Commerce Non Major Elective

General Commercial Knowledge

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Syllabus

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UNIT–IV : BUSINESS COMMUNICATIONS

Meaning – Importance – Barriers - Layout of Business Letter.

UNIT–V : MANAGEMENT

Meaning – Functions – Principles - Levels.

BOOKS FOR REFERENCE

Dinkar Pagare : Business Organization and Management, Sultan Chand & Sons, New Delhi.
Gorden & Natarajan : Banking, Himalaya Publishing House, New Delhi.
R.S.N.Pillai & Bhagavathi : Business Communication, S.Chand, New Delhi.

Question Paper Pattern

Maximum marks = 75 **Exam Duration Hours : 3 Hours**

Part A :5 x 5 = 25 (Eight question from five units)
Part B :5 x 10 = 50 (Eight question from five units)

UNIT - 1

Forms of Business Organisation - I

Introduction

Everything you need to know about the forms of business organisation. Most production and distribution activities are carried out by millions of people in different parts of the country by constituting various kinds of organizations.

These organizations are based on some form of ownership. This choice affects a number of managerial and financial issues, including the amount of taxes the entrepreneur would have to pay, whether the entrepreneur may be personally sued for unpaid business bills, and whether the venture will die automatically with the demise of the entrepreneur.

The forms of business organisation are:-

1. Sole Proprietorship 2. Partnership Firm 3. Limited Liability Partnership (LLP) 4. Joint Stock Company 5. One Person Company (OPC) 6. Private Company 7. Public Limited Company 8. Company Form of Organization 9. Co-Operatives.

1. Sole Proprietorship:

Sole proprietorship or individual entrepreneurship is a business concern owned and operated by one person. The sole proprietor is a person who carries on business exclusively by and for himself. He alone contributes the capital and skills and is solely responsible for the results of the enterprise. In fact sole proprietor is the supreme judge of all matters pertaining to his business subject only to the general laws of the land and to such special legislation as may affect his particular business.

The salient features of the proprietorship are as follows:

•Single ownership
•One man control
•Undivided risk
•Unlimited liability
•No separate entity of the business
•No Government regulations.

•**Single ownership**: The sole trader is a single owner of the organization. The sole trader owns all the assets and property of the business. The sole trading concern is often referred (said) as "one man show"

•**Unlimited liability:** The liability of the sole trader is unlimited. This means he is alone responsible for all the risks and debts of the firm.

•**Minimum government control:** Sole trading concern is less affected by government control. This is because, there are almost no legal formalities are required to start or close down a business.

•**Business secrecy:** The sole trader can maintain complete business secrecy. He needs not to publish any accounts and reports to any body. Competitors cannot easily get business secrets and information of the sole trader's activities.

•**Flexibility:** Sole trader enjoys maximum flexibility. He can take right decision at the right time depending upon the situation. At any time, he need not have to consult with anyone because he is a single owner of his business.

•**No sharing of profit and losses:** There is a direct relationship between efforts and rewards. This results in best possible efforts on the part of sole trader. Therefore, he can enjoy all the profits of his business.

•**Legal status:** - Legally, the sole trader and his business concern are one and the same in the eyes of law. The sole trader and his business cannot be separated from each other. So the sole trader lacks legal status.

Advantages:

•**Simplicity** - It is very easy to establish and dissolve a sole proprietorship. No documents are required and no legal, formalities are involved. Any person competent to enter into a contract can start it. However, in some cases, i.e., of a chemist shop, a municipal license has to be obtained. You can start business from your own home.

•**Quick Decisions** - The entrepreneur need not consult anybody in deciding his business affairs. Therefore, he can take on the spot decisions to exploit opportunities from time to time. He is his own boss.

•**High Secrecy** - The proprietor has not to publish his accounts and the business secrets are known to him alone. Maintenance of secrets guards him from competitors.

•**Direct Motivation** - There is a direct relationship between efforts and rewards. Nobody shares the profits of business. Therefore, the entrepreneur has sufficient incentive to work hard.

•**Personal Touch** - The proprietor can maintain personal contacts with his employees and clients. Such contacts help in the growth of the enterprise.

•**Flexibility** - In the absence of Government control, there is complete freedom of action. There is no scope for difference of opinion and no problem of co-ordination.

Disadvantages:

•**Limited Funds** - A proprietor can raise limited financial resources. As a result the size of business remains small. There is limited scope for growth and expansion. Economies of scale are not available.

•**Limited Skills** - Proprietorship is a one man show and one man cannot be an expert in all areas (production, marketing, financing, personnel etc.) of business. There is no scope for specialisation and the decisions may not be balanced.

•**Unlimited Liability** - The liability of the proprietor is unlimited. In case of loss his private assets can also be used to pay off creditors. This discourages expansion of the enterprise.

•**Uncertain Life** - The life of proprietorship depends upon the life of the owner. The enterprise may die premature death due to the incapacity or death of the proprietor. The proprietor has a low status and can be lonely.

2. Partnership Firm:

As a business enterprise expands beyond the capacity of a single person, a group of persons have to join hands together and supply the necessary capital and skills. Partnership firm thus grew out of the limitations of one man business. Need to arrange more capital, provide better skills and avail of specialisation led to the growth to partnership form of organisation.

According to Section 4 of the Partnership Act, 1932 partnership is "the relation between persons who have agreed to share the profits of a business carried on by all or anyone of them acting for all". In other words, a partnership is an agreement among two or more persons to carry on jointly a lawful business and to share the profits arising there from. Persons who enter into such agreement are known individually as 'partners' and collectively as 'firm'.

Characteristics of Partnership:

1. Existence of an agreement:

Partnership is the outcome of an agreement between two or more persons to carry on business. This agreement may be oral or in writing. The Partnership Act, 1932 (Section 5) clearly states that "the relation of partnership arises from contract and not from status."

2. Existence of business:

Partnership is formed to carry on a business. As stated earlier, the Partnership Act, 1932 [Section 2 (6)] states that a "Business" includes every trade, occupation, and profession. Business, of course, must be lawful.

3. Sharing of profits:

The purpose of partnership should be to earn profits and to share it. In the absence of any agreement, the partner should share profits (and losses as well) in equal proportions. Here it is pertinent to quote the Act (Section 6) which talks of the 'mode of determining existence of partnership'. It says that sharing of profits is as essential condition, but not a conclusive proof, of the existence of partnership between partners.

In the following cases, persons do share profits, but are not the partners:

- By a lender of money to person engaged or about to engage in any business.
- By a servant or agent as remuneration.
- By the widow or child of a deceased partner, as annuity {i.e., fixed periodical payment), or
- By a previous owner or part-owner of the business as consideration for the sale of the goodwill or share thereof, does not of itself make the receiver a partner with the persons carrying on the business.

4. Agency relationship:

The partnership business may be carried on by all or any of them acting for all. Thus, the law of partnership is a branch of the law of Agency.

5. Membership:

The minimum number of persons required to constitute a partnership is two. The Act, however, does not mention the upper limit. For this a recourse has to be taken to the Companies Act, 1956 [Section 11 (1) & (2)]. It states that the maximum number of persons is ten, in case of a banking business and twenty, in case of any other business.

6. Nature of liability:

The nature of liability of partners is the same as in case of sole proprietorship. The liability of partners is both individual and collective. The creditors have a right to recover the firm's debts from the private property of one or all partners, where firm's assets are insufficient.

7. Fusion of ownership and control:

In the eyes of law, the identity of partners is not different from the identity of partnership firm. As such, the right of management and control vests with the owners (i.e., partners).

8. Non-transferability of interest:

No partner can assign or transfer his partnership share to any other person so as to make him a partner in the business without the consent of all other partners.

9. Registration of firm:

Registration of a partnership firm is not compulsory under the Act. The only document or even an oral agreement among partners required is the 'partnership deed' to bring the partnership into existence.

Formation of Partnership:

A partnership firm can be formed through an agreement among two or more persons. The agreement may be oral or in writing. But it is desirable that all terms and conditions of partnership are put in writing so as to avoid any misunderstanding and disputes among the partners. Such a written agreement among partners is known as Partnership Deed. It must be signed by all the partners and should be properly stamped. It can be altered with the mutual consent of all the partners.

A partnership deed usually contains the following details:

- ❖Name of the firm.
- ❖Names and address of all the partners.
- ❖Nature of the firm's business.
- ❖Date of the agreement.
- ❖Principal place of the firm's business.
- ❖Duration of partnership, if any.
- ❖Amount of capital contributed by each partner.
- ❖The proportion in which the profits and losses are to be shared.
- ❖Loans and advances by partners and interest payable on them.
- ❖Amount of withdrawal allowed to each partner and the rate of interest.
- ❖Amount of salary or commission payable to any partner.

