

## CHAPTER 2

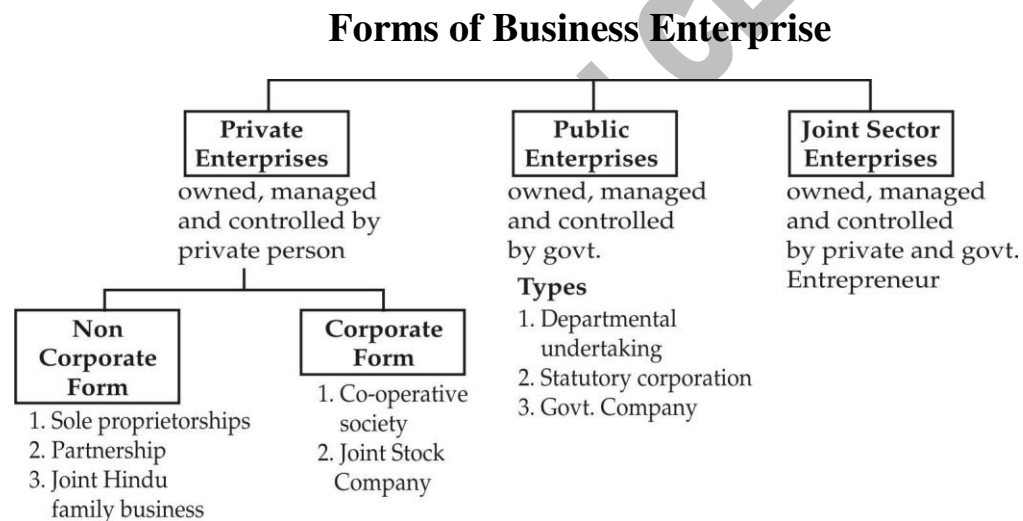
### Forms of Business Organisation

#### Meaning

A business enterprise is an institutional arrangement to form any business activity.

#### Classification

On the basis of ownership business enterprises can broadly be classified into the following categories :



In case of CORPORATE FORM of private enterprises the identity of the enterprise is separate from that of the owner and in case of NON CORPORATE FORM, the identity of the enterprise is not different from that of its owners.

#### SOLE PROPRIETORSHIP

Sole proprietorship means a business owned, financed and controlled by a single person who is recipient of all profits and bearer of all risks.

It is suitable in areas of personalised services like beauty

parlour, hair cutting saloons and small scale activities like retail shops.

### **FEATURES**

1. Single ownership :- It is wholly owned by one individual.
2. Control :- Sole proprietor has full power of decision making.
3. No Separate Legal Entity :- Legally there is no difference between business and businessman.
4. Unlimited Liability :- The liability of owner is unlimited. In case the assets of business are not sufficient to meet its debts, the personal property of owner can be used for paying debts.
5. No legal formalities :- are required to start, manage and dissolve such business organisation.
6. Sole risk bearer and profit recipient :- He bears the complete risk and there is nobody to share profit / loss with him.

### **MERITS**

1. Easy to start and close :- It can be easily started and closed without any legal formalities.
2. Quick decision making :- as sole trader is not required to consult or inform anybody about his decisions.
3. Secrecy :- He is not expected to share his business decisions and secrets with anybody.
4. Direct incentive :- Direct relationship between efforts & reward provide incentive to the sole trader to work hard.
5. Personal touch :- The sole trader can maintain

personal contacts with his customers and employees.

6. Social Utility :- It provides employment to persons with limited money who are not interested to work under others. It prevents concentration of wealth in few hands.

### **LIMITATIONS**

1. Limited financial resources :- funds are limited to the owner's personal savings and his borrowing capacity.
2. Limited Managerial ability :- Sole trader cannot be good in all aspects of business and he cannot afford to employ experts also.
3. Unlimited liability :- of sole trader compels him to avoid risky and bold business decisions.
4. Uncertain life :- Death, insolvency, lunacy or illness of a proprietor affects the business and can lead to its closure.
5. Limited scope for expansion :- Due to limited capital and managerial skills, it cannot expand to a large scale.

### **SUITABILITY :**

Sole tradership is suitable.

- \* Where the personal attention to customer is required as in tailoring, beauty parlour.
- \* Where goods are unstandardised like artistic jewellery.
- \* Where modest capital & limited managerial skills are required as in case of retail store.

## **JOINT HINDU FAMILY BUSINESS**

It is owned by the members of undivided joint Hindu family and managed by the eldest member of the family known as KARTA. It is governed by the provisions of Hindu law. The basis of membership is birth in a particular family.

### **FEATURES**

1. Formation - for a joint hindu family business there should be atleast two members in the family and some ancestral property to be inherited by them.
2. Membership - is by virtue of birth in the family.
3. Control - In it, control lies with eldest member of family known as Karta . All other members can give only advice.
3. Liability - of Karta is unlimited but of all other members is limited to the extent of their share in property.
4. Continuity - The business is not affected by death or incapacity of Karta as in such cases the next senior male member becomes the Karta.
6. Minor members - A minor can also become full fledged member of Family business.

### **MERITS**

1. Effective control - The Karta can promptly take decisions as he has the absolute decision making power.
2. Continued business existence - The death, Lunacy of Karta will not affect the business as next eldest member will then take up the position.

3. Limited liability - The liability of all members except Karta is limited. It gives them a relief.
4. Secrecy - Complete secrecy regarding business decisions can be maintained by Karta.
5. Loyalty and co-operation - It helps in securing better co-operation and greater loyalty from all the members who run the business.

