

QB365 Question Bank Software Study Materials

Functions of Commercial banks Important 2,3 & 5 Marks Questions With Answers (Book Back and Creative)

11th Standard

Commerce

Total Marks : 75

2 Marks

10 x 2 = 20

1) What is Mobile Banking?

Answer : 1. Most of the Commercial Banks have designed Computer programs called apps which can be downloaded in smart phones.

2. With this app in the smart phone a customer can operate his account transactions from anywhere.

3. This service is known as Mobile Banking.

2) Write a short notes on Debit card.

Answer : (i) There is no need to carry cash.

(ii) It can be used for withdrawal of Cash from ATM.

(iii) This card is more useful in Purchase of goods and services anywhere in India.

3) Write a short notes on Credit card.

Answer : (i) A Credit card is an Instrument which provides Credit facilities to its holder to purchase goods or services from Business establishments:

(ii) Bank issue Credit cards to customers and other eligible persons.

4) What do you mean by ATM?

Answer : ATM means automated teller machine.

5) What is meant by CDM .

Answer : 1. CDM is nothing but Cash Deposit Machine.

2. Cash Deposit Machine Facility is useful to the public as well as customers to deposit cash into the account anytime.

3. Similarly there are cheque deposit machines which receive cheques at any time.

6) What do you mean by Recurring Deposits (RD)?

Answer : i. Certain sum is deposited into the account every month for one year or five years or the agreed period.

ii. Interest rate is more than savings deposits and almost equal to fixed deposits.

iii. Premature Closing is allowed with a charge or deduction.

iv. Any institution can open RD account.

7) What is Capital Formation?

Answer : Banks encourage savings habit among people and accumulate their small dormant savings. These funds can be fruitfully channelized for productive purposes of the economy.

8) Mention, the three parties to a cheque.

Answer : **The three parties to a cheque are:**

(i) Drawer: The person who writes the cheque and orders the bank to pay the amount specified to the person named in the cheque.

(ii) Drawee: Is a bank on which the cheque is drawn and is ordered to pay the amount of the cheque.

(iii) Payee: Is the person to whom the cheque is payable. The drawer himself can be the payee also.

9) What is cash credit?

Answer : It is a secured credit facility given mostly to business institutions. Stock in hand, raw materials, other tangible assets,

etc. are provided as collateral. A certain sum is allowed as credit for a short period.

10) What are the primary functions of commercial bank?

Answer : (i) Accepting Deposits
(ii) Granting loans and Advances
(iii) Creation of credit.

3 Marks

10 x 3 = 30

11) What is E-Banking?

Answer : i. Electronic Banking reduces cost and time and makes banking service convenient to the customers. It is operated through internet.
ii. This service is a substitute for drafts, cheques and other paper based transfer of funds.

12) Write a short note on – RTGS.

Answer : 1. RTGS Real Time Gross Settlement Systems was launched by the RBI in 2013.
2. The transactions are settled on real time basis.
3. Gross settlement means the transaction is settled between one bank and another bank without adding any other transactions.
4. RTGS facility is available between 9.00 am to 4.30 pm on weekdays and up to 2.00 pm on Saturdays

13) Explain - NEFT.

Answer : 1. NEFT- National Electronic Funds Transfer was launched by the RBI in 2005.
2. Under this electronic funds transfer system, bulk transfer of transactions are settled in batches during specific timings across India.
3. Individuals and institutions which maintain accounts with a NEFT enabled bank branch are eligible for using NEFT.

14) What are all the notified documents for the proof of identity?

Answer : Passport, Driving Licence, Voters, Identity Card, PAN Card, Aadhar Card issued by UIDAI and NREGA Job card are the notified documents for the proof of identity.

15) Write a note on Virtual Banking.

Answer : Virtual Banking or Internet banking refers to perform banking operations through internet, using computers and mobile phone. This can be done by a customer from home or office or any part of the world and all 24 hours of 7 days.

16) Explain BBPS.