- The duties, powers and obligations of all the partners.
- Maintenance of accounts and audit.
- Mode of valuation of goodwill on admission, retirement or death of a partner.
- Procedure for dissolution of the firm and settlement of accounts.
- Arbitration for settlement of disputes among the partners.
- Arrangements in case a partner becomes insolvent.
- Any other clause(s) which may be found necessary in particular kind of business.

Registration of Firms:

The Partnership Act, 1932 provides for the registration of firms with the Registrar of Firms appointed by the Government. The registration of a partnership firm is not compulsory. But an unregistered firm suffers from certain disabilities. Therefore, registration of a partnership is desirable.

Procedure for Registration:

A partnership firm can be registered at any time by filing a statement in the prescribed form. The form should be duly signed by all the partners. It should be sent to the Registrar of Firms along with the prescribed fee.

The statement should contain the following particulars:

- Name of the firm.
- Principal place of its business.
- Name of other places where the firm is carrying on business.
- Names in full and permanent addresses of all the partners.
- Date of commencement of the firm's business and the dates on which each partner joined the firm.
- Duration of the firm, if any.
- Nature of the firm's business.

On receipt of the statement and the fees, the Registrar makes an entry in the Register of Firms. The firm is considered to be registered when the entry is made. The Registrar issues a Certificate of Registration. Any change in the above particulars must be communicated to the Registrar of Firms within a reasonable period of time so that necessary alterations may be made in the Register of Firms. The register is open for inspection on payment of a nominal fee.

Merits of Partnership:

The partnership form of business ownership enjoys the following advantages:

1. Ease of Formation:

A partnership is easy to form as no cumbersome legal formalities are involved. An agreement is necessary and the procedure for registration is very simple. Similarly, a partnership can be dissolved easily at any time without undergoing legal formalities. Registration of the firm is not essential and the partnership agreement need not essentially be in writing.

2. Larger Financial Resources:

As a number of persons or partners contribute to the capital of the firm, it is possible to collect larger financial resources than is possible in sole proprietorship. Creditworthiness of the firm is also higher because every partner is personally and jointly liable for the debts of the business. There is greater scope for expansion or growth of business.

3. Specialisation and Balanced Approach:

The partnership form enables the pooling of abilities and judgment of several persons. Combined abilities and judgment result in more efficient management of the business. Partners with complementary skills may be chosen to avail of the benefits of specialisation. Judicious choice of partners with diversified skills ensures balanced decisions. Partners meet and discuss the problems of business frequently so that decisions can be taken quickly.

4. Flexibility of Operations:

Though not as versatile as proprietorship, a partnership firm enjoys sufficient flexibility in its day-to-day operations. The nature and place of business can be changed whenever the partners desire. The agreement can be altered and new partners can be admitted whenever necessary. Partnership is free from statutory control by the Government except the general law of the land.

5. Protection of Minority Interest:

No basic changes in the rights and obligations of partners can be made without the unanimous consent of all the partners. In case a partner feels dissatisfied, he can easily retire from or he may apply for the dissolution of partnership.

6. Personal Incentive and Direct Supervision:

There is no divorce between ownership and management. Partners share in the profits and losses of the firm and there is motivation to improve the efficiency of the business. Personal control by the partners increases the possibility of success. Unlimited liability encourages caution and care on the part of partners. Fear of unlimited liability discourages reckless and hasty action and motivates the partners to put in their best efforts.

7. Capacity for Survival:

The survival capacity of the partnership firm is higher than that of sole proprietorship. The partnership firm can continue after the death or insolvency of a partner if the remaining partners so desire. Risk of loss is diffused among two or more persons. In case one line of business is not successful, the firm may undertake another line of business to compensate its losses.

8. Better Human and Public Relations:

Due to number of representatives (partners) of the firm, it is possible to develop personal touch with employees, customers, government and the general public. Healthy relations with the public help to enhance the goodwill of the firm and pave the way for steady progress of the business.

9. Business Secrecy:

It is not compulsory for a partnership firm to publish and file its accounts and reports. Important secrets of business remain confined to the partners and are unknown to the outside world.

Demerits of Partnership:

1. **Unlimited Liability:** Every partner is jointly and severally liable for the entire debts of the firm. He has to suffer not only for his own mistakes but also for the lapses and dishonesty of other partners. This may curb entrepreneurial spirit as partners may hesitate to venture into new lines of business for fear of losses. Private property of partners is not safe against the risks of business.
2. **Limited Resources:** The amount of financial resources in partnership is limited to the contributions made by the partners. The number of partners cannot exceed 10 in banking business and 20 in other types of business. Therefore, partnership form of ownership is not suited to undertake business involving huge investment of capital.
3. **Risk of Implied Agency:** The acts of a partner are binding on the firm as well as on other partners. An incompetent or dishonest partner may bring disaster for all due to his acts of commission or omission. That is why the saying is that choosing a business partner is as important as choosing a partner in life.
4. **Lack of Harmony:** The success of partnership depends upon mutual understanding and cooperation among the partners. Continued disagreement and bickering among the partners may paralyse the business or may result in its untimely death. Lack of a central authority may affect the efficiency of the firm. Decisions may get delayed.
5. **Lack of Continuity:** A partnership comes to an end with the retirement, incapacity, insolvency and death of a partner. The firm may be carried on by the remaining partners by admitting new partners. But it is not always possible to replace a partner enjoying trust and confidence of all. Therefore, the life of a partnership firm is uncertain, though it has longer life than sole proprietorship.
6. **Non-Transferability of Interest:** No partner can transfer his share in the firm to an outsider without the unanimous consent of all the partners. This makes investment in a partnership firm non-liquid and fixed. An individual’s capital is blocked.
7. **Public Distrust:** A partnership firm lacks the confidence of public because it is not subject to detailed rules and regulations. Lack of publicity of its affairs undermines public confidence in the firm.

The foregoing description reveals that partnership form of organisation is appropriate for medium-sized business that requires limited capital, pooling of skills and judgment and moderate risks, like small scale industries, wholesale and retail trade, and small service concerns like transport agencies, real estate brokers, professional firms like chartered accountants, doctor’s clinics etc.

Difference between sole trader and partnership

Point of Difference	Sole Trader	Partnership
1. Legal Formalities	No legal formalities have to be followed for starting the business.	Few legal formalities to be followed for starting the business.
2. Legislation	It is not controlled by any legislation.	It is regulated by Partnership Act, 1932.
3. No. of Members	It is totally one man's business.	There should be atleast 2 members. Maximum 20 number of members in general business and 10 in Banking business.
4. Agreement	It does not require any agreement as there is only one member.	Agreement or Deed either in writing or oral is necessary.
5. Secrets	Business secrets can be maintained.	Business secrets cannot be maintained.
6. Capital	Supply of capital is limited.	More capital can be secured.
7. Decision	There is no delay in making decisions.	There might be delay in taking decisions due to difference of opinion among partners.
8. Risk	Risk to be totally borne by one person.	Risk is to be shared among the partners.
9. Management	Inefficient management due to limited supply of skills.	Collective skill of partners leads to efficient management.
10. Continuation of business	Lack of children may lead to discontinuation of agreement.	Partnership can be continued by renewal of agreement.
11. Distribution of profit	Profit or loss belongs to the single owner.	Profit or Loss is divided among the partners.
12. Freedom to operate	Decision-making rests with the proprietor only, hence full freedom to operate.	The decision needs to be mutually acceptable to all partners.
13. Liability	Rests with the proprietor only	Shared by partners of the firm

UNIT - 2
Forms of Organisation - II

Joint Stock Company: With the growing needs of modern business, collection of vast financial and managerial resources became necessary. Proprietorship and partnership forms of ownership failed to meet these needs due to their limitations, e.g., unlimited liability, lack of continuity and limited resources. The company form of business organisation was evolved to overcome these limitations. Joint Stock Company has become the dominant form of ownership for large scale enterprises because it enables collection of vast financial and managerial resources with provision for limited liability and continuity of operations.

The simplest way to describe a joint stock company is that it is a business organisation that is owned jointly by all its shareholders. All the shareholders own a certain amount of stock in the company, which is represented by their shares. A joint stock company is an incorporated and voluntary association of individuals with a distinctive name, perpetual succession, limited liability and common seal, and usually having a joint capital divided into transferable shares of a fixed value.