### **LIMITATIONS**

1. Limited capital - There is shortage of capital as it is limited to the ancestral property.
2. Unlimited liability of Karta - It make him less enterprising.
3. Dominance of Karta - Karta manages the business and sometimes he ignores the valueable advice of other members. This may cause conflict among members and may even lead to break down of the family unit.
4. Hasty decisions - As Karta is overburdened with work. So sometimes he takes hasty and unbalanced decisions.
5. Limited managerial skills of Karta also poses a serious problem. The joint Hindu family business is on decline because of the diminishing no. of Joint Hindu families in the country.

### **PARTNERSHIP**

**Meaning :** Partnership is a voluntary associations of two or more persons who agree to carry on some business jointly and share its profits and losses.

The partnership was evolved to overcome the

shortcomings of sole proprietorship and Joint Hindu Family business.

### **FEATURES**

1. Two or more persons - There must be atleast two persons to form a partnership. The maximum no. of persons is 10 in banking business and 20 in non banking business.
2. Agreement - It is an outcome of an agreement among partners which may be oral or in writing.
3. Lawful business - It can be formed only for the purpose of carrying on some lawful business.
4. Decision making & control - Every partner has a right to participate in management & decision making of the organisation.
5. Unlimited liability - Partners have unlimited liability.
6. Mutual Agency - Every partner is an implied agent of the other partners and of the firm. Every partner is liable for acts performed by other partners on behalf of the firm.
7. Lack of continuity - firms existence is affected by the death, Lunacy and insolvency of any of its partner. It suffers from lack of continuity.

### **MERITS**

1. Ease of formation & closure - It can be easily formed. Only an agreement among the partners is required.
2. Larger financial resources - There are more funds as capital is contributed by no. of partners.
3. Balanced Decisions - as decisions are taken jointly by partners after consulting each other.

4. Sharing of Risks - In it, risk get distributed among partners which reduces anxiety, burden and stress on individual partner.
5. Secrecy - Secrecy can be easily maintained about business affairs as they are not required to publish their accounts or to file any report to the govt.

### **LIMITATIONS**

1. Limited resources - There is a restriction on the number of partners and hence capital contributed by them is also limited.
2. Unlimited liability- The liability of partners is unlimited and they are liable individually as well as jointly. It may prove to be a big drawback for those partners who have greater personal wealth. They will have to repay the entire debt in case the other partners are unable to do so.
3. Lack of continuity - Partnership comes to an end with the death, retirement, insolvency or lunacy of any of its partner.
4. Lack of public confidence - Partnership firms are not required to publish their reports and accounts. Thus they lack public confidence.

### **TYPES OF PARTNERS**

1. General / Active Partner - Such a partner takes active part in the management of the firm.
2. Sleeping or Dormant Partner - He does not take active part in the management of the firm. Though he invest money, shares profit & Loss, has unlimited liability.
3. Secret Partner - He participates in business secretly

without disclosing his association with the firm to general public. His liability is also unlimited.

4. Nominal Partner - Such a partner only gives his name and goodwill to the firm. He neither invests money nor takes profit. But his liability is unlimited.
5. Partner by Estoppel - He is the one who by his words or conduct gives impression to the outside world that he is a partner of the firm whereas actually he is not. His liability is unlimited towards the third party who has entered into dealing with firm on the basis of his pretention.
6. Partner by holding out - He is the one who is falsely declared partner of the firm whereas actually he is not. And even after becoming aware of it, he does not deny it. His liability is unlimited towards the party who has deal with firm on the basis of this declaration.

### **PARTNERSHIP DEED**

The written agreement on a stamped paper which specifies the terms and conditions of partnership is called the partnership deed.

It generally includes the following aspects -

- Name of the firm
- Location / Address of the firm
- Duration of business.
- Investment made by each partner.
- Profit sharing ratio of the partners.
- Terms relating to Salaries, Drawing, Interest on capital and Interest on Drawing of partners.



- Duties and obligations of partners.
- Terms governing admission, retirement and expulsion of a partner.
- Preparation of accounts and their auditing.
- Method of solving disputes.

## **REGISTRATION OF PARTNERSHIP**

Registration is not compulsory, it is optional. But it is ~~always beneficial to get the firm registered.~~

The consequences of non-registration of a firm are as follows -

1. A partner of an unregistered firm cannot file suit against the firm or other partner.
2. The firm cannot file a suit against third party.
3. The firm cannot file a case against its partner.

## **CO-OPERATIVE SOCIETY**

A cooperative society is a voluntary association of persons of moderate means, who unite together to protect and promote their common economic interests.

### **FEATURES**

1. Voluntary association - Everyone having a common interest is free to join a cooperative society and can also leave the society after giving proper notice.
2. Legal status - Its registration is compulsory and it gives it a separate legal identity.
3. Limited liability - The liability of the member is limited to the extent of their capital contribution in the society.
4. Democratic control - Management and control lies

with the managing committee elected by the members by giving vote. Every member has one vote irrespective of the number of shares held by him.

5. Service motive - The main aim is to serve its members and not to maximise the profit.
6. State control - They have to abide by the rules and regulation framed by govt. for them.
7. Distribution of surplus - The profit is distributed on the basis of volume of business transacted by a member and not on the basis of capital contribution of member.