Answer : Bharat Bill Payment System is a RBI guided system operated by National Payments Corporation of India from August 2016. It is a one stop payment platform for all bills providing anytime anywhere bill payment service to all customers across India with certainty, reliability and safety of transactions.

17) Explain BHIM.

Answer : Bharat Interface for Money is an app that lets a bank customer make simple, easy and quick payment transactions using Unified Payments Interface (UPI). A bank customer can make instant bank to bank payments and pay and collect money using just mobile number or virtual payment address (VPA). It was launched in December 2016.

18) What are the ways in which bank grant loans

Answer : Granting Loans and Advances:

The second primary function of commercial banks is lending money in order to earn interest income. Banks provide specific sums as loans which are repayable along with interest. Demand loans should be repaid whenever demanded. Term loans can be repaid after the agreed period. Following are the ways in which bank provide loans.

Loans:

- (i) Housing Loan
- (ii) Consumer Loans
- (iii) Vehicle Loans
- (iv) Educational Loan
- (v) Jewel Loan.

- 19) Write notes on a) travelers cheque b) Gift cheque.

Answer : a) Travellers Cheques:

Customers need not carry cash during travel in India or abroad. The denomination and words are printed in the cheque. It is accepted as money in shops, hotels, travel agencies, etc.

b) Gift Cheques:

These denomination printed cheques are available in attractive design so that it can be presented during weddings, birthday functions, etc.

- 20) Write notes on a) vehicle loan b) jewel loan.

Answer : a) Vehicle Loans:

Two wheelers, cars, buses and other vehicles can be purchased by individuals as well as institutions obtaining vehicle loans from the banks. Vehicles are hypothecated to the bank until the entire loan amount is repaid. Vehicle registration book is deposited with the bank and on full payment of loan amount it will be handed over to the customer.

b) Jewel Loan:

Customers pledge their gold jewels and obtain loans from banks. The margin (percentage of value per gram that can be given as credit) requirement is fixed by the RBI. Interest should be paid every month. Otherwise interest on interest is charged. Within 12 months the customer can redeem or else can re-pledge. Jewels not redeemed even after reminders are sold in auction by banks to recover their dues.

5 Marks

5 x 5 = 25

- 21) Discuss the various Primary functions performed by the Commercial banks. (any 5)

Answer : PRIMARY FUNCTIONS:

The primary functions of a commercial bank are of three types. They are:

- i. Accepting Deposits
- ii. Granting Loans and Advances
- iii. Creation of Credit

1. Accepting Deposits:

The basic deposit accounts offered by commercial banks are listed below. In these days banks compete with each other to attract customers by adding facilities to these deposit accounts. Broadly deposit accounts can be classified into demand deposits and time deposits.

A. Demand Deposits :

These deposits are repayable on demand on any day. This consists of savings deposits and current deposits.

a) Savings Deposits:

General public deposit their savings into this account. This account can be opened in one individual's name or more than one name. Section 25 companies also can open savings accounts. Whereas Business firms are not permitted to open savings account.

b) Current Deposits:

This account is suitable for business institutions. Individuals too can open this account. A higher minimum balance should be kept in this account. If not penal interest is charged. No interest is paid for the balance in this account.

B. Time Deposits:

They include fixed deposits and recurring deposits which are repayable after a period.

a) Fixed Deposits (FD):

Certain amount is deposited for a fixed period for a fixed rate of interest. FDR (fixed deposit receipt) is given to the depositor. Rate of interest is higher than savings account. On the date of maturity the principal along with interest for the fixed period is paid. A customer can obtain loan by depositing FDR.

b) Recurring Deposits (RD):

Certain sum is deposited into the account every month for one year or five years or the agreed period. Interest rate is more than savings deposits and almost equal to fixed deposits. At the end of the period the deposited amounts along with interest are returned to the customer.

2. Granting Loans and Advances:

The second primary function of commercial banks is lending money in order to earn interest income. Banks provide specific sums as loans which are repayable along with interest. Demand loans should be repaid whenever demanded. Term loans can be repaid after the agreed period. Advances are credit facilities provided for short period (within a year) to business community. But both terms are used interchangeably.