Features of a Joint Stock Company

1. Artificial Legal Person A company is a legal entity that has been created by the statues of law. Like a natural person, it can do certain things, like own property in its name, enter into a contract, borrow and lend money, sue or be sued, etc. It has also been granted certain rights by the law which it enjoys through its board of directors. However, not all laws/rights/duties apply to a company. It exists only in the law and not in any physical form. So we call it an artificial legal person.

2. Separate Legal Entity Unlike a proprietorship or partnership, the legal identity of a company and its members are separate. As soon as the joint stock company is incorporated it has its own distinct legal identity. So a member of the company is not liable for the company. And similarly, the company will not depend on any of its members for any business activities.

3. Incorporation: For a company to be recognized as a separate legal entity and for it to come into existence, it has to be incorporated. Not registering a joint stock company is not an option. Without incorporation, a company simply does not exist.

4. Perpetual Succession : The joint stock company is born out of the law, so the only way for the company to end is by the functioning of law. So the life of a company is in no way related to the life of its members. Members or shareholders of a company keep changing, but this does not affect the company’s life.

5. Limited Liability

This is one of the major points of difference between a company and a sole proprietorship and partnership. The liability of the shareholders of a company is limited. The personal assets of a member cannot be liquidated to repay the debts of a company.

A shareholders liability is limited to the amount of unpaid share capital. If his shares are fully paid then he has no liability. The amount of debt has no bearing on this. Only the company’s assets can be sold off to repay its own debt. The members cannot be made to pay up.

6. Common Seal

A company is an artificial person. So its day-to-day functions are conducted by the board of directors. So when a company enters any contract or signs an agreement, the approval is indicated via a common seal. A common seal is engraved seal with the company’s name on it.

So no document is legally binding on the company until and unless it has a common seal along with the signatures of the directors.

7. Transferability of Shares

In a joint stock company, the ownership is divided into transferable units known as shares. In case of a public company the shares can be transferred freely, there are almost no restrictions. And in a public company, there are some restrictions, but the transfer cannot be prohibited.

Merits of Company Organisation:

The company form of business ownership has become very popular in modern business on account of its several advantages:

1. Limited Liability:

Shareholders of a company are liable only to the extent of the face value of shares held by them. Their private property cannot be attached to pay the debts of the company. Thus, the risk is limited and known. This encourages people to invest their money in corporate securities and, therefore, contributes to the growth of the company form of ownership.

2. Large Financial Resources:

Company form of ownership enables the collection of huge financial resources. The capital of a company is divided into shares of small denominations so that people with small means can also buy them. Benefits of limited liability and transferability of shares attract investors. Different types of securities may be issued to attract various types of investors. There is no limit on the number of members in a public company.

3. Continuity:

A company enjoys uninterrupted business life. As a body corporate, it continues to exist even if all its members die or desert it. On account of its stable nature, a company is best suited for such types of business which require long periods of time to mature and develop.

4. Transferability of Shares:

A member of a public limited company can freely transfer his shares without the consent of other members. Shares of public companies are generally listed on a stock exchange so that people can easily buy and sell them. Facility of transfer of shares makes investment in company liquid and encourages investment of public savings into the corporate sector.

5. Professional Management:

Due to its large financial resources and continuity, a company can avail of the services of expert professional managers. Employment of professional managers having managerial skills and little financial stake results in higher efficiency and more adventurous management. Benefits of specialisation and bold management can be secured.

6. Scope for Growth and Expansion:

There is considerable scope for the expansion of business in a company. On account of its vast financial and managerial resources and limited liability, company form has immense potential for growth. With continuous expansion and growth, a company can reap various economies of large scale operations, which help to improve efficiency and reduce costs.

7. Public Confidence:

A public company enjoys the confidence of public because its activities are regulated by the government under the Companies Act. Its affairs are known to public through publication of accounts and reports. It can always keep itself in tune with the needs and aspirations of people through continuous research and development.

8. Diffused Risk: The risk of loss in a company is spread over a large number of members. Therefore, the risk of an individual investor is reduced.

9. Social Benefits: The company organisation helps to mobilise savings of the community and invest them in industry. It facilitates the growth of financial institutions and provides employment to a large number of persons. It provides huge revenues to the Government through direct and indirect taxes.

Demerits of Company: A company suffers from the following limitations:

1. Difficulty of Formation:

It is very difficult and expensive to form a company. A number of documents have to be prepared and filed with the Registrar of Companies. Services of experts are required to prepare these documents. It is very time-consuming and inconvenient to obtain approvals and sanctions from different authorities for the establishment of a company. The time and cost involved in fulfilling legal formalities discourage many people from adopting the company form of ownership. It is also difficult to wind up a company.

2. Excessive Government Control:

A company is subject to elaborate statutory regulations in its day-to-day operations. It has to submit periodical reports. Audit and publication of accounts is obligatory. The objects and capital of the company can be changed only after fulfilling the prescribed legal formalities. These rules and regulations reduce the efficiency and flexibility of operations. A lot of precious time, effort and money have to be spent in complying with the innumerable legal formalities and irksome statutory regulations.

3. Lack of Motivation and Personal Touch:

There is divorce between ownership and management in a large public company. The affairs of the company are managed by the professional and salaried managers who do not have personal involvement and stake in the company. Absentee ownership and impersonal management result in lack of initiative and responsibility. Incentive for hard work and efficiency is low. Personal contact with employees and customers is not possible.

4. Oligarchic Management:

In theory the management of a company is supposed to be democratic but in actual practice company becomes an oligarchy (rule by a few). A company is managed by a small number of people who are able to perpetuate their reign year after year due to lack of interest, information and unity on the part of shareholders. The interests of small and minority shareholders are not well protected. They never get representation on the Board of Directors and feel oppressed.

5. Delay in Decisions:

Too many levels of management in a company result in red-tape and bureaucracy. A lot of time is wasted in calling and holding meetings and in passing resolutions. It becomes difficult to take quick decisions and prompt action with the consequence that business opportunities may be lost.

6. Conflict of Interests:

Company is the only form of business where in a permanent conflict of interests may exist. In proprietorship there is no scope for conflict and in a partnership continuous conflict results in dissolution of the firm. But in a company conflict may continue between shareholders and board of directors or between shareholders and creditors or between management and workers.

7. Frauds in Promotion and Management:

There is a possibility that unscrupulous promoters may float a company to dupe innocent and ignorant investors. They may collect huge sums of money and, later on, misappropriate the money for their personal benefit. The case of South Sea Bubble Company is the leading example of such malpractices by promoters.

Moreover, the directors of a company may manipulate the prices of the company's shares and debentures on the stock exchange on the basis of inside information and accounting manipulations. This may result in reckless speculation in shares and even a sound company may be put into financial difficulties.

8. Lack of Secrecy:

Under the Companies Act, a company is required to disclose and publish a variety of information on its working. Widespread publicity of affairs makes it almost impossible for the company to retain its business secrets. The accounts of a public company are open for inspection to public.

9. Social Evils:

Giant companies may give rise to monopolies, concentration of economic power in a few hands, interference in the political system, lack of industrial peace, etc.

Co-operative society

As a form of organization, it is an enterprise ordinarily set up by “economically weak” individuals to further their common economic and social interests to eradicate capitalist exploitation, to eliminate middlemen, and to bring the consumer and producer together.

The cooperative movement is commenced among the poor deprived labors and low-middle class people of the society in the post-industrial revolution.

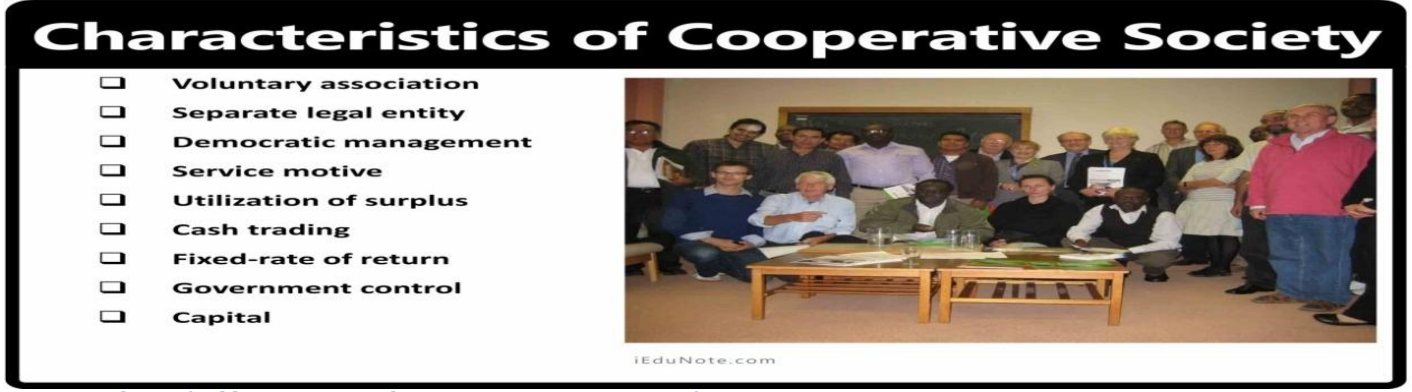
Definition of Cooperative Society

A cooperative society is a voluntary association that started with the aim of the service of its members. It is a form of business where individuals belonging to the same class join their hands for the promotion of their common goals. These are generally formed by poor people or weaker sections of people in society. It reflects the desire of the poor people to stand on their legs or own merit. A co-operative society is a special type of society, which is established by an economically weak person for the betterment and upliftment of their economic condition through mutual help. This organization is based on help each other through available resources and also provide goods to society members without profit or at a lower price.

