company is operated by shareholder.

- True
- False

SOLUTION

False

Exercise 1 | Q 4.06 | Page 170

QUESTION

State whether the following statement is true or false :

Overdraft facility is granted to Savings account holders.

- True
- False

SOLUTION

False

Exercise 1 | Q 4.07 | Page 170

QUESTION

State whether the following statement is true or false :

Bank correspondence should be brief and to the point.

- True
- False

SOLUTION

True

QUESTION

State whether the following statement is true or false :

Bank overdraft facility is a long term facility.

- True
- False

SOLUTION

False

QUESTION

State whether the following statement is true or false :

Banks grant long term loans only.

- True
- False

SOLUTION

False

QUESTION

Find the odd one:

- Saving Deposit
- Recurring Deposit
- Cash Credit
- Fixed Deposit

SOLUTION

Cash Credit

Question

Find the odd one:

- Overdraft
- Fixed Deposit
- Discounting of Bills
- Cash Credit.

SOLUTION

Fixed deposit

Exercise 1 | Q 6.1 | Page 171

Question**Complete the sentence:**

A financial institution which receives deposits and lends money is called as _____

SOLUTION

A financial institution which receives deposits and lends money is called as **Bank**

Exercise 1 | Q 6.2 | Page 171

QUESTION**Complete the sentence:**

Accepting deposits and lending money are the primary functions of _____

SOLUTION

Accepting deposits and lending money are the primary functions of **Commercial bank**

Exercise 1 | Q 6.3 | Page 171

QUESTION**Complete the sentence:**

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

SOLUTION

A facility under which a customer can overdraw money from his account is called as **Overdraft facility**

QUESTION**Select the correct option from below**

Group 'A'	Group 'B'
_____	Current Account

- Accepting Deposits
- Current Account
- Letter of Credit
- Businessman

SOLUTION

Group 'A'	Group 'B'
Businessman	Current Account

QUESTION**Select the correct option from below**

Group 'A'	Group 'B'
Overdraft	_____

- Accepting Deposits
- Current Account
- Letter of Credit
- Businessman

SOLUTION

Group 'A'	Group 'B'
Overdraft	Current account

QUESTION

Select the correct option from below

Group 'A'	Group 'B'
Primary Function	_____

- Accepting Deposits
- Current Account
- Letter of Credit
- Businessman

SOLUTION

Group 'A'	Group 'B'
Primary Function	Accepting Deposits

Exercise 1 | Q 7.3 | Page 171

QUESTION

Select the correct option from below

Group 'A'	Group 'B'
International Trade Transactions	_____

- Accepting Deposits
- Current Account
- Letter of Credit
- Businessman

SOLUTION

Group 'A'	Group 'B'
International Trade Transactions	Letter of Credit

Exercise 1 | Q 7.4 | Page 171

QUESTION

Complete the sentence:

Overdraft facility is given to _____.

SOLUTION

Overdraft facility is given to **Current account holder**

Exercise 1 | Q 8.1 | Page 171

QUESTION

Answer in one sentence:

What is a Letter of Credit?

SOLUTION

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

Exercise 1 | Q 8.2 | Page 171

QUESTION

Answer in one sentence:

Which facility is given to Current Account holder?

SOLUTION

Overdraft facility is given to Current Account holder.

Exercise 1 | Q 8.3 | Page 171

QUESTION

Answer in one sentence:

What do you mean by stop payment of cheque?

SOLUTION

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

Exercise 1 | Q 9.1 | Page 171

QUESTION

Correct the underlined word and rewrite the following sentence:

Accepting deposits is the secondary function of Banks.

SOLUTION

Accepting deposits is the **Primary function** of the bank.

Exercise 1 | Q 9.2 | Page 171

QUESTION

Correct the underlined word and rewrite the following sentence:

Businessman opens Fixed Deposit Account.

SOLUTION

Businessman opens **Current account**

Exercise 1 | Q 9.3 | Page 171

QUESTION

Correct the underlined word and rewrite the following sentence:

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

SOLUTION

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

EXERCISE 2 [PAGE 171]

Exercise 2 | Q 1 | Page 171

QUESTION

Explain the following term/concept:

Bank

SOLUTION

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 the 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. The 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."

QUESTION

Explain the following term/concept:

Demand Deposits

SOLUTION

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. A passbook 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 account holders after following the prescribed procedure of the bank.

QUESTION

Explain the following term/concept:

Time Deposits.

