Gujarat Board Textbook Solutions Class 11 Organization of Commerce and Management Chapter 3 Business Services-2

1. Select the correct alternative and write answers to the following questions :

Question 1. In which kind of account generally interest is not paid on the deposit?
(A) Savings account
(B) Current account
(C) Recurring account
(D) Fixed deposit account
Answer:
(B) Current account

Question 2. In which kind of account it is compulsory to deposit certain amount at certain time?
(A) Savings account
(B) Current account
(C) Recurring account
(D) Fixed deposit account
Answer:
(C) Recurring account

Question 3. In which kind of account the bank gives maximum rate of interest on the deposited amount?
(A) Current account
(B) Fixed deposit account
(C) Recurring account
(D) Savings account
Answer:
(B) Fixed deposit account

Question 4. What is the name of the central bank (Monetary Authority) of India?
(A) State bank of India
(B) Central bank of India
(C) Reserve bank of India
(D) Bank of India
Answer:
(C) Reserve bank of India

Question 5. What is the facility of overdraft for the certain period called?
(A) Pay order
(B) Cash credit
(C) Demand draft
(D) Overdraft

Answer:
(B) Cash credit

Question 6. What type of cheque is used by the bank to repay its debts?
(A) Travellers cheque
(B) Pay order
(C) Demand draft
(D) Cash credit
Answer:
(B) Pay order

Question 7. Which facility of bank can be used against the risk of cash in travelling?
(A) Demand draft
(B) Cheque
(C) Pay order
(D) Traveller's cheque
Answer:
(D) Traveller's cheque

Question 8. Minimum how much amount can be transferred in RTGS?
(A) Any amount
(B) 2 lakhs
(C) 5 lakhs
(D) 50,000
Answer:
(B) 2 lakhs

Question 9. In which kind of transaction the central bank transacts as per batch?
(A) NEFT
(B) RTGS
(C) Core banking
(D) Call money
Answer:
(A) NEFT

Question 10. How do banks transact with one another and solve the problem of fund/ money occurring at certain time?
(A) Call money
(B) Pay order
(C) Over draft
(D) Cash credit
Answer:
(A) Call money

Question 11. Minimum how much amount can be transferred in NEFT?
(A) Any amount
(B) 2 lakhs
(C) 5 lakhs
(D) 50,000
Answer:
(A) Any amount

Question 12. Which card is issued to the customer by the bank on the basis of his credit?
(A) Debit card
(B) Credit card
(C) Letter of credit
(D) Demand draft
Answer:
(B) Credit card

2. Answer the following questions in one sentence each :

Question 1. Write the meaning of 'Bank'.
Answer:
According to Reserve Bank of India (RBI), 'Bank means an institution which collects deposits in order to lend them and with a condition to return them at the end of a fixed term whenever it is demanded.

Question 2. Which kind of account can be opened in the name of a business unit?
Answer:
Current account.

Question 3. In which kind of account the number of withdrawn tranction is limited up to a certain limit?
Answer:
Savings account.

Question 4. How much amount can be transacted in cash through NEFT?
Answer:
There is no minimum or maximum limit for the money to be transferred througn NEFT.

Question 5. Within how much time money is transferred through NEFT?
Answer:
The transfer of money happens within 24 hours depending upon the batch for transfer process available.

Question 6. In which kind of card only the amount available in the account can be spent?
Answer:
Credit card.

3. Answer the following questions in short :

Question 1. What is Overdraft?
Answer:
When a current account holder is allowed to withdraw more money than available in his account i.e. credit balance it is called overdraft.

Question 2. What is Cash Credit?
Answer:
A cash credit is a drawing account for drawing money within a specific credit limit approved by the bank against some security.

Question 3. Define 'Traveller's cheque'?
Answer:
A letter of credit is a document from a bank guaranteeing that the seller will receive full payment at specified time if cell the delivery conditions are fulfilled by the seller.