### **MERITS**

1. Ease of formation - It can be started with minimum of 10 members. Registration is also easy as it requires very few legal formalities.
2. Limited liability :- The liability of members is limited to the extend of their capital contribution.
3. Stable Existence - Due to registration it is a separete legal entity and is not affected by the death, Lunacy or insolvency of any of its member.
4. Economy in operations - Due to elimination of middleman and voluntary services provided by its members.
5. Government Support - Govt. provides support by giving loans at lower interest rates, subsidies & by charging less taxes.
6. Social utility :- It promotes personal liberty, social justice and mutual cooperation. They help to prevent concentration of economic power in few hands.

## **LIMITATIONS**

1. Shortage of capital - It suffers from shortage of capital as it is usually formed by people with limited means.
2. Inefficient management - Co-operative society is managed by elected members who may not be competent and experienced. Moreover it cannot afford to employ expert and experienced people at high salaries.
3. Lack of motivation - Members are not inclined to put their best efforts as there is no direct link between efforts and reward.
4. Lack of Secrecy - Its affairs are openly discussed in its meeting which makes it difficult to maintain secrecy.
5. Excessive govt. control - it suffers from excessive rules and regulations of the govt. It has to get its accounts audited by the auditor and has to submit a copy of its accounts to registrar.
6. Conflict among members - The members are from different sections of society with different view points. Sometimes when some members become rigid, the result is conflict.

## **TYPES OF CO-OPERATIVE SOCIETIES**

1. Consumers co-operative Society - It seeks to eliminate middleman by establishing a direct link with the producers. It purchases goods of daily consumption directly from manufacturer or wholesalers and sells them to the members at reasonable prices.

2. **Producer s Co-operative Society** - The main aim is to help small producers who cannot easily collect various items of production and face some problem in marketing. These societies purchase raw materials, tools, equipments and other items in large quantity and provide these things to their members at reasonable price.
3. **Marketing Co-operative Society** - It performs various marketing function such as transportation, warehousing, packing, grading, marketing research etc. for the benefit of its members. The production of different members is pooled together and sold by society at good price.
4. **Farmer s Co-operative Society** - In such societies, small farmers join together and pool their resources for cultivating their land collectively. Such societies provide better quality seeds, fertilisers, machinery and other modern techniques for use in the cultivation of crops. It provides them opportunity of cultivation on large scale.
5. **Credit co-opearative Society** - Such societies protect the members from exploitation by money lenders. They provide loans to their members at easy terms and reasonably low rate of interest.
6. **Co-operative Housing Society** - The main aim is to provide houses to people with limited means / income at reasonable price.

## **JOINT STOCK COMPANY**

Meaning - Joint stock company is a voluntary association of persons having a separate legal existence, perpetual succession and common seal. Its capital is divided into

transferable shares.

## **FEATURES**

1. **Separate Legal Existence** - It is created by law and it is a distinct legal entity independent of its members. It can own property, enter into contracts, can file suits in its own name.
2. **Perpetual Existence** - Death, insolvency and insanity or change of members has no effect on the life of a company. It can come to an end only through the prescribed legal procedure.
3. **Limited Liability** - The liability of every member is limited to the nominal value of the shares bought by him or to the amt. guaranteed by him.
4. **Transferability of shares** - Shares of public Co. are easily transferable. But there are certain restrictions on transfer of share of private Co.
5. **Common Seal** - It is the official signature of the company and it is affixed on all important documents of company.
6. **Separation of ownership and control** - Management of company is in the hands of elected representatives of shareholders known individually as director and collectively as board of directors.

## **MERITS**

1. **Limited Liability** - Limited liability of shareholder reduces the degree of risk borne by him.
2. **Transfer of Interest** - Easy transferability of shares increases the attractiveness of shares for investment.
3. **Perpetual Existence** - Existence of a company is not affected by the death, insanity, insolvency of member

or change of membership. Company can be liquidated only as per the provisions of companies Act.

4. Scope for expansion - A company can collect huge amount of capital from unlimited no. of members who are ready to invest because of limited liability, easy transferability and chances of high return.
5. Professional management - A company can afford to employ highly qualified experts in different areas of business management.

### **LIMITATIONS**

1. Legal formalities - The procedure of formation of Co. is very long, time consuming, expensive and requires lot of legal formalities to be fulfilled.
2. Lack of secrecy - It is very difficult to maintain secrecy in case of public company, as company is required to publish and file its annual accounts and reports.
3. Lack of Motivation - Divorce between ownership and control and absence of a direct link between efforts and reward lead to lack of personal interest and incentive.
4. Delay in decision making - Red tapism and bureaucracy do not permit quick decisions and prompt actions. There is little scope for personal initiative.
5. Oligarchic management - Co. is said to be democratically managed but actually managed by few people i.e. board of directors. Sometimes they take decisions keeping in mind their personal interests and

benefit, ignoring the interests of shareholders and Co.

## TYPES OF COMPANIES

On the basis of ownership, companies can be divided into two categories

- Private & Public. Difference between Private Company & Public Co.

| <b>Private Co.</b>   | <b>Public Co.</b>  |
|--|--|
| i) It has minimum 2 & maximum 50 member                            | i) It has minimum 7 & maximum unlimited members.                                     |
| ii) It cannot invite general public to buy its shares & debentures | ii) It invites general public to buy its shares & debentures                         |
| iii) There are certain restrictions on transfer of its shares.     | iii) Its share are freely transferable   |
| iv) It can commence bussiness after incorporation                  | iv) It can commence business after obtaining certificate of commencement of business |
| v) It has to write Private Ltd after its name                      | v) It has to write only Limited after its name                                       |
| <b>Example :</b> Tata Sons, Citi Bank, Hyundai Motor India         | <b>Example :</b> Reliance Industries Ltd., Wipro Ltd., Raymonds Ltd.                 |
| vi) In it Minimum capital required is one Lakh                     | vi) In it minimum capital required is five lakhs.                                    |

## **CHOICE OF FORM OF BUSINESS ORGANISATION**

The following factors are Important for taking decision about form of organisation.