A. Advances:

a) Overdraft:

It is a credit facility extended mostly to current account holding business community customers. It is an arrangement reached between the banker and the credit worthy customers.

b) Cash Credit:

It is a secured credit facility given mostly to business institutions. Stock in hand, raw materials, other tangible assets, etc. are provided as collateral. A certain sum is allowed as credit for a short period.

c) Discounting of Bills:

Business customers approach banks to discount the commercial bills of exchanges and provide money. It is a short term credit instrument. Banks deduct the discount (interest) for the period mentioned in the bill and release the balance amount to the traders.

B. Loans:

Short term and medium term loans are provided by commercial banks against eligible collaterals to business concerns. It is a definite sum of money lent for a definite period. It is repayable in one lump sum or in instalments. Interest is payable on the entire loan amount. Generally commercial banks provide the following loans.

a) Housing Loan:

Taking the title deeds of the house as collateral security, based on the monthly income of the borrowing customer, banks advance medium and long term loans. The customer has to repay the loan in equated monthly instalments (EMI consists of principal and interest).

b) Consumer Loans:

Consumer durables like refrigerator, air conditioner, laptop, washing machine, television, etc. can be purchased by customers with consumer loans from banks. The product purchased is hypothecated (secured loan arrangement where the movable asset remains with the borrower) as security for the consumer loan amount. The customer pays in equated monthly instalments for a specified period.

c) Vehicle Loans:

Two wheelers, cars, buses and other vehicles can be purchased by individuals as well as institutions obtaining vehicle loans from the banks. Vehicles are hypothecated to the bank until the entire loan amount is repaid. Vehicle registration book is deposited with the bank and on full payment of loan amount it will be handed over to the customer.

d) Educational Loan:

Loan is provided by banks to students for studying undergraduate, post graduate or professional courses. Loan may be received in instalments to pay the educational fees every year. After completion of the course one year is allowed for the student to get employed. Afterwards, the student should repay the loan with interest for the entire period. Interest is charged from the date of first instalment of loan amount payment.

e) Jewel Loan:

Customers pledge their gold jewels and obtain loans from banks. The margin (percentage of value per gram that can be given as credit) requirement is fixed by the RBI. Interest should be paid every month. Otherwise interest on interest is charged. Within 12 months the customer can redeem or else can re-pledge. Jewels not redeemed even after reminders are sold in auction by banks to recover their dues.

3. Creation of Credit:

Apart from the currency money issued by the RBI, the credit money in circulation created by commercial banks influence economic activities of a country to a large extent. Credit money of commercial banks is far greater in volume than the currency money. The volume, the purposes and the sector to which this credit money is to be channelised - all these are implemented by commercial banks under the guidance of the RBI.

22) Explain the various Secondary functions of commercial banks. (any 5)

Answer : Secondary functions :

Apart from the basic or Primary functions commercial Banks render various other services which are known as Secondary functions. These services can be broadly classified into agency services and general utility services.

(1) Agency Functions:

Banks Act as agents of Customers and provide certain services. They are called Agency functions, which are as follows:

(a) Transfer of Funds:

Banks issue demand drafts, bankers' cheques, travelers' cheques, etc. and help in transfer of funds from one place to another. Customers need not carry cash. They can just forward the draft issued by the bank to the receiving institution. A small commission is collected by banks for this service.

(b) Periodic Payment of Premiums, Rent, etc.

After instruction from the customers, banks undertake the monthly payment of insurance premium, rent, telephone bill, etc. from the accounts of customers. Now a days these payments are made through electronic clearing system facility offered by the banks.

(c) Collection and payment of cheques:

On behalf of customers bank collect the cheques deposited into the accounts of customers from other banks and deposit cash in the customers' accounts. Similarly cheques issued by a customer is honoured and the amount paid as directed by the customer.

(d) Acting as Executors, Trustees and Attorneys:

Banks act as executors of will of the customers and implement their will after their death. As a trustee a bank takes care of the funds of the customers Banker signs transfer deed of the properties of the customers in the capacity of attorney to customers.