Question 4. Give two examples of Non-Financial transaction done through E-Banking.
Answer:
Obtaining account statement, requesting a new cheque book or a new PIN, making a stop-payment request etc.

Question 5. Explain :
(a) Credit Card
(b) Debit Card
(c) ATM
Answer:
A credit card is a small plastic card issued by the bank to its customer allowing him to purchase goods or services on credit.
OR
Credit card: A credit card is a small plastic card issued by the bank to its customer allowing him to purchase goods or services on credit.

- Credit card allows to make payments and shop without giving money physically to the merchant.
  The use of credit card became quite wide spread since the end of 20th century.
- To obtain a credit card one needs to apply to its bank. The bank then conducts a systematic study on the credit of that person. The bank studies how much debt can that person pay in a given time. Based on this the bank sets a credit limit for that person and issues him a credit card.

- For example, if a bank studies and finds that a person can pay maximum 20,000 rupees per month then it sets this limit on his credit card i.e. he can use his card to credit money from his account and deposit it in merchant's account. When the person uses his credit card for purchasing something, the amount get debited from his account i.e. his credit limit and gets credited to seller's account.
- The bank calculates the total money spent by the credit holder in a month and sends him a credit card statement. The customer needs to make this payment to his bank as per the time limit given by the bank.
- This card can be used while shopping at stores, malls, making online payments like tickets, payment to online stores, etc.

(b) Debit Card

Answer:

A debit card looks like a credit card but it is linked with a current or a savings account. Whenever a person uses a debit card the money gets deducted from the balance in his bank account.

OR

Debit card:

- A debit card looks like a credit card but it is linked with a current or a savings account. Whenever a person uses a debit card the money gets deducted from the balance in his bank account.
- Debit card can be used to make payments at shopping malls, online tickets, ATM centre for withdrawing money, etc.
- When a person buys something from a merchant he gives his debit card. The merchant swipes the card in a portable machine and asks the customer to put his PIN. The billed amount then instantly gets debited from the customer's account. A customer can use debit card only upto the balance available in his account.

(c) ATM:

Answer:

ATM stands for Automated Teller Machine. These machines are installed by banks at various iocations. A person can withdraw cash from these machines, know his account balance, etc. using ATM card.

OR

Automated Teller Machine (ATM):

- ATM is a machine installed by banks at several locations. A person can use this machine to perform few types of banking transactions.
- Bank provides an ATM card to its customer which he needs to carry whenever he goes to ATM. The bank also provides him a Personal Identification Number (PIN) to use this ATM card at ATM centers.

- Using ATM card a person can withdraw money from ATM as per minimum withdrawal limit set by the bank and lesser than the amount present in his account. The bank also sets the maximum amount that a person can withdraw per transaction.
- A person having ATM card of another bank can use it in an ATM centre of any bank. However, he will be charged for using this service as decided by RBI.

4. Answer the following questions in brief :

Question 1. Write Short Notes :
(a) Call Money, (b) Core Banking, (c) RTGS, (d) NEFT, (e) M-Banking
Answer:
(a) Call money:

- In day to day transactions it is quite likely that each bank faces a shortage of money even for as short as 24 hours or even lesser.
- In such cases the bank may borrow money from another bank at an interest rate which is determined by the shortage of money or say demand or supply pattern in the market.
- The borrowing and lending banks do not come is direct contact with each other for this transaction. It is done by an agency appointed by the Central Bank
- This money is known as 'Call money' and its rate of interest is called 'Call money rate'.

(b) Core Banking:

- The word CORE stands for Centralized Online Real-time Exchange. Core banking is a system wherein all the branches of a bank irrespective of their locations across the world are connected to one another through internet, for performing banking transactions and other banking activities.
- A centralized bank server contains all the details of each and every bank account of all its branches of the world. Whenever any transaction takes place in any account it gets stored in this server. Any change made in this server can be seen by all the branches of the bank.
- Under core system an account holder can perform his transaction from any branch. He can even withdraw or deposit money from any branch. Thus, now customer need not go to the branch in which he opened his account to perform the transactions. He can access his account from any branch. This saves time and expenses of both customers and banks.
- This way the account holder becomes the customer of the bank and not just the branch of the bank in which he opened his account.

