

Banking

Important Concepts

1. The business of receiving, safeguarding and lending of money is called banking.
2. Bank is a financial institution which carries on the business of taking deposits, lending money and providing other useful services to the society.
3. Maturity value is the amount returned to the depositor at the end of the period. It includes all deposits made every month plus the interest earned on it.

Recurring Deposit Account (R. D. Account)

In this account, a depositor chooses a specified amount and deposits that amount every month for a specified period.

This period may range from 3 months to 10 years.

At the end of the period (maturity period), the bank returns the lumpsum amount (maturity value).

Maturity Value of R.D. Account:

This includes the amount deposited by the account holder together with interest compounded quarterly at a fixed rate.

By Formula, we have

$$\begin{aligned} &\text{Maturity Value (M.V.) of the R.D. Account} \\ &= \text{Total Sum Deposited} + \text{Interest on it} \\ &= P \times n + P \times \frac{n(n+1)}{2 \times 12} \times \frac{r}{100} \end{aligned}$$

where,

P = Amount deposited every month

n = Number of months

r = Rate of interest