Simply speaking, we know that cooperative means to work together to improve their economic condition. This organization is based on “all for each and each for all”. So this organization will function under the mutual cooperative of all the members. In this organization, all members will be equal and free for their rights. Therefore “one man one vote” system will prevail in this society. Many business enterprises established to earn a profit, but cooperative society has a motive of service to the members of the society for common welfare not to earn a profit.

The first cooperative society was initiated by Robert Owen in 1844 A.D. named “Rochdale Society of Equitable Pioneers”.The main objective of this society was to save poor people providing goods at a lower price from the market price and eliminate the middle mad and supply better services to its members. So, we can say that a cooperative society is an association of a person who joins the organization willingly to protect economic & social interest.

Characteristics of Cooperative Society



Based on the above definitions, we can derive the following characteristics of cooperative organizations.

1. Voluntary association: Everybody having a common interest is free to join a cooperative society. There is no restriction based on caste, creed, religion, color, etc. Anybody can also leave it at any time after giving due notice to the society. That is the specialty of any cooperative society. There should be a minimum of 10 members for a cooperative society, but there is no maximum limit for the membership.

2. Separate legal entity: A cooperative society after registration is recognized as a separate legal entity by law. It acquires an identity quite distinct and independent of its members can purchase, dispose of its assets, can sue, and also can be sued.

3. Democratic management: Equalities are the essence of cooperative enterprises, governed by democratic principles. Every member has got equal rights over the function management of that society. As such, each member has only single voting right irrespective of the number of shares held or capital contributed by them. In the case of a cooperative society, no member detects the terms and conditions of the functioning because "one man one vote" is the thumb rule.

4. Service motive: The main objective being the formation of any cooperative society is for mutual benefit through self-help and collective effort. Profit is not at all on the agenda of the cooperative society. But if members so like, they can take up any activities of their choice to generate a surplus to meet the day-to-day expenses.

5. Utilization of surplus: The surplus arising from the operation of a business is partly kept in a separate reserve and partly distributed as dividend among the members.

6. Cash trading: One exception in the cooperative society is that like other businesses, if never go for credit sales. It sells goods based on cash only. Hence, the cooperative society hardly comes across financial hardship because of the non-collection of sales dues. Members can only purchase based on credit, which is an exception to the present rule.

7. Fixed-rate of return

All members are supposed to contribute capital for the formation of a cooperative society or at the time of joining as a member of the cooperative society.

8. Government control

The government regulates all the cooperative societies of the country through its different rules and regulations framed from time to time.

Cooperative societies of the country are required to register, and sometimes different State Governments also frame laws regarding the registration and functioning of cooperative societies for their states.

9. Capital

The capital of the society is raised from its members by way of share capital. However, the major part of finance is raised by the society by taking a loan from the government or by accepting grants and assistance from the Central or State Government or from the apex cooperative institutions like state and cooperative central banks operating in that state.

Principles of Cooperative Society

The followings are some of the principles on which a co-operative society stands:

1. Voluntary association

The membership of a cooperative society is voluntary and open to all adult persons having common interests. Any person can become a member of the organization irrespective of caste, creed, color, sex, and religion.

2. Autonomy: A cooperative society is a self-governing institution. It enjoys the status of autonomy because it is self-sufficient, self-renewing, and self-controlling organization. It has a continuous existence because it is not affected by the death of any member of society.

3. Capital: The capital of a cooperative society is raised from its members in the form of share capital. As the share capital is not sufficient to meet its operational cost, it borrows loan from the government or apex cooperative organization.

4. Service motive : It is organized to render service to its members and not to make a profit.

5. Democratic management: The management of a co-operative society is done on the democratic line. The management is vested in the bands of a managing committee elected by the members.

The general body of the members determines rules and regulations for the management, the managing committee functions within the framework of the principles framed by the general body.

6. Government control : The cooperative organizations are subject to the rules and regulations of the government because it is registered.

7. Status of the members : In a cooperative society, each member is given one vote irrespective of the number of shares held by him. In this organization, nobody can control society based on his share capital.

8. Distribution of surplus: The income of the cooperative societies is distributed among the members based on their capital contribution.

9. Cash Trading: The trading operation of the cooperative society is done based on cash. It never allows the principles of credit in its trade practice.

10. Mutual help: It always aims at developing the spirit of co-operation among the members. Every member of the society is required to act for the maximum benefit to other members. It is based on the principle “all for each and each for all”.

Objectives of Cooperative Society

Cooperative societies and organizations have several main objectives.

Such organizations are considered to be jointly controlled by those working at the organization and those receiving services from the organization. So, in essence, there are high levels of cooperation between these two parties of people.

The following points describe some of the main objectives a cooperative society has.

1. Enhancing cooperation

Cooperative societies aim to encourage complete cooperation between everybody involved with an organization. They are generally against the idea of any sort of hierarchy, and consider everyone to be equal.

This can improve relationships between staff members and senior management, as well as between service providers and customers.

2. High level of service

Better working relationships naturally lead to higher productivity levels, so a better service is given to customers. This raises customer satisfaction levels, which is the primary aim of many cooperative societies.

For instance, student accommodation units may be cooperative societies. Students will be happier with their accommodation and the staff remembers will find their working life much easier.

3. Higher profits

Many cooperative societies are essentially out to make a profit and believe that enhancing relationships will lead to high-profit levels. Of course, this plan may not always work, but in many cases, it has proved effective.

Some charities have also benefited from operating as a cooperative society, as charity members become more focused on their work, raising more money for the cause in question.

Role of Cooperative society

1. Creation of unity: "Unity is strength" is the guiding principle of a cooperative society. In this purpose cooperative united the weaker and guide them to go ahead with mutual cooperation which helps to endure social relationship.,

2. Awaking working zeal: Co-operate society helps to awake a new working spirit in the mind of those people who are defeated and spiritless in the struggle of life. Cooperative society encourages people to dream a new dream and work with new inspiration.

3. Bringing welfare for the members: A cooperative society is established just for bringing the economic and social welfare for its members. In this purpose, cooperative society develops thinking working attitude as well as the mental condition of the constituents.

Besides by self retirement opportunity and giving dividends. It ensures economic development.

4. Reducing inequality of wealth: Capitalism creates inequality of wealth, and cooperative society helps to reduce this as well as helps the equal distribution of wealth. It creates self-employment opportunities and encourages the members to compete with others.

5. Establishing equal rights: To establish equal rights, cooperative society fixed the limitation of purchasing shares. Besides this, democracy and equal voting rights are also followed. Equal right contributes to establishing social order and justice.

6. The teaching of moral principles: Cooperative society plays an important role in mental improvement by teaching moral principles like unity, trust, honesty, order, cooperation, which ensure social order.

7. Improving skill: Cooperative society leads a great role by providing a training program for improving the skill of uneducated poor and unskilled members.

8. Removal of middle man: The cooperative society helps to protect the lower and middle-class people of the society who have fixed income, from the greedy clutch of profiteering, capitalist, and the middle man. This society produces or collects goods from the manufacturer and supplies these goods to the members at a cheap rate. In this way, it achieves its objectives.

9. Loan facilities : Poor producers suffer from capital problems. Cooperative credit society, multipurpose cooperative society lend money to these people at a very low-interest rate.

10. Economic development : By developing agricultural and irrigation systems and to give loans and counseling for small industries and cottage. It also helps to remove poverty and ensure economic development of the country.