1. Cost and Ease in Setting up the organisation - Sole proprietorship is least expensive and can be formed without any legal formalities to be fulfilled. Company is most expensive with lot of legal formalities,
2. Capital Consideration - Business requiring less amount of finance prefer sole proprietorship and partnership form, where as business activites requiring huge financial resources prefer company form.
3. Nature of Business - If the work requires personal attention such as tailoring unit, hair cutting saloon, it is generally set up as a sole proprietorship. Units engaged in large scale manufacturing are more likely to be organised in company form.
4. Degree of Control Desired - A person who desires full and exclusive control over business prefers proprietorship rather than partnership or Co. because control has to be shared in these cases.
5. Liability or Degree of Risk - Projects which are not very risky can be organised in the form of sole proprietorship & partnership. Where as the risky ventures should be done in company form of organisation because the liability of shareholders is limited.

## **FORMATION OF A COMPANY**

Formation of a company means bringing a company into existence and starting its business. The steps involved in the formation of a company are

:-

- i) Promotion
- ii) Incorporation
- iii) Capital subscription
- iv) Commencement of business.

A private company has to under go only first two steps but a public company has to undergo all the four stages.



## **I. Promotion :-**

Promotion means conceiving a business opportunity and taking an initiative to form a company.

### **Step in Promotion :-**

1. Identification of Business Opportunity : The first and foremost function of a promoter is to identify a business idea e.g. production of a new product or service.
2. Feasibility Studies :- After identifying a business opportunity the promoters undertake detailed studies of technical, Financial, Economic feasibility of a business.
3. Name Approval : After selecting the name of company the promoters submit an application to the Registrar of companies for its approval.
4. Fixing up signatories to the Memorandum of Association :- Promoters have to decide about the director who will be signing the memorandum of Association.
5. Appointment of professional : - Promoters appoint merchant bankers, auditors etc.
6. Preparation of necessary documents :- The promoters prepare certain legal documents such as memorandum of Association, Articles of Association which have to be submitted to the Registrar of the companies.

## **II. Incorporation :-**

Incorporation means registration of the company as body corporate under the companies Act 1956 and receiving certificate of Incorporation.

### **Steps for Incorporation**

1. Application for incorporation :- Promoters make an application for the incorporation of the company to the Registrar of companies.
2. Filing of necessary documents :- Promoters files the following documents:-

- i) Memorandum of Association.
  - ii) Articles of Association.
  - iii) Statement of Authorised Capital
  - iv) Consent of proposed director.
  - v) Agreement with proposed managing director.
  - vi) Statutory declaration.
3. Payment of fees :- Along with filing of above documents, registration fees has to be deposited which depends on amount of the authorised capital.
  4. Registration :- The Registrar verifies all the document submitted. If he is satisfied then he enters the name of the company in his Register.
  5. Certificate of Incorporation :- After entering the name of the company in the register. The Registrar issues a Certificate of Incorporation . This is called the birth certificate of the company.

### **III. Capital Subscription :-**

A public company can raise funds from the public by issuing shares and Debentures. For this it has to issue prospectus and undergo various other formalities:-

#### **Step required for raising funds from public :**

1. SEBI Approval : SEBI regulates the capital market of India. A public company is required to take approval from SEBI.
2. Filing of Prospectus :- Prospectus means any documents which invites offers from the public to purchase share and Debenture of the company.
3. Appointment of bankers, brokers, underwriters :- Banker of the company receive the application money. Brokers encourage the public to apply for the shares. underwriters are the person who undertake to buy the shares if these are not subscribed by the public. They receive a commission for underwriting.
4. Minimum subscription : According to the SEBI guide lines minimum subscription is 90% of the issue amount. If minimum subscription is

not received then the allotment cannot be made and the application money must be returned to the applicants within 30 days.

5. Application to Stock Exchange :- It is necessary for a public company to list their shares in the stock exchange therefore the promoters apply in a stock exchange to list company shares.
6. Allotment of Shares : Allotment of shares means acceptance of share applied. Allotment letters are issued to the shareholders. The name and address of the shareholders submitted to the Registrar.

#### **IV. COMMENCEMENT OF BUSINESS :-**

To commence business a public company has to obtain a certificate of commencement of Business. For this the following documents have to be filled with the registrar of companies.

1. A declaration that 90% of the issued amount has been subscribed.
2. A declaration that all directors have paid in cash in respect of allotment of shares made to them.
3. A statutory declaration that the above requirements have been completed and must be signed by the director of company.