SOLUTION

1) Any deposit which is not repayable on demand is called time deposit. Time deposits are repayable after a 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 a higher rate of interest is paid depending on the period. Interest is paid either at a regular time interval or on the 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, the depositor gets the total amount deposited plus interest accrued on it. Passbook is issued to the depositor. E-statement is issued to the depositor only on demand.

QUESTION

Explain the following term/concept:

Savings Deposits

SOLUTION

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.

Exercise 2 | Q 5 | Page 171

QUESTION**Explain the following term/concept:**

Current deposits

SOLUTION

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.

Exercise 2 | Q 6 | Page 171

QUESTION**Explain the following term/concept:**

Recurring deposits

SOLUTION

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.

Exercise 2 | Q 7 | Page 171

QUESTION**Explain the following term/concept:**

Fixed deposits

SOLUTION

Any deposit which is not repayable on demand is called a 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.

Exercise 2 | Q 8 | Page 171

QUESTION

Explain the following term/concept:

Loans

SOLUTION

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.

Exercise 2 | Q 9 | Page 171

QUESTION

Explain the following terms/concept:

Advances

SOLUTION

(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 the 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 utilized 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.

Exercise 2 | Q 10 | Page 171

QUESTION

Explain the following term/concept:

Cash Credit.

SOLUTION

(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

Exercise 2 | Q 11 | Page 171

QUESTION

Explain the following term/concept:

Overdraft

SOLUTION

(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.

Exercise 2 | Q 12 | Page 171

QUESTION

Explain the following term/concept:

Discounting of Bills

SOLUTION

(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 a 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, a 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.

Exercise 2 | Q 13 | Page 171

QUESTION

Explain the following term/concept:

Letter of Credit

SOLUTION

(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.

Exercise 2 | Q 14 | Page 171

QUESTION

Explain the following term/concept:

Stop payment of cheque

SOLUTION

(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 a 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 the 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.

EXERCISE 3 [PAGES 171 - 172]

Exercise 3 | Q 1 | Page 171

QUESTION

Distinguish between the following:

Current account and saving account:

SOLUTION

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 Accountholders 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 Accountholders 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.
Accountholders get Passbook, cheque book, pay-in-slip and statement of accounts from the bank	Accountholders get Passbook, cheque book and pay-in-slip from the bank.
Generally, no' interest is paid on the balance standing in this account. It may	Interest is paid periodically on the minimum balance in this account. The rate of interest

be given at a nominal rate.	is higher than the rate of interest paid on the current account.
Overdraft and cash credit facilities are given to the current account holders only.	Such facilities are not given to these account holders.
It is suitable for traders, businessmen, firms, and institutions.	It is suitable for regular income earners and salaried people.

Exercise 3 | Q 2 | Page 171

QUESTION

Distinguish between the following:

Loan and overdraft

SOLUTION

Loan	Overdraft
Any account holder (i.e., current, savings or fixed deposit), or any other person can get a loan facility.	Only current account holders 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 account holder to overdraw (i.e., draw in excess of his balance in his account) from his existing Current Account.
The purpose of the loan is to provide finance for some project or expansion of the business.	The purpose of an overdraft is to meet working capital requirements.
A 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.

Exercise 3 | Q 3 | Page 172

QUESTION

Distinguish between the following:

Fixed deposit account and recurring deposit account

SOLUTION

Fixed deposit account	Recurring deposit account
A Fixed Deposit Account is 'a type of bank account under which a certain fixed account is deposited for a definite period.	Recurring Deposit Account is a type of 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 the amount withdrawn earlier, the rate of interest will be less than Applicable.
Accountholder gets only Fixed Deposit Receipt f FDR).	Only Pay-in-slip book and Passbook 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 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, the entire amount deposited only once at the beginning of fixed period.	In the Recurring deposit account, the depositor is required to deposit fixed amount several times each at regular interval of time.

EXERCISE 4 [PAGE 172]

Exercise 4 | Q 1 | Page 172

QUESTION

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

SOLUTION

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 passbook, 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 the 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.

Exercise 4 | Q 2 | Page 172

QUESTION

Under what circumstances will a Secretary correspond with the Banks?

SOLUTION

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 an overdraft facility or cash credit or loan for meeting the financial needs of the company. It is a short term credit facility, which a bank gives to current account holders. Bank fixes the 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.

QUESTION

State the Agency functions of Banks.

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 the 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 an 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.

QUESTION

State the utility Function of banks

SOLUTION

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).