Merits or Advantages of Cooperative Society

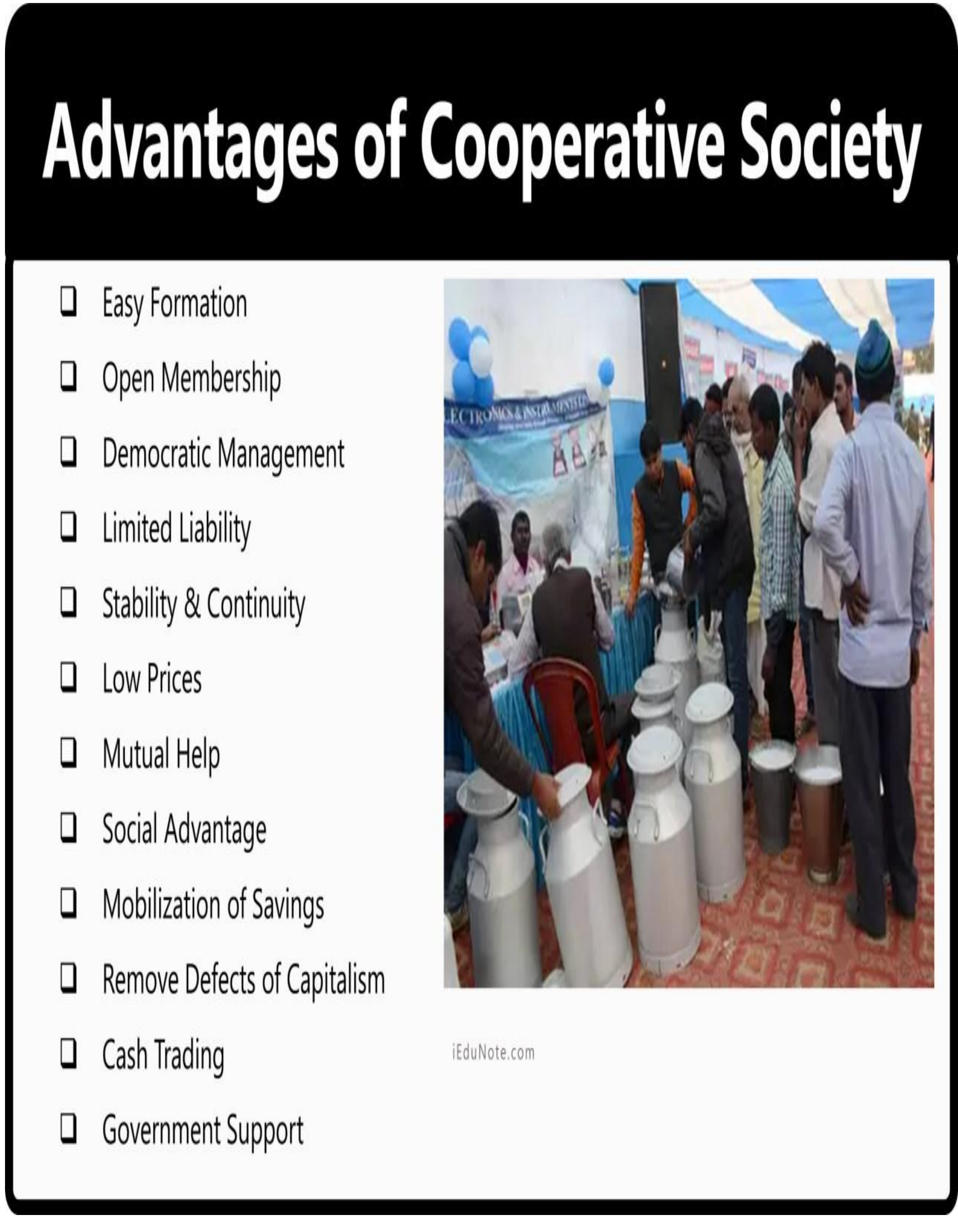
Following are the important advantages or merits of cooperative societies;

- **Easy Formation:** It is very easy to form a cooperative society as compared to a joint-stock company. The simple requirement is ten or more members have to make written application to the Registrar with four copies of Bye-laws.
- **Open Membership :** Co-operative societies work on the principle of open membership; therefore, many persons can become members. The membership is not restricted to a few persons only.
- **Democratic Management :** All the members of the society are jointly known as the general body, whereas the members who manage the cooperative society are jointly known as the managing committee.

They democratically manage a co-operative society. "One member one vote" is the rule, and thus members can have a voice in management.

- **Limited Liability :** The liability of members remains limited to the extent of capital contributed by them. He is not personally liable to pay the liability of a cooperative society. Generally, his liability is limited up to the face value of shares.
- **Stability & Continuity :** The co-operative society has perpetual succession because it is not affected due to death, insolvency, or lunacy of any member. As it is a voluntary association the old members may go, new members may come, but the life of society is not affected.
- **Low Prices**

A co-operative society can make goods and services available at reasonable cost as the profit margin of the society is very less other reason for a low price at a cooperative society is that it eliminates the middleman from a chain of distribution i.e., goods are directly purchased from the manufacturers or producers and sold to the customers.



- **Mutual Help :** The basic aim of the cooperative society is mutual help. Some of the members realizing this principle may offer their services on an honorary basis; this brings a reduction in management expenses.
- **Social Advantage :** A cooperative society discourages monopoly, brings a better distribution of wealth, works on the principle of service, and controls exploitation. It also uses its surplus profit for social advantages by way of establishing charitable hospitals, schools, etc. So it increases social welfare.
- **Mobilization of Savings :** A cooperative society is a thrift institution. It provides an effective means of pooling together the resources of the weaker sections of the society. By checking extravagance, it inculcates the habit of savings among the people. Such mobilized financial resources are used for constructive purposes.
- **Remove Defects of Capitalism :** This form of organization removes certain basic defects of capitalism.

For example, monopoly, the undue concentration of wealth in a few hands, profiteering, black-marketing, exploitation of workers and consumers, etc. These glaring defects of capitalism have no place under a cooperative organization. Through the process of integration, it removes middlemen.

- **Cash Trading :** The cooperative society follows the principles of “cash and carry”. As a result of this, there are no bad debts, and they can enjoy the benefit of various discounts and concessions. This also inculcates the habit of saving among the members.
- **Government Support:** A cooperative society is the people’s movement. Moreover, it promotes moral, social, and educational values. It also helps the economic enlistment of the people.

That is why the government gives many concessions and privileges to this organization.

Disadvantages or Limitations or Demerits or Defects causes of failure of Cooperative Society

Following are the demerits of cooperative societies:

- **Limitation of Capital:** In a cooperative society, there is a limitation on capital because the membership of the society is indirectly limited only up to local people. The members also generally belong to the poor class.
- **State Control:** A cooperative society is governed by the provisions of the Cooperative Society Act or Law.
  The compulsion of maintaining records, submission of audited returns, and inspections by the government are the ways through which the state exercises control over societies.
- **Inefficient Management :** The management of a cooperative society is inefficient because the working members of the managing committee may not show a keen interest in the working of society. The members also lack the managerial skill and intelligence because they generally belong to the lower class.
- **Absence of Business Secrecy :** The officers of co-operative societies are generally so much exposed to the members that it becomes difficult for them to maintain proper secrecy, and it is compulsory to advertise the annual account and annual reports in newspapers.
- **Lack of Motivation :** There is a lack of motivation for the managing committee and other staff members because there is no relation between efforts and rewards. The rate of dividends is also restricted to 15%; this discourages the public from joining a cooperative society.
- **Political Interference:** The cooperative society acts as a platform for political activities at the time of the election of the managing committee, some of the political parties get involved in it due to which the basic principle of the co-operation comes to an end. This also leads to the corruption of power and money in society and may result in quarrels and disputes amongst the members.
- **Limited Scope:** Like capitalism, the cooperative system cannot be extended to embrace the whole economic system. It has limited scope in the sense that it cannot cover the entire economic system. The principles of co-operation cannot be successfully applied to organize all types of economic activities. For example, a cooperative society is not suitable for organizing big industrial enterprises. It is also not suitable where the element of speculation plays a predominant role and where finer varieties with maximum skill are to be produced.
- **Internal Quarrel and Rivalries:** Internal quarrels and rivalries among members is another limitation of co-operative organization. As a result of these internal quarrels, rivalries, and tensions, general body members cease to take any interest in the working of the organization. All this ultimately brings the cooperative society to ruin.

- **Lack of Public Confidence:** Generally, people do not have faith and confidence in the cooperative society. Since many cooperatives have failed, the people are reluctant to become members of cooperative organizations. The general apathy and indifference of people come in the way of development of a cooperative organization.
- **Absence of Economics of Scale:** This organization is very small in size. It does not have financial, managerial, and technical resources. As a result of this, the advantages of large-scale operations like Joint Stock Company are not available to this organization.
- **Restriction of Number:** As per the prevailing legislation, cooperative society cannot be formed unless and until a minimum of 10 adult members is available. As a result of this, its growth is checked because less than 10 members cannot form a society.