#### **1 MARK QUESTIONS :-**

1. Write the name of form of business organisation found only in India.
2. Name two types of business in which sole proprietorship is very suitable.
3. Name the person who manages a Joint Hindu Family business.
4. Write the names of systems which govern membership in Joint Hindu Family Business.
5. Enumerate the two conditions necessary for formation of Joint Hindu Family business.
6. What is the minimum no. of persons required to form a co operative society?
7. Explain the meaning of unlimited liability.
8. Name the type of Co. which must have a minimum paid up capital of 5 lacs

9. What is meant by minimum subscription?

### **3 MARKS QUESTIONS**

9. Explain the concept of mutual agency in partnership with suitable example.

10. What is the role of Karta in Joint Hindu Family business?

11. Name the types of company which two persons can start.

12. What is meant by Partner by estoppel ?

13. What is Secret Partner ?

14. Write a short note on producers co-operative society.

15. Explain a co-operative organisation in a democratic setup.

### **4/5 MARKS QUESTIONS :**

16. Is registration of partnership compulsory? What are the consequences of non-registration?

17. Explain any four limitations of Joint Stock Company.

18. Differentiate between Private Co. & Public Co.

### **6 MARKS QUESTIONS :**

19. Mr. Amit Kumar is interested in the floatation of a company. Briefly discuss the steps he should take.

20. Discuss the reasons for the superiority of Joint Stock co. over sole proprietorship and partnership.

21. Explain the factors which affect the choice of form of business organisation.

22. Which form of business is suitable for following types of business and why?

a) Beauty Parlour

b) Coaching centre for Science Students

## CHAPTER 4

### Business Services

It has already been stated that commerce consists of trade and auxiliaries to trade. Auxiliaries or aids to trade refer to the activities incidental to the buying and selling of goods and services. These auxiliaries to trade are also known as business services or facilities. These services are essential and indispensable to the smooth flow of trade and industry. The examples of business services are Banking, insurance, transport, warehousing and communication.

#### NATURE OF BUSINESS SERVICES :

7. Intangibility : Cannot be seen, touched or smelled. Just can only be felt, yet their benefits can be availed of e.g. Treatment by doctor.
8. Inconsistency : Different customers have different demands & expectation. e.g. Mobile services/Beauty parlour.
9. In Separability : Production and consumption are performed simultaneously e.g. ATM may replace clerk but presence of customer is a must.
10. Inventory Loss : Services cannot be stored for future use or performed earlier to be consumed at a later date. e.g. underutilised capacity of hotels and airlines during slack demand cannot be stored for future when there will be a peak demand.
11. Involvement : Participation of the customer in the service delivery is a must e.g. A customer can get the service modified according to specific requirement.

#### Type of Services :-

7. Social Services :- Provided voluntarily to achieve certain goals e.g. health care and education services provided by NGOs.
8. Personal Services :- Services which are experienced differently by different customers.

e.g. tourism, restaurants etc.

4. **Business Services** :- Services used by business enterprises for the conduct of their activities.

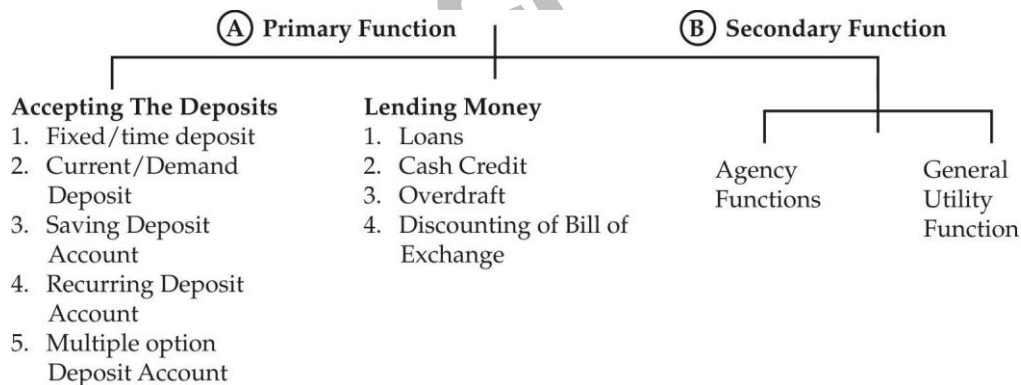
e.g. Banking, Insurance, communication, warehousing and transportation.

## Banks

Banks occupy an important position in the modern business world. No country can make commercial and industrial progress without a well organised banking system. Banks encourage the habit of saving among the public. They mobilise small savings and channelise them into productive uses.

**Meaning of Bank** A bank is an institution which deals in money and credit. It collects deposits from the public and supplies credit, thereby facilitating exchange. It also performs many other function like credit creation, agency functions, general services etc Hence a Bank is an organisation which accepts deposits, lends money and perform other agency functions.

### FUNCTIONS OF COMMERCIAL BANK



### Primary Functions :

Accepting Deposits Accepting deposits is the main

1. function of commercial banks. Banks offer different types of Bank accounts to suit the requirements and needs of different customers. Different types of Bank accounts are as follows :

- Fixed Deposit Account Money is deposited in the account
- A. for a fixed period. After expiry of specified period person can claim his money from the bank. Usually the rate of interest is maximum in this account. The longer the period of deposit, the higher will be the rate of interest on deposit.
- Current Deposit Account Current deposit Accounts are
- B. opened by businessman. The account holder can deposit and withdraw money whenever desired. As the deposit is repayable on demand, it is also known as demand deposit Withdrawals are always made by cheque. No interest is paid on current accounts. Rather charges are taken by bank for services rendered by it.
- Saving Deposit Account The aim of a saving account is to
- C. mobilise savings of the public. A person can open this a/c by depositing a small sum of money. He can withdraw money from his account and make additional deposits at will. Account holder also gets interest on his deposit in this account though the rate of interest is lower than the rate of interest on fixed deposit account.
- Recurring Deposit Account The aim of recurring deposit
- D. is to encourage regular savings by the people. A depositor can deposit a fixed amount, say Rs. 100 every month for a fixed period. The amount together with interest is repaid on maturity. The interest rate on this account is higher than that on saving deposits.
- E. Multiple Option Deposit Account It is a type of saving

Bank A/c in which deposit in excess of a particular limit gets automatically transferred into Fixed Deposit. On the other hand, in case adequate fund is not available in our saving Bank Account so as to honour a cheque that we have issued the required amount gets automatically transferred from fixed deposit to the saving bank account. Therefore, the account holder has twin benefits from this (i) he can earn more interest and (ii) It lowers the risk of dishonouring a cheque.