(c) RTGS:

- Real-time Gross Settlement (RTGS) is a special fund transfer system where in one can transfer money from one bank to another within India, on a ‘real-time’ basis i.e. the money will be transferred immediately without the waiting period and on ‘gross-settlement’ basis.
- The bank through which RTGS is done is called an RTGS member bank. Each member bank is allotted a unique code called IFSC code for identification and transactional purposes. IFSC code is an 11 digit alpha numeric (i.e. combination of alphabets and numbers) code.
- The Institute for Development and Research on Banking Technology (IDRBT), Hyderabad provides IFSC codes to all the banks.
- The money is transferred from account of sender to account of receiver having an account in different bank using internet.
- Since the transaction is neither through cash nor through cheque, both the parties need to use IFSC codes of their banks to transact.
- As per the guidelines of RBI one can use RTGS for transferring minimum 2 lakh rupees. Since this is a ‘real-time’ transaction the amount gets debited in the receiveis account on the same day as soon as the bank receives instruction from the sender.
- The bank charges commission to the sender but not from the receiver.

(d) NEFT:

- NEFT stands for National Electronic Funds Transfer. It is an Indian system of electronic transfer of money from one bank or bank branch to another.
- The banks or their branches that support NEFT have to become a part of NEFT network.
- The money is transferred from account of sender to account of receiver having an account in same bank or another bank via. internet.
- In order to transact one need to have an 11 digit alpha numeric IFSC code of the bank and branch in which the amount is to be transferred.
- The transfer of money usually takes place on the same day or maximum within 48 hours. However, the settlement of transactions take place in hourly batches i.e. For example, if one initiates a transaction and if the settlement time is over he needs to wait till the next settlement time to get his funds transferred. RBI has decided various slots of settlement times in a day. Batch-wise settlement is done through DNS (Different Net Settlement)
- Walk-in customers i.e. customers who do not have a bank account can also deposit cash at any NEFT membei bank and use this facility, however, he cannot deposit more than ₹ 50,000 per transaction.
- In general, there is no minimum or maximum limit of money that can be transacted through NEFT.

(e) M-Banking:

- Mobile banking or m-banking is a system under which a person can conduct banking transaction from any corner of the world using his mobiie phone that has internet connectivity.
- Through mobile banking a person can perform several types of banking transactions without going to the bank or even using a computer.
- Through m-banking he can know the balance of his account, make payment to someone, pay fees, pay electricity, telephone, gas, etc. bills, can transfer money from one account to another, etc.
- To use m-banking one needs to apply for this facility in his bank. The bank then provides him his login ID and password for mobile banking with which he can use mobile banking.
- Since mobiles can be very easily misplaced, stolen or robbed, the banks need to follow very high level security while providing mobile banking facility.

Question 2. Explain – "The account holder is not the customer of a particular branch of the bank but of the bank."
Answer:

- Today banks have adopted CORE banking system.
- Core banking is a system wherein all the branches of a bank irrespective of their locations across the world are connected to one another through internet, for performing banking transactions and other banking activities.
- A centralized bank server contains all the details of each and every bank account of all its branches of the world. Any change made in this server can be seen by all the branches of the bank.
- Under core system an account holder can perform his transaction from any branch. He can even withdraw or deposit money from any branch.
- Thus, now customer need not go to the branch in which he opened his account to perform the transactions.
- This way the account holder becomes the customer of the bank and not just the branch of the bank in which he opened his account.