Types of Cooperative Societies

Cooperative societies may be classified into different categories based on the objectives, purposes, and nature of activities performed by them. When some cooperative units are formed for the achievement of specific economic objectives, others are formed either with the purpose of social upliftment of the members or to help consumers, small farmers, or small producers.

Based on that the main types of a cooperative society are;

1] Producer Cooperative: To protect the interest of small producers, these societies are set up. The co-operative society members may be farmers, landowners, owners of the fishing operations. To increase the marketing possibilities and production efficiency, producers decide to work together or as separate entities. They perform several activities like processing, marketing & distributing their own products. This helps in lower costs and strains in each area with a mutual benefit to each producer.

2] Consumer Cooperative: These businesses are owned and governed by consumers of a particular area for their mutual benefit. Their view is to provide daily necessary commodities at an optimum price. Rather than earning a pecuniary profit, their aim is towards providing service to the consumers.

3] Credit Unions: Credit unions are generally member-owned financial cooperatives. Their principle is of people helping people. They provide credit and financial services to the members at competitive prices. Each and every depositor has the right to become a member. Members attend the annual meeting and are given rights to elect a board of directors.

4] Marketing Cooperative Society : With an aim of helping small producers in selling their products, these societies are established. The producers who wish to obtain reasonable prices for their output are the members of this society. For securing a favourable market for the products they eliminate the middlemen and improve the competitive position of its members. It collects the output of individual members. Various marketing functions like transportation, packaging, warehousing, etc are performed by the cooperative societies to sell the product at the best possible price.

5] Housing Cooperative Society: To help people with limited income to construct houses at reasonable costs, these societies are established. Their aim is to solve the housing problems of the members. A member of this society aims to procure the residential house at lower cost. They construct the houses and give the option to members to pay in installments to purchase the house. They construct flats or provide plots to members on which the members themselves can construct the houses as per their choice.

Difference between Joint Stock Company and Cooperative Society.

The main points of difference between Joint Stock Company and cooperative society are as follow;

S. No	Basis of Difference	Joint Stock Company	Cooperative Society
1.	**Legislation**	It is incorporated under the companies ordinance 1984	It is registered under the cooperative Society Act of 1925
2	**Objective**	The company is formed with the sole objective of earning profit	The cooperative society is formed for the promotion of thrift, self-help, the social and economic welfare of its members. Profit in given lest importance in it.
3	**Membership**	There should be at least seven members above the major age to form a public company and there is no maximum limit. In the case of private Ltd. The company the minimum number of members is 2 and the maximum number is 50	A cooperative society requires at least ten members above the age of 18 years to from a society.
4.	**Control**	The affairs of the company are managed and controlled by the board of directors.	The society is managed by its elected executive body-with president and secretary as its main office bearers.
5.	**Operation Area**	Due to a large organization, the operation area of purchases, sale of commodities is very wide.	Being a small organization, it operates within a limited area. it caters the economic needs of its members on a small scale
6	**Profit Distribution**	The directors declare the dividend and (after crediting a part of the profit in the reserve fund, if necessary) distribute the net profits in proportion to the share held by shareholders.	Profits are given least importance in a cooperative society. In the case of consumers' cooperative. The profit is distributed according to the transactions made by a member in a trading year.

S. No	Basis of Difference	Joint Stock Company	Cooperative Society
7.	**Share transfer**.	The share can be easily sold or purchase in stock exchanges.	A member can transfer his share to his nominee , heir, as per by-laws of the society in this office.
8.	**Capital formation**	The company can divide its ownership into shares of small denominations and can attract large capital from thousands of individuals of varying incomes.	It cannot attract large capital as the business is carried on a small scale.
9.	**Borrowing Power**.	The company can raise funds subject to its rules of memorandum and Articles of Association . it can also borrow additional funds by the sale of debentures.	It can borrow money from now- members only to a limited extent as may be prescribed by the rules and by-laws of the society.
10.	**Voting rights**	In a company the right to vote depends on the number of shares held by a shareholder.	Cooperative society works on the principle of one man one vote. A member holding more share has only one vote.
11	**Purchase of shares**.	In a company there is no restriction placed on the member for the purchase of shares by a person	A member in a society cannot hold more than one-fifth of the share capital of share exceeding Rs.one Thousand.
12	**Ownership and control**	In a public company ownership and control are separate. the board of directors controls the affairs of the company for the shareholders who are the real owners.	In a cooperative society, the members take a keen interest in the affairs of the company ownership and control is very close in the conduct of society's business. it is in the hands of the members of the society.
13	**Privileges**	A company has no special privilege of reduction in co-operating tax or exemption form stamp duty etc	A cooperative society generally enjoy certain privileges in registration fees exemption form stamp duty, provision of credit at a low rate of interest etc.
14	**Liabilitie**s	In a joint stock company, the liability of each member, is limited to the extent his value of share held by him in the at company	In a cooperative society the liability of the members is limited only when the society makes it limited.
15	**Audit**	The accounts of the company are audited every year by a qualified auditor/auditors appointed in the general meeting of the company	The accounts of the society are qualified every year by an auditor nominated in writing by the registrar coop. society.
16	**Advice**	The auditor work is confined upto audit of account. It is no part of auditors' duty to give advice either to directors or members.	The auditor's work is not confined up to the audit of the books of accounts. The auditors can give a suggestion for the proper maintenance of books. Account vouchers etc as a guide of the society.
17.	**Dissolution**	There are very few chances of the company being dissolved. it normally possesses a perpetual life.	The life of the society is normally short. It is sometimes dissolved due to lack of interest by the members

Difference between the partnership firm and joint stock company

S. No	Basis of Difference	Partnership Firm	Joint Stock Company
1.	**Meaning**	Two or More persons come together for some business activity & agree to share profit & loss is called partnership firm	It is Voluntary association of individuals for profit having capital divided into transferable shares, the ownership which is the condition of membership
2.	**Membership**	Partnership firm owned by two or more and maximum banking and other firms	In private limited company minimum of numbers of members are 2 and maximum numbers are public limited company minimum numbers are 7 and no maximum number limit
3.	**Formation**	Formation is simple and less costly. only a partnership deed is required. Registration is optional [except in]	Formation involves many complicated legal formalities. Therefore it is costly legal formalities. Therefore it is tremendously time-consuming
4.	**Liability**	Liability of partners are unlimited.	Liability of every shareholder is limited to the extent of the unpaid amount on shares held by him
5.	**Legislation**	Partnership is controlled under partnership Act, 1932	Joint stock company is controlled under the Indian companies Act, 1956
6.	**Capital**	Huge capital for partnership can not be secured	There is possibility of securing huge capital in joint stock company
7	**Transfer of shares**	Transfer of shares not possible without the concern of all the partners	Shares can be transfered freely
8	**Management**	Partnership Firm is managed by the partners themselves, in general.	In a Joint Stock Company, management will be in the hands of elected directors.
9	**Flexibility**	The objects of the Partnership firm can be changed easily.	It is not so easy in case of a Joint Stock Company.
10	**Perpetual succession**	Partnership firm has no continuous existence.	Joint Stock Company has continuous existence.
11	**Separate Legal Existence**	A partnership firm has no separate legal existence. Partnership Firm and partners are the same.	Joint Stock company has separate legal existence. It is an artificial person created by law.

UNIT -III

- BANKINIG
- MEANING
- DEFINITION
- FUNCTIONS OF RBI
- FUNCTIONS OF COMMERCIAL BANKS
- TYPES OF DEPOSITS
- ATM
- INTERNET BANKING

INTRODUCTION

Banking is an integral part of the modern economy. But the nature and functions of modern banks have evolved over a long period of time. The idea of banking evolved with the idea of money. Banking business is mainly linked to lending. Moneylender is to be found in every society-ancient or modern; advanced or backward. The ten commandments of Moses, Quoran, Manusmrity, Kautilya‘s Arthashastra all have references to moneylenders and rate of interest. Modern banks also undertake foreign exchange transactions. The priests in temples took advantage of the sanctity of the temples, collected people‘s savings and did lending business. In the middle ages, banking business was carried by the individuals. Then came partnership and today in all countries banking is carried out by joint stock companies and is regulated by the Government.