Lending With the help of money collected through various types of deposits, commercial banks lend finance to businessman, farmers, and

2. Money others. The main ways of lending money are as follows :

Term These loans are provided by the banks to their customers for a fixed period to purchases Machinery, Truck, Scooter, House etc. The borrowers repay there loans in Monthly/Quarterly/Half Yearly/ Annual instalment s.

A. Loans B. Overdraft The customer who maintains a current account with the bank, takes permission from the bank to withdraw more money than deposited in his account. The extra amount withdrawn is called overdraft.

This facility is available to trustworthy customers for a small period. This facility is usually given against the security of some assets or on the personal security of the customer. Interest is charged on the actual amount overdrawn by the customer.



**Cash Credit** Under this arrangement, the bank advances cash loan up to a specified limit against current assets and other securities. The bank opens an account in the name of the borrower and allows him to withdraw the borrowed money from time to time subject to the sanctioned limit.

**Interest**

is charged on the amount actually withdraw.

**D. Discounting of Bill of Exchange** Under this, a bank gives money to its customers on the security of a bill of exchange before the expiry of the bill in case a customer needs it. For this service bank charges discount for the remaining period of the bill.

### **Secondary Functions**

The secondary functions of commercial banks are as under :

#### **6. Agency Functions**

As an agent of its customers, a commercial bank provides the following services :

Collecting bills of exchanges, promissory notes and cheques

Collecting dividends, interest, rent etc.

Buying and selling shares, debentures and other securities

Payment of interest, insurance premium, etc

Transferring funds from one branch to another and from one place to another

Acting as an agent or representative while dealing with other banks and financial institutions.

A commercial bank performs the above functions on behalf of and as per the instructions of its customers.

#### **2. General Utility Functions**

Commercial banks also perform the following miscellaneous

functions.

- (a) Providing lockers for safe custody of jewellery and others valuables of customers.
  - (b) Giving references about the financial position of customers.
  - (c) Providing information to a customer about the credit worthiness of other customers.
  - (d) Supplying various types of trade information useful to customers
3. Issuing letter of credit, pay orders, bank draft, credit cards, traveller s cheques to customers.
  4. Underwriting issues of shares and debentures.
  5. Providing foreign exchange to importers and travellers going abroad.

**Bank Draft** It is a financial instrument with the help of which money can be remitted from one place to another. Anyone can obtain a bank draft after depositing the amount in the bank.

The bank issues a draft for the amount in its own branch at other places or other banks (only in case of tie up with those banks) on those places. The payee can present the draft on the drawee bank at his place and collect the money. Bank charges some commission for issuing a bank draft.

**\*\*Banker s cheque or Pay Order** It is almost like a bank draft. It refers to that bank draft which is payable within the town. In other words banks issue pay order for local purpose and issue bank draft for outstations.

## **ELECTRONIC BANKING SERVICES/E-BANKING**

Using computers and internet in the functioning of the banks is called electronic banking. Because of these services the customers do not need to go to the bank every time he has to transact with bank. He can make transactions with the bank at any time and from any place. The chief electronic services are the following.

- Electronic Fund Transfer** Under it, a bank transfers wages
1. and salaries directly from the company s account to the accounts of employees of the company. The other examples of EFTs are on line payment

of electricity bill,  
water bill, insurance premium, house tax etc.

Automatic Teller Machines ATM is an automatic machine

2. (ATMs) with the help of which money can be withdrawn or deposited by inserting the card and typing your personal Identity Number (PIN). This machine operates for all the 24 hours.

3. Debit Card A Debit Card is issued to a customer in lieu of his money deposited in the bank. The customer can make immediate payment of goods purchased or services obtained on the basis of his debit card provided the terminal facility is available with the seller.

4. Credit Card A bank issues a credit card to those of its customers who enjoy good reputation. This is a sort of overdraft facility. With the help of this card the holder can buy goods or obtain services upto a certain amount even without having sufficient deposit in their bank accounts.

5. Tele Banking Under this facility, a customer can get information about the balance in his account or information about the latest transactions on the telephone.

6. Core Banking Solution/Centralised Banking Solution In this system a customer by opening a bank account in one branch (which has CBS facility)

can operate the same account in all CBS branches of the same bank anywhere across the country. It is immaterial with which branch of the bank the customer deals with when he/she is a CBS branch customer.

7. National Electronic Fund Transfer : NEFT refers to a nation wide system that facilitates individuals, firms and companies to electronically transfer funds from any branch to any individual, firm or company having an account with any other bank branch in the country. NEFT

settles transactions in batches. The settlement takes place at a particular point of time for example, NEFT settlement takes place 6 times a day during the week days (9.30am, 10.30 am, 12.00 noon, 1.00 pm, 3.00 pm & 4.00 pm) and 3 times during Saturday (9.30 am, 10.30 am and 12.00 noon) Any transaction initiated after a designated settlement time is settled on the next fixed settlement time.