5. Answer the following questions in detail :

Question 1. Explain functions of bank.
Answer:
Functions of a bank can be classified into:
(A) Main functions and
(B) Optional functions

(A) Main functions:
1. To accept/collect deposits:

- A person who has some unused money and wishes to deposit it in a bank can go to bank and deposit it.
- The biggest responsibility of the bank is to maintain the trust of the customer i. e. the person who deposits the money.

Bank accepts four types of deposits:

1. Deposits in saving account
2. Deposits in current account
3. Deposits in recurring account
4. Deposits Fixed term account

2. To lend money:

- Bank accepts deposits from various people. The deposited money remains with bank on which the bank pays some interest to the depositors.
- On the other hand people go to banks to borrow money in forms of loans. The bank lends the money to the borrowers at higher rates of interest. Thus, the bank earns profit from the difference of rate of interests.

The bank lends money in following ways:
(a) Through loans:

- Bank provides short term and long term loans to borrowers. In some cases it asks for hypothecation where as in some it doesn't.
- Bank provides loan to individuals, businessman, industrialists, etc.
- Bank offers home loans, car loan, education loan, cash credit, machinery loan, gold loan, personal loan, etc.

(b) Through overdraft and cash credit:
Overdraft:
As per rule, one cannot withdraw more than the amount present i.e. deposited in one's account. When a current account holder is allowed to withdraw more money than present in his account for a short duration it is said that the bank has lent him money through overdraft facility.

Cash credit:

- A cash credit is a drawing account for drawing money within a specific credit limit approved by the bank against some security.

- Overdraft and cash credit are similar except that for withdrawing under cash- credit one needs to provide some security like raw-material, finished goods, etc. as hypothecation.

3. To invest:

- A bank cannot make profit if it is unable to lend the deposits and invest its capital in a substantial manner. One of the important tasks of the bank is to thoroughly calculate and invest its money at some secure options.
- As per RBI's rule a bank need to invest some percentage of its total deposit in government guarantees (securities) on which the bank earns a low interest. The reason for investing in such government guarantees is that bank can easily withdraw its investment in case of emergencies or some unforeseen events. As a result a bank majorly invests in government securities or other capital units.

4. To carry out inter-banking transactions (call money):

- In day to day transactions it is quite likely that each bank faces a shortage of money even for as short as 24 hours or even lesser.
- In such cases the bank may borrow money from another bank at an interest rate which is determined by the shortage of money or say demand or supply pattern in the market.
- The borrowing and lending banks do not come is direct contact with each other for this transaction. It is done by an agency appointed by the Central Bank
- This money is known as 'Call money' and its rate of interest is called 'Call money rate'.

(B) Optional functions of bank:

1. Look after the financial transactions of the customers:
A bank mainly has two customers
(a) A depositor and
(b) A borrower.

It is the bank's duty to see that both of his customers can perform their financial transactions properly.

- When a customer writes a cheque in favor of another person, the bank pays ' th'at person the money on behalf of the person who wrote the cheque.
- Similarly, when a person receives a cheque and goes to bank the bank collects money from the account of person who has written the cheque and pays the money to the person who brought the cheque.
- Bank also facilitates payments of electricity bill, telephone bill, insurance premium, transfer of money from one account to another, etc.

2. Carry out foreign exchange (forex) transactions:

- The financial transactions related to import-export business can only be done through banks.
- Those banks that have got permission from central bank to provide Forex services can facilitate people to exchange foreign currencies in bank, send and receive documents related to foreign trade, etc.

3. To issue Letter of Credit (L/C):

- A letter of credit is a document from a bank guaranteeing that the seller will receive full payment at specified time if all the delivery conditions are fulfilled by the seller. These letters are generally needed in international transactions where buyers and sellers are unknown to each other.
- The bank collects certain deposit or some guarantee of similar amount from the person before issuing such letter. The bank earns commission by providing this service.