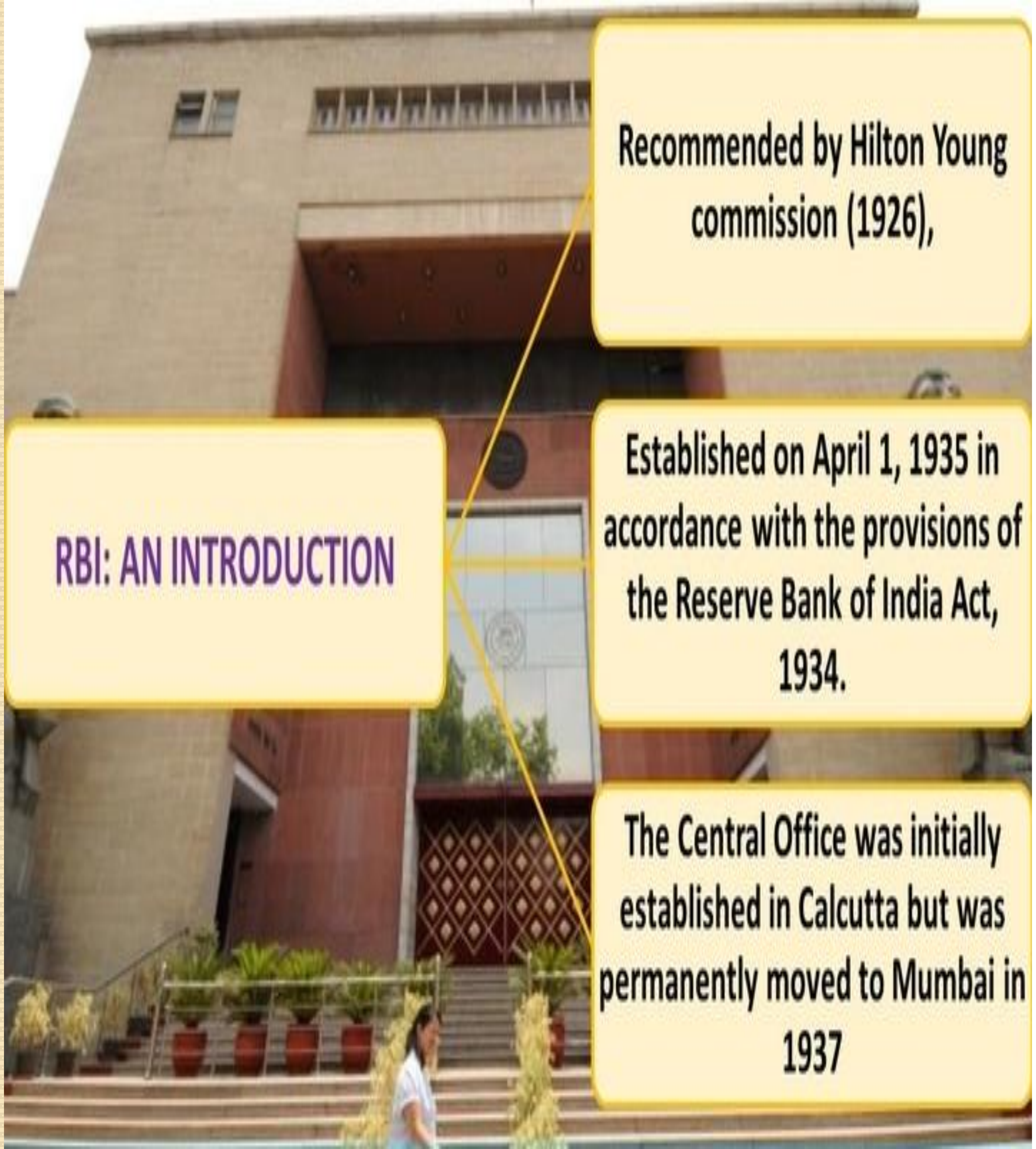
Meaning

A bank is a financial institution which deals with deposits and advances and other related services. It receives money from those who want to save in the form of deposits and it lends money to those who need it. A bank is a financial institution and a financial intermediary that accepts deposits and channels those deposits into lending activities, either directly by loaning or indirectly through capital markets. A bank is the connection between customers that have capital deficits and customers with capital surpluses.

Definition

F.E. Perry: ―The bank is an establishment which deals in money, receiving it on deposit from customers, honoring customer‘s drawings against such deposits on demand, collecting cheques for customs and lending or investing surplus deposits until they are required for repayment.‖

Walter Leaf: ―A banker is an institution or individual who is always ready to receive money on deposits to be returned against the cheques of their depositors.‖



FUNCTIONS OF RESERVE BANK OF INDIA

Roles & Functions of RBI :

Introduction India is one of the fastest-growing economies in the world, with a population over 1.2 Billion, which has become the hub for global investment. Various factors manage and influence the Indian economy, RBI is one amongst them. It is one of the oldest institutions behind the success of the Indian economy. And RBI is also known as the Banker's Bank. The RBI guards the Indian economy and it is behind the growth in FOREX, Exports, Capital Markets, and various other areas of the economy. Moreover, these areas are growing at a healthy rate. It plays a pivotal role in strengthening, developing, and diversifying the country's economic and financial structure. It is the topmost bank in the Indian Banking System.

Structure Of The Indian Banking System

1. Reserve banks of India.
2. Indian Scheduled Commercial Banks.
   - State Bank of India and its associate banks.
   - Twenty nationalized banks.
   - Regional rural banks.
   - Other scheduled commercial banks.
3. Foreign Banks
4. Non-scheduled banks.
5. Co-operative banks.

The RBI is India's Central banking institution. It manages the monetary policy of the Indian rupee. It was established on 1st April 1935, in line with the provisions of the Reserve Bank of India Act, 1934. It was initially privately owned and managed but since nationalization in 1949, the Reserve Bank is fully owned by the Government of India.

The RBI has four zonal offices at:

1. Chennai
2. 2. Delhi
3. 3. Kolkata
4. 4. Mumbai

It has 20 regional offices and 11 Sub-offices

Preamble Of The RBI The Preamble of the Reserve Bank of India describes the basic Functions of Reserve Bank of India as: "to regulate the issue of Banknotes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage; to have a modern monetary policy framework to meet the challenge of an increasingly complex economy, to maintain price stability while keeping in mind the objective of growth."

Organizational Structure of RBI:

- The RBI's affairs are commanded by a central board of directors. This board is appointed by the Government of India for a time span of 4 years.
- Full-time officials: There are four Deputy Governors. And the current Governor of RBI is Mr. Shaktikanta Das.
- The 4 Deputy Governors are Mr. B.P. Kanungo, N. S. Vishwanathan, M. K. Jain.
- Nominated by Government: There are 10 Directors from different fields and 2 government Officials

Functions of RBI in Indian Banking System

1. **Monetary Authority**

   It chooses the amount of money required to be delivered to the economy in order to improve the exchange rate, sustaining a good equilibrium of expense, achieve financial stability, regulate inflation, strengthen and support the basic banking system.

2. **The issuer of the currency**

   It has the only authority in India to produce currency. It also takes action to regulate the passage of fake money.

3. **The issuer of Banking Permit**:

   According to Sec 22 of the Banking Regulation Act, a bank is not authorized to start its functions devoid of attaining a license from the RBI.

4. **Banker's to the Government:**

   It acts as financier both to the state and the central governments. It delivers short-term credit. It governs all new matters of government lends, maintaining the government debt unsettled, and taking care of the market for the government's securities. It counsels the government on banking and monetary subjects.

5. Banker's Bank

It is the bank of all banks in the country as it delivers the loan to bankers/banks, rediscounts the invoice of banks and receives the payment of banks.

6. Financier of last resort

All the other banks can borrow from the Reserve Bank of India by keeping qualified securities as a deposit at the time of crisis or need.

7. Banker and debt controller of government

It retains credits of Governments devoid of charging any interest, accepts and makes the compensation, carry exchange payments, and aid to float new loans and control public debt, it also acts as a guide to Government

8. Money supply and Regulator of Credit

To manage demand and supply of cash in Economy by Open Market Actions, Credit Ceiling, and much more. It has to meet the credit necessities of the remaining banking system. It requires sustaining price stability and an elevated rate of economic growth.

9. Act as clearinghouse

In support of the settlement of banking dealings, RBI governs 14 clearing houses. It enables the exchange of devices and processing of fee instructions.

10. Controller of foreign exchange

RBI acts as a guardian of FOREX. It oversees and implements the facility of the Foreign Exchange Management Act (FEMA), 1999. It buys and retails foreign currency to conserve the exchange rate of Indian rupee v/s overseas currencies.

11. Regulator of Economy

RBI manages the money supply in the system, tracks the different vital indicators such as Inflation, GDP, etc.