8. Real Time Gross Settlement RTGS refers to a funds transfer system where transfer of funds takes place from one bank to another on a Real time and on Gross basis. Settlement in Real time means transactions are settled as soon as they are processed and are not subject to any waiting period. Gross settlement means the transaction is settled on one to one basis without bunching or netting with any other transaction. This is the fastest possible money transfer system through the banking channel.

The RTGS service for customers is available from 9.00 am to 3.00 pm on week days and from 9.00 am to 12.00 noon on Saturdays.

The basic difference between RTGS and NEFT is that while RTGS transactions are processed continuously, NEFT settles transactions in batches.

**Meaning of insurance :** Insurance is a form of contract under which one party (Insurer or Insurance Company) agrees in return of a consideration (Insurance premium) to pay an agreed sum of money to another party (Insured) to make good for a loss, damage or injury to something of value in which the insured has financial interest as a result of some uncertain event.

**Principles of Insurance :** These principles are :

1. **Utmost Good Faith :** Insurance contracts are based upon mutual trust and confidence between the insurer and the insured. It is a condition of every insurance contract that both the parties insurer and the insured must disclose each fact and information related to insurance contract to each other.
2. **Insurable Interest :** It means some pecuniary interest in the subject matter of insurance contract. The insured must have insurable interest

in the subject matter of insurance i.e., life or property insured, the insured will have to incur loss due to this damage and insured will be benefitted if full security is being provided. A businessman has insurable interest in his house, stock, his own life and that of his wife, children etc.

3. Indemnity Principle of indemnity applies to all contracts except the contract of life insurance because estimation regarding loss of life cannot be made. The objective of contract of insurance is to compensate to the insured for the actual loss he has incurred. These contracts provide security from loss and no profit can be made out of these contracts.
4. Proximate Cause : The insurance company will compensate for the loss incurred by the insured due to reasons mentioned in insurance policy. But if losses are incurred due to reasons not mentioned in insurance policy than principle of proximate cause or the nearest cause is followed.

Subrogati This principle applies to all insurance contracts

5. on which are contracts of indemnity. As per this principle, when any insurance company compensates the insured for loss of any of his property, then all rights related to that property automatically get transferred to insurance company.

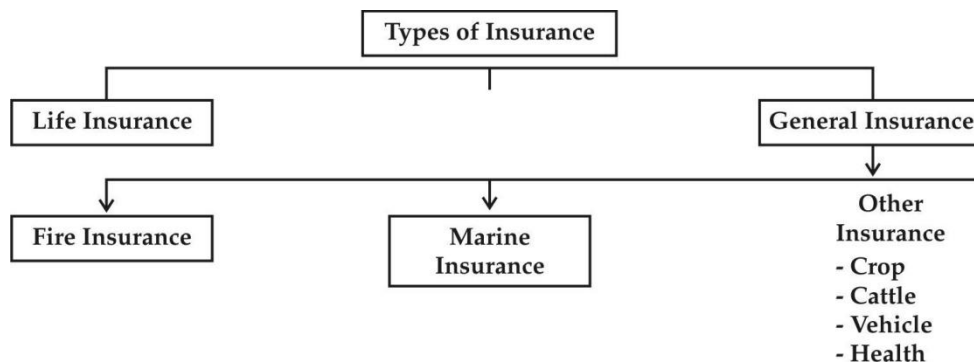
Contribution According to this principle if a person has taken

6. ion more than one insurance policy for the same risk then all the insurers will contribute the amount of loss in proportion to the amount assured by each of them and compensate him for the actual amount of loss because he has no right to recover more than the full amount of his actual loss.

Mitigation According to this principle the insured must take

7. n reasonable steps to minimise the loss or damage to the insured property otherwise the claim from the insurance company may be lost.

## Types of Insurance



**Concept of Life Insurance :** Under life insurance the amount of Insurance is paid on the maturity of policy or the death of policy holder whichever is earlier. If the policy holder survives till maturity he enjoys the amount of insurance. If he dies before maturity then the insurance claim helps in maintenance of his family. The insurance company insures the life of a person in exchange for a premium which may be paid in one lump sum or periodically say yearly, half yearly, quarterly or monthly.

### Types of Life Insurance Policies.

- 1. Whole Life Policy** Under this policy the sum insured is not payable earlier than death of the insured. The sum then becomes payable to the heir of the deceased.
- 2. Endowment Life Assurance Policy** Under this policy the insurer undertakes to pay the assured or his heirs or nominees a specified sum on the attainment of a particular age or on his death whichever is earlier.
- 3. Joint Life Policy** It involves the insurance of two or more lives simultaneously. The policy money is payable upon the death of any one of lives assured and the assured sum will be payable to the survivor or survivors.

- Annuity Policy This policy is one under which amount is payable in monthly, quarterly, half yearly or annual instalments after the assured attains a certain age. This is useful to those who prefer a regular income after a certain age.
5. Children's Endowment Policy This policy is taken for the purpose of education of children or to meet marriage expenses. The insurer agrees to pay a certain sum when the children attain a certain age.

**Fire Insurance :** It provides safety against loss from fire. If property of insured gets damaged due to fire the insured will receive the value of damaged property as compensation from insurance company. If no such event happens, insured will not receive anything. For such service insurance company charges premium depending upon the amount of loss insured.