Exercise 4 | Q 5 | Page 172

QUESTION

Explain the different types of deposits

SOLUTION

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. Passbook 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 account holders after following the prescribed procedure of the bank.

b) Time deposit:

(1) any deposit which is not repayable on demand is called a time deposit. Time deposits are repayable after a specified period of time. Time deposits may be classified as fixed deposit and recurring deposits. 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 intervals or on the maturity of deposits. Fixed Deposit Receipt (FDR) is issued to the depositor. Loan is given to depositor on the security of FDR.

(2) Under the Recurring deposit account, the 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 pe0ple bank allows depositors to open this account. On maturity, depositor gets the total amount deposited plus interest accrued on it. Passbook is issued to the depositor. E-statement is issued to the depositor only on demand.

EXERCISE 5 [PAGE 172]

Exercise 5 | Q 1 | Page 172

QUESTION

Justify the following statement

The secretary has to correspond with bank under certain circumstances?

SOLUTION

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 an 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 a 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.

Exercise 5 | Q 2 | Page 172

QUESTION

Justify the following statement:

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

SOLUTION

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 passbook, 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 the 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.

Exercise 5 | Q 3 | Page 172

QUESTION

Justify the following statement:

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

SOLUTION

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 account holders.

(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 an overdraft facility, the bank allows the current account holder to overdraw from his existing current account up to a specified limit. Under cash credit, the borrower is required to open a separate account where the 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.

Exercise 5 | Q 4 | Page 172

QUESTION

Justify the following statement:

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

SOLUTION

1) Demand Deposits.

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 account holders after following the prescribed procedure of the bank.

(2) Time Deposits.

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. Passbook is issued to the depositor. E-statement is issued to the depositor only on demand.

Exercise 5 | Q 5 | Page 172

QUESTION

Justify the following statement:

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

SOLUTION

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 the 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.

Exercise 5 | Q 6 | Page 172

QUESTION

Justify the following statement:

Overdraft facility is given only to current depositors?

SOLUTION

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 honors 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.

EXERCISE 6 [PAGE 172]

Exercise 6 | Q 1 | Page 172

QUESTION

Attempt the following:

Write a letter to bank for opening a current account

SOLUTION

NEW STAR COMPANY LTD.

Registered office: 24/B, Ready money Terrace, Vidyanagar Road,
Worli Naka, Mumbai 400 018.

CIN: L40408MH2001PLC246065

Tel no. (022) 6662 6379

Fax no. (022) 4264 8274

Ref no. N/BK/14/19-20

Website: www.newstarltd.com

E-mail: newstar07@gmail.com

Date: 30th June, 2019

The bank manager,
Bank of India,

42, Dr.E.Moses Road, Worli Naka,
Mumbai – 400 018

Sub: Request to open a current account:

Dear Sir,

The Board of Directors of this Company at its meeting held on 20th June, 2019, passed a resolution to open a Current Account in the name of the Company in your bank. In accordance with the rules for opening a Current Account in your bank, we enclose herewith the following documents:

- (1) The prescribed Current Account opening application form duly filled in, signed, and dated
- (2) Certified copy of Certificate of Incorporation of the Company.
- (3) Certified copies of the Memorandum and the Articles of Association of the Company.
- (4) Certified copy of the list of the present Directors of the Company.
- (5) Specimen signature cards containing signatures of two Directors: Mr. Yuvraj and Ms. Archana and the Company Secretary: Mr. Ashok officially authorised to operate the Account.
- (6) A certified copy of the Board's Resolution dated 20th June 2019, authorising the Company to open a Current Account with your bank.
- (7) Duly filled up Pay-in-slip along with Rs 5,000 (Rupees Five Thousand Only) cash being the initial deposit.
- (8) Copies of PAN and TAN cards.

We undertake to abide by the rules and regulations of your bank in respect of opening and operating the bank account. You are, therefore, requested to open a current account in the name of our company. I.e. New Star Company Ltd. and oblige us.

Thanking you,
Yours faithfully,

For New star company Ltd.
Sd. /
Company secretary

Exercise 6 | Q 2 | Page 172

QUESTION

Attempt the following:

Write a letter to the bank to stop payment of cheque.

SOLUTION

ATLAS INDIA CO.LTD.