(e) Conduct share market transactions:

A Demat account should be opened with Depository Participant and that demat1e account should be linked with savings bank account by the customer. Then the customer can ask the bank to conduct online purchase or sale of securities, on behalf him.

(f) Preparation of Income tax return :

Banks prepare the Annual Income Tax return on behalf of the customers and provide Income tax related advices to them.

(g) Dealing in Foreign Exchange :

Banks buy and sell Foreign currencies on behalf of customers.

(h) Acting as Correspondent :

Banks Act as Correspondent of customers and receive Travel Ticket, Passport, etc

(2) General Utility Functions :

In addition to primary, secondary and agency functions, commercial Banks offer some services for the general welfare of the customers. They are called general utility services. They are as follows.

(a) Issue of demand drafts and Banker's cheques:

Demand drafts and banker's cheques are issued to public and customers as well. Instead of sending money they can attach these instruments for payment of educational fees, etc.

(b) Accepting Bill of exchange on behalf of Customers:

Banks accept Bills on behalf of customers and make payments to the foreign exporter. Afterwards, the bank collect from the customers

(c) Safety Lockers :

Valuable documents, jewels etc. can be kept safely in a vault provided by Bank for a Rent. These vaults room is called "Strong Room".

(d) Letters of Credit:

This Document is given by bank on behalf of importing customer to the Exporter guaranteeing payment for the Imported goods. It is a very important document in International trade.

(e) Travellers Cheques:

Customers need not carry cash during travel in India or abroad. The denomination and words are printed in the cheque. It is accepted as money in shops, hotels, travel agencies, etc.

(f) Gift Cheques:

These denomination printed cheques are available in attractive design so that it can be presented during Wedding, Birthday Functions, etc.

(g) Reference Service:

Business firms can give their Bank's name as reference to the new Business Institution with which they want to establish commercial relationship. Banks willingly act as referees and provide information about the financial standing of their customers.

Answer : (i) Bank Assurance:

- (1) It refers to the offering of Insurance policies or products by a Bank in Association with another Insurance Company.
- (2) Corporation Bank, Oriental Bank of Commerce, and Vijaya Bank has tied up with Life Insurance Corporation of India.

(ii) Merchant Banking:

- (1) Merchant Banks do not provide regular Banking services.
- (2) A commercial Bank or its subsidiary Merchant Bank may offer services like project counselling, under writing, etc. are required for starting a Company.

(iii) Retail Banking (personal Banking):

- (1) It refers to mass Market Banking which reaches out to large number of individual end customers.
- (2) Apart from accepting Deposits, their services include Personal loans, Vehicle loans, Consumer durable loans, Loans against Shares, Debit and Credit cards, Mortgage, etc.

(iv) Housing Finance:

- (1) Housing Finance is provided against the Security of immovable property of Land and Buildings.
- (2) Many Banks such as SBI, Bank of India, etc. have set-up housing Finance subsidiaries.

(v) Mutual Fund:

- (1) It is a Financial Intermediary that pools the Savings of Investors for collective investment in diversified portfolio securities in the Capital Market and money Market.
- (2) Many Banks like SBI, Indian Bank, etc. have set-up Mutual Fund subsidiaries.

(vi) Venture Capital Fund:

- (1) Venture Capital Fund provides start-up share capital to new ventures of little known, unregistered, risky, young and small private Business, especially in technology oriented and knowledge intensive Business.
- (2) Many commercial banks like SBI, Canara Bank, etc. have set up venture Capital Fund subsidiaries.

(vii) Factoring:

- (1) Factoring is a continuous arrangement between a Financial Intermediary (factor) and a Business concern (Client) where by the factor purchase the clients accounts receivable.
- (2) Banks like SBI and Canara Bank have established subsidiaries to provide factoring services.