### Features

1. Utmost Good Faith
2. Contract of Indemnity
3. Insurable interest in the subject matter
4. Subject to the doctrine of causa premima - nearest cause.
5. It is a contract from year to year. It generally comes to an end at the expiry of the year and may be renewed.

**Marine Insurance :** Marine insurance provides protection against loss during sea voyage. The businessmen can get their goods insured whereas the ship owner can get his ship insured by paying the premia fixed by the insurance company. The fundamental principles of marine insurance are the same as the general principles of insurance.

### Other Insurance

**Health Insurance :** Health insurance has gained popularity these days.

General Insurance companies provide special health insurance policies such as mediclaim for the general public. The insurance company charges a nominal premium every year and in return undertakes to provide up to stipulated amounts for the treatment of certain diseases such as heart problem, cancer, etc.

**Communication** is an important service that helps in establishing links between businessmen, Organisation, suppliers, customers etc. It educates people, widens their knowledge and broadens their outlook. It overcomes the problem of distance between people, businessmen and institutions and thus helps in smooth running of trade, industrial and commercial activities. In this fast moving and competitive world it is essential to have advanced technology for quick exchange of information with the help of electronic media. The main services can be classified into postal and telecom.

**Postal Services** Every business sends to outsiders and receives from outsiders several letters, market reports, parcels, money order etc. every day. All these services are provided by the post and telegraph offices scattered throughout the country. The postal department performs the following services.

1. **Financial Services** They provide postal banking facilities to the general public and mobilise their savings through the following saving schemes like public provident fund (PPF), Kisan Vikas Patra, National Saving Certificate, Recurring Deposit Scheme and Money Order facility.
2. **Mail Services** The mail services offered by post offices include transmission of messages through post cards, inland letters, envelopes etc. transmission of articles through parcel facility, registration facility and speed post to provide security of transmitted letters and articles and insurance facility to provide insurance cover for various risks in the course of transmission by post.

The various mail services all :



- UPC (under postal certificate) When ordinary letters are all posted the post office does not issue any receipt. However, if sender wants to have proof then a certificate can be obtained from the post office on payment of prescribed fee. This paper now serves as a evidence of posting the letters.
- Registered Post Sometimes we want to ensure that our mail is definitely delivered to the addressee otherwise it should come back to us. In such situations the post office offers registered post facility which serves as a proof that mail has been posted.
  - Parcel Post Transmission of articles from one place to another in the form of parcels is known as parcel post. Postal charges vary according to the weight of the parcels.

#### Allied Postal Services

- Greetings Post Greetings can be sent through post offices to different people at places.
- Media Post Corporates can advertise their brands through post cards, envelopes etc.
- Speed Post It allows speedy transmission of articles (within 24 hours) to people in specified cities.
- e-bill post The post offices collect payment of bills on behalf of BSNL and other organisations.
- Courier Services Letters, documents, parcels etc. can be sent through the courier service. It being a private service the employees work with more

responsibility

Telecom Services Today's global business world, the dream of doing business across the world, will remain a dream only in the absence of telecom services. The various types of telecom services are

1. Cellular mobile services cordless mobile communication device including voice and non-voice messages, data services and PCO services.
2. Radio Paging Services means of transmitting information to persons even when they are mobile.
3. Fixed Line Services including voice and non-voice messages and data services to establish linkage for long distance traffic.
4. Cable services Linkages and switched services within a licensed area of operation to operate media services which are essentially one way entertainment related services.
5. VSAT (Very small Aperture Terminal) is a Satellite based communication service. It offers government and business agencies a highly flexible and reliable communication solution in both urban and rural areas.
6. DTH (Direct to Home) a Satellite based media services provided by cellular companies with the help of small dish antenna and a set up box.

### 1 Marks Questions

- Q.1 What do you mean by Debit Card?
- Q.2 What is Credit Card?
- Q.3 Write the meaning of Tele Banking.
- Q.4 Define Insurance.

- Q.5 Principle of Indemnity is not applicable to which insurance.
- Q.6 Name the type of insurance where in insurable interest need not exist when the policy is taken.
- Q.7 What are the two categories of communication services?
- Q.8 Name two companies that offer DTH service in our country.

### **3-4 Marks Questions**

- Q.9 Write three advantages of insurance.
- Q.10 Explain the scope of Health Insurance.
- Q.11 A contract of insurance is an uberrimae fidei-utmost good faith contract. Comment.
- Q.12 What insurable interest be present in the following case (1) Life Insurance  
(2) Fire Insurance (3) Marine Insurance.
- Q.13 Explain the meaning of Bank Overdraft.
- Q.14 Name the accounts generally opened in the Bank.
- Q.15. Write about Multiple option Deposit Account in 40 words.
- Q.16 Write note on core Banking.
- Q.17 Name any four services offered by electronic banking.

### **Long Answer Question (5-6 Marks)**

- Q.18 Describe briefly the various policies issued by life insurance corporation.
- Q.19 A factory owner gets his stock of goods insured but he hides the fact that the electricity board has issued him statutory warning letter to get his factory's wiring changed later on, the factory catches fire due to short circuit which principle is violated in this case. Explain.
- Q.20 Why is insurance said to be mechanism of risk coverage and investment.
- Q.21 Write a detailed note on various facilities offered by Indian Postal Department.

Q.22 Briefly discuss the various type of accounts by which banks attract deposit from the public.

Q.23 Write notes on RTGS system and NEFT.

**BOSE EDUCATION CENTRE.**