Registration office: 24, Atlas House, MIDC Colony, Mirjore, Ratnagiri,

CIN: L34378MH2004PLCI56725

Tel no. (022) 2498 2516

Fax no. (022) 484 42163

Ref no. A/SP/15/19-20

Website: www.atlasindialimited.com

Email: atlas06@gmail.com

Date: 30th June 2019

The branch manager,
The bank of India,

MIDC Colony, Mirjore branch,
Ratnagiri – 415 612

Sub: Stop payment of cheque no 010181 Dated 20th June 2019- current A/C No 2307

Dear Sir,

This is to confirm our telephonic instructions to you this morning regarding the withholding of the payment of one cheque issued by us.

We have been informed by one of our suppliers Messrs. Sal Auto Services, Sawantwadi, Sindhudurg, that our Cheque No. 010181 Current No. 2307 dated 20th June 2019 for 1'25.000, drawn on your bank in favour of M/s Sal Auto Services, Sawantwadi, Sindhudurg has not reached them till 30th June, 2019. The said cheque seems to have been lost in transit. The cheque was sent to their Sawantwadi address under Certificate of Posting on 22nd June, 2019. We have issued a fresh cheque to them today itself.

In the meantime, as a precautionary measure, we request you to stop the payment of the said Cheque No. 010181 Current NC No. 2307 dated 20th June. 2019. If presented to you for payment. Kindly acknowledge receipt of this letter and comply.

Thanking you
Your faithfully,

For Atlas India Co.Ltd
Sd./
Company secretary

Exercise 6 | Q 3 | Page 172

QUESTION

Attempt the following:

Write a letter requesting the bank to issue a letter of credit.

SOLUTION

M/S USHA ELECTRONIC INDIA CO. LTD.

Registered Office: 45 1, Usha House, MG. Road,
Nashik: 422 002.

CIN: L212208MH2001PL0129644

Tel. No. (022) 2422 2848

Fax No. (022) 4613 0202

Ref. No. UEI /421 /15 /18-19

Website: www.ushalimited.com

Email: ushaelectronic@gmail.com

Date: 1st July 2019

The Bank Manager,
The Union Bank of India,

M.G. Road Branch,
Nashik 422 002.

Sub: Issue of letter of credit

Dear Sir,

We are pleased to inform you that we have secured an import license from the Central Government for the import of a variety of electronic goods from the United States. After going through the quotations received from six leading exporters of the U.S. we have decided to place an order with M.K. Electronics, New York for the supply of different electronic goods worth 20,000 US dollars. We have been asked by them to send a Letter of Credit for the said amount.

We, therefore, request you to issue a Letter of Credit in favour of M.K. Electronics. New York for 20,000 US dollars. The said amount may be debited to our Current Account No. 4450 in your bank.

Thanking you,
Your faithfully,

For M/S USHA ELECTRONIC INDIA CO. LTD.

Sd./

Company secretary

Exercise 6 | Q 4 | Page 172

QUESTION

Attempt the following:

Write a letter requesting the bank for granting overdraft facility

SOLUTION**SURAJ STAR COMPANY LIMITED**

Registered Office: 2 1, Sea View, Marine Drive,
Mumbai - 400 020.

CIN: L20209MH2011PLC234186

Tel. No. (022) 259 6950

Fax No. (022) 259 7002

Ref. No. SSC/248/R/19-20

Website: www.Surajstarltd.com

Email: surstltd07@gmail.com

Date: 1st July, 2019

The Bank Manager,
The Bank of India,

Marine Drive Branch,
Mumbai 400 020.

Sub: Overdraft facility against our current account no. 3764

Dear Sir,

As you are aware, our Company has a current account in your bank for the last ten years (Current A/c No. 3764). The Board of Directors in its Board meeting held on 25th June, 2019 has decided to request you to grant us an overdraft facility of 3 lakh for a period of three months from August to October 2019. This facility is required for meeting the financial needs of the Company during the ensuing Diwali festival season.

As you know, we are the manufacturers of plastic goods and toys. Our experience in this field for the last ten years tells us that the festival season creates a heavy demand for the products of our Company. In view of this, we have started placing orders for the supply of raw materials required for the production of plastic goods and toys.

As the suppliers in this line generally do not extend fairly long-term credit facilities, we have to request you to grant us an overdraft facility as stated above. We offer stock in trade worth Rs 4 lakh and personal guarantee of two directors as security for the proposed overdraft. We shall complete other formalities after hearing from you. An early reply will be appreciated.

Thanking you
Your faithfully,

For SURAJ STAR COMPANY LIMITED.

Sd./
Company secretary