24) Briefly explain the Electronic Banking Functions:(Any Five)

Answer : 1) NEFT:

National Electronic Funds Transfer This was launched by the RBI in 2005. Under this electronic funds transfer system, bulk transfer of transactions is settled in batches during specific timings across India. Individuals and institutions which maintain accounts with a NEFT enabled bank branch are eligible for using NEFT. Transactions do not occur under real time basis. Once in every half hour from 8.00 am to 7.30 pm. 23 settlements are allowed in a day. NEFT transfers are not allowed on Sundays and bank holidays. Both NEFT and RTGS use IFSC (Indian Financial System Code) - a 11 digit alphanumeric code, to identify a bank branch. IFSC is provided by IDRBT (Institute for Development & Research on Banking Technology), Hyderabad.

2) RTGS:

Real Time Gross Settlement Systems It was launched by the RBI in 2013. The transactions are settled on real time basis. Gross settlement means the transaction is settled between one bank and another bank without adding any other transactions. RTGS facility is available between 9.00 am to 4.30 pm on weekdays and up to 2.00 pm on Saturdays. In one day the RTGS routes about 60,000 transactions worth about 2,700 billion and covers over 52,000 bank branches located in 10,000 cities and towns. RTGS transfers are not allowed on Sundays and bank holidays. Minimum limit for RTGS transaction is 2 lakhs.

3) Electronic Clearing Services (ECS):

ECS was launched by the RBI in 1995. It is an electronic method of fund transfer from a commerce 1-15.indd 112 24-03-2018 12:56:55 113 bank to another bank. ECS credit can be used to credit salary, dividend, interest, pension etc. and ECS debit is used to debit monthly telephone bills, electricity bills, equated monthly instalments (EMI) payments. For this purpose the account holding individuals and institutions concerned should fill up certain forms and submit to the banks. ECS transactions between banks are settled in the current account maintained in the clearing house.

4) CORE Banking Solutions:

'CORE' stands for 'Centralized Online Real time Exchange'. In the centralized server of the bank, all the details of all the accounts of all the branches of the bank are available. A customer can withdraw money through cheque at any branch of that bank throughout the world. Similarly anyone can deposit money into the account. Entry of the transactions is recorded in the centralized server of the bank in real time and can be seen in all the branches of the bank. This facility is called core banking solutions.

5) Internet Banking or Virtual Banking:

Internet banking refers to performing banking operations through internet, using computers and mobile phone. This can be done by a customer from home or office or any part of the world and all 24 hours of 7 days.

25) Give the features of a cheque.

Answer : The important features of a cheque are:

(i) Instrument in writing: According to law, a cheque must be in writing. It does not specify any particular material with which it is to be written. But printed cheque leaves are supplied by the bankers and customers. They are asked to use the pen for filling them.

(ii) Unconditional order: It is an order to pay the amount without any condition. The banker may refuse to honour a cheque having any condition attached to a cheque.

(iii) A certain sum of money only: The amount of money to be paid must be certain and specified both in words and figures in the cheque. The banker would return the cheque if there is a difference in words and figures.

(iv) Signed by the Drawer: A cheque is valid only if it bears the signature of the drawer. The signature of the drawer must tally with his specimen signature already with the bank. In case of an illiterate person, his left hand thumb impression is to be affixed on the cheque.

(v) Payable on Demand: The cheque is always payable on demand though not mentioned therein. A cheque has to be presented for payment within 6 months from the date of issue.

(vi) Date of the cheque: A cheque should be dated. Payment will be made by the banker on or after such date. A cheque may be: (a) post-dated and (b) ante-dated. If a cheque has been in circulation for more than 6 months from the date of issue, it becomes a stale cheque. The banker will dishonour the cheque. If the drawer puts the prior date, the date of presenting to the bank, it is called ante-dated cheque.

(vii) Specified Banker: A cheque is a bill of exchange drawn on a specified banker only and not on any other individual, body corporate or otherwise. The cheque should contain the name of the banker, address of the branch, etc., to enable the holder to present the cheque for payment.

(viii) The payee must be a certain person: The payee must be a certain person. For this purpose an individual, the official capacity of an individual, companies, societies, institutions, etc., are considered as a person.

(ix) Payable either to order or to Bearer: The cheque amount is payable either to the order of a certain person or to the bearer. If the drawer wishes to pay only to a specified person, he may add the word 'only' after the payee's name.