4. Issuing Traveller's Cheque (TC):

- A traveller's cheque is a medium of exchange that can be used instead of currency. It is very useful when a person is travelling within country or even abroad. Since the traveller carries cheques he is safe from the danger of hard cash getting robbed or stolen.
- Before leaving for a tour the person can deposit certain amount at the bank, get his signature verified and receive traveller's cheques in the amount he asks to the bank. The person can then withdraw money using these cheques from outstation or foreign banks by doing the same sign before the bank as he did in the bank which issued him traveller's cheques.
- These cheques are very reliable and transferable too. However, their use has decreased after ATM facility became popular worldwide.

5. Issuing demand draft (DD):

- Demand draft (DD) is a cheque written by a bank (issuing bank) to another bank/branch asking it to pay money to the person/organization whose name is mentioned on it. Demand daft is a very secure medium for sending money to a person or an institute.
- The person who wishes to send money fills a form in the bank requesting it to issue the draft for the details mentioned in the form. Based on this the bank prepares a demand draft and mentions the receiver's name on it and passes the order to its branch or associate bank to make the payment to the receiver. If the bank issues a draft that can be encashed only in the same branch then it is called pay-order.
- The sender of the DD needs to pay certain commission to the banks for this service.

6. Provide information related to the financial credit of its customer.

- The bank frequently transacts with its customers and hence is well aware about their financial soundness.
- A firm or an institute who wishes to undergo credit transactions with a person can obtain the information on his financial soundness from his bank. This helps the institute to check the reliability and financial capability of the person.
- The certificate that the bank provides regarding the financial soundness of the customer is called solvency certificate.

7. To provide service as an under-writer (i.e. guarantor):

- When a new company enters the capital market and collects funds through shares it is afraid if it will be able to collect at least a minimum subscription to start the business.
- In such situations it requests the bank to become a guarantor or say under-writer that in case if it cannot raise sufficient money from the market the bank will fulfill the deficit by investing in the company.

8. Providing services like ATM, Demat, safe-deposit vault, etc. Bank provides several services like ATM cards, credit and debit cards, safe deposit vaults, Demat services, etc.

Question 2. Explain the types of bank account.
Answer:

- A person can open a savings account in a bank with an objective of saving a part of income and earning some interest on the money deposited in the savings account. The customer earns interest depending on the amount he maintains in his account. Generally it is compulsory to maintain a minimum balance as decided by the bank in the savings account. Moreover, generally a person can withdraw money only a limited number of times per month. The account holder can withdraw money with the help of cheque, by filling withdrawal slip or using ATM card.
- A savings account can be opened on an individual name or along with someone as a joint account. One can also register the name of the nominee for the account.
- In savings accounts the bank provides its customers the facility of deposit/withdrawal, issuing cheques, ATM cards, etc.
- Bank gets large deposits through several saving accounts it maintains.

Current account:

- An account opened on an individual's name or the name of the business for conducting day-to-day business financial transactions is known as a current account. This account is only for businessman.

- No Interest is paid on current accounts and in addition a bank may collect bank charges from the account holder to provide several facilities and i maintain the account. There is no limit on the number of transactions one can perform per month.
- One can also avail loans through current account.

Recurring deposit account:

- A recurring deposit account is opened when one wishes to save some money, deposit it regularly in this account and earn an interest at the end of the account term.
- One needs to compulsorily deposit a predetermined amount every month in this account for a pre-determined period. The bank returns the entire amount along with interest to the account holder at the end of the account term.
- The rate of interest is higher than the savings account and lower or almost near to the interest on fixed deposit accounts.

Fixed deposit account:

- An account opened with an aim of earning fix but high interest for a pre-determined period with a fix amount to be deposited all at once while opening the account is called a fixed, deposit account.
- The interest rate on this account is higher than any account. However, one cannot withdraw the money before the fixed deposit term ends. If one wishes to withdraw he may have to pay some penalty and also his rate of interest will decrease.
- The bank normally does not allow to withdraw before the term matures and hence it pays highest interest on this account.
- The bank guarantees the customer to return him his deposit along with the accumlated interest at the end of the term.