12. Managing Government securities

It directs investments in organizations when they invest indicated minimal amounts of their total liabilities/assets in the government securities.

13. Regulator and Supervisor of Expense and Settlement structures

The Payment and Clearing methods/structures Act of 2007 (PSS Act) provides the Reserve Bank of India oversight power for the expense and clearing systems in the country. It emphasizes on the development and working of safe, protected, and efficient payment and reimbursement mechanisms.

14. Developmental Role

This part includes the development of the standard of the banking system in India and guaranteeing that credit is obtainable to the productive areas of the economy. It delivers a wide range of publicity functions to upkeep national objectives. It similarly includes establishing organizations designed to shape the country's financial set-up. It also supports in expanding access to inexpensive financial services and endorsing financial learning and literacy

15. Publisher of economic data and additional data

Reserve Bank of India preserves and provides all crucial banking and additional economic data, articulating and critically assessing the economic guidelines in India. It collects, combines, and publishes information regularly.

16. Exchange manager and regulator

Reserve Bank of India represents India as an associate of the (IFM) International Monetary Fund. The majority of the commercial banks are certified traders of the RBI

17. Banking Ombudsman Scheme

Reserve Bank of India presented the Banking Ombudsman Scheme in the year 1995. In this scheme, the accusers can file their objections in any form, comprising online and can similarly file a petition to the RBI against the grants and the other verdicts of the Banking Ombudsman

18. Standards Board of India and Banking Codes

To calculate the presentation of banks in contrast to Codes and standards centered on acknowledged global practices the Reserve Bank of India frames the Standards Board of India (BCSBI) and Banking Codes.

19. Impartial Practices Codes For Investors

RBI framed the Fair Practices Code for Investors which was conveyed to banks to protect the interest of the debtors. All the banks are expected to trail the codes formulated by RBI.

20.Miscellaneous Functions

Reserve Bank of India gathers, collates, and issues all monetary and banking information frequently in itsweekly statements in the RBI Notice (monthly) and in the Report on Cash and Finance.

21. **The endowment of Industrial Finance**

Fast industrial growth is vital to the growth of the economy. Providing satisfactory and timely acknowledgment to small, medium, and large businesses are very significant. The RBI has a key role in setting up distinct financial establishments such as ICICI, IDBI Ltd, and EXIM BANK, etc.

22.Provisions of Training

It has always strived to provide crucial training to the workforce of the banking trade. The RBI has framed the bankers' training institutions at several places. BSC (Bankers Staff College), NIBM (National Institute of Bank Management), and CAB (College of Agriculture Banking) are few to mention.

RBI's Role in Economic Development

The Reserve Bank of India has a crucial role in the Indian economy as it makes or breaks the economy. Following mentioned are the regions where RBI plays a significant role

1. Development of the banking system
2. Development of financial institutions
3. Development of backward areas
4. Bringing Economic stability
5. Facilitating Economic growth
6. Preparing Proper interest rate structure

RBI's Role in Promoting Schemes And Policies

Announcing schemes and policies which profit the community as well as the government is one of the main functions of RBI. Below stated are the segments RBI selects for economic development

1. Promotion of commercial banking
2. Promotion of cooperative banking
3. Promotion of industrial finance
4. Promotion of export finance
5. Promotion of credit guarantees
6. Promotion of differential rate of interest scheme
7. Promotion of credit to priority sections including rural & agricultural sector
8. Promotion of credit to weaker sections

Supervisory Functions of RBI

1. Providing authorization to banks & managing the number of new branches
2. Doing a periodical inspection of banks
3. Monitoring Non-Bank Financial Organizations: The Non- Bank Financial Establishments are not inclined by the working of monetary policy. RBI has a right to give orders to the NBFIs regarding their functioning.
4. Execution of the Deposit Insurance Scheme: To guard the credits of small depositors, RBI works to devise the Deposit Insurance Scheme in the situation of a bank failure. (For bank credits below 1 Lakh.)

Prohibitory Functions of RBI

1. It cannot provide any direct monetary support to any trade, industry, or business
2. It cannot purchase its own share
3. It cannot buy shares of any industrial and commercial undertaking
4. It cannot purchase any immovable property 5. It cannot give loans on the security of shares and property

RBI Functions - General Terms Monetary policy denotes the use of monitoring tools under the regulator of the RBI in order to control the accessibility, cost, and use of cash and credit.

- **Cash Reserve Ratio (CRR)**

RR is decided by the RBI and the percentage changes every year. Banks need to hold a certain amount of their credits in the form of cash with the Reserve Bank of India. RBI follows CRR either to drain additional liquidity from the economy or to discharge additional reserves required for the progression of the economy.

- **Statutory Liquidity Ratio (SLR)**

It is the sum that commercial banks are obligatory to maintain in the form of gold or government permitted securities before issuing credit to the clienteles.

- **Repo Rate**

It is the rate at which the Reserve Bank of India credits out cash to commercial banks is called Repo Rate. Every time banks face restraint of resources they can take from the RBI, against safeties. If the RBI surges the Repo Rate, deriving becomes pretty costly for banks and vice versa. As a device to regulate inflation, RBI surges the Repo Rate, making it more costly for the banks to take from the RBI with a vision to limit the availability of cash. Similarly, the RBI will do the exact reverse in a deflationary situation.

- **Reverse Repo Rate**

It is a rate at which the Reserve Bank of India is prepared to borrow from the commercial banks is entitled to reverse repo rate.

Functions of Commercial Banks

- Commercial Banks
  - Primary Functions
  - Agency Functions
  - General Functions

MAIN FUNCTIONS OF COMMERCIAL BANKS

The main functions of commercial banks are accepting deposits from the public and advancing them loans. However, besides these functions there are many other functions which these banks perform. All these functions can be divided under the following heads:

1. Accepting deposits
2. Giving loans
3. Overdraft
4. Discounting of Bills of Exchange
5. Investment of Funds
6. Agency Functions
7. Miscellaneous Functions

1. Accepting Deposits

The most important function of commercial banks is to accept deposits from the public. Various sections of society, according to their needs and economic condition, deposit their savings with the banks. For example, fixed and low income group people deposit their savings in small amounts from the points of view of security, income and saving promotion. On the other hand, traders and businessmen deposit their savings in the banks for the convenience of payment. Therefore, keeping the needs and interests of various sections of society, banks formulate various deposit schemes. Generally, there are three types of deposits which are as follows:

(i) Current Deposits

The depositors of such deposits can withdraw and deposit money whenever they desire. Since banks have to keep the deposited amount of such accounts in cash always, they carry either no interest or very low rate of interest. These deposits are called as Demand Deposits because these can be demanded or withdrawn by the depositors at any time they want. Such deposit accounts are highly useful for traders and big business firms because they have to make payments and accept payments many times in a day

(ii) Fixed Deposits

These are the deposits which are deposited for a definite period of time. This period is generally not less than one year and, therefore, these are called as long term deposits. These deposits cannot be withdrawn before the expiry of the stipulated time and, therefore, these are also called as time deposits..

(iii) Saving Deposits

In such deposits, money up to a certain limit can be deposited and withdrawn once or twice in a week. On such deposits, the rate of interest is very less. As is evident from the name of such deposits their main objective is to mobilize small savings in the form of deposits. These deposits are generally done by salaried people and the people who have fixed and less income

2. Giving Loans

The second important function of commercial banks is to advance loans to its customers. Banks charge interest from the borrowers and this is the main source of their income. Banks advance loans not only on the basis of the deposits of the public rather they also advance loans on the basis of depositing the money in the accounts of borrowers. In other words, they create loans out of deposits and deposits out of loans. This is called as credit creation by commercial banks..

(i) Cash Credit

In this type of credit scheme, banks advance loans to its customers on the basis of bonds, inventories and other approved securities. Under this scheme, banks enter into an agreement with its customers to which money can be withdrawn many times during a year. Under this set up banks open accounts of their customers and deposit the loan money. With this type of loan, credit is created.

(ii) Demand loans

These are such loans that can be recalled on demand by the banks. The entire loan amount is paid in lump sum by crediting it to the loan account of the borrower, and thus entire loan becomes chargeable to interest with immediate effect.

(iii) Short-term loan

These loans may be given as personal loans, loans to finance working capital or as priority sector advances. These are made against some security and entire loan amount is transferred to the loan account of the borrower

3. Over-Draft

Banks advance loans to its customer's up to a certain amount through over-drafts, if there are no deposits in the current account. For this banks demand a security from the customers and charge very high rate of interest.

4. Discounting of Bills of Exchange

This is the most prevalent and important method of advancing loans to the traders for short-term purposes. Under this system, banks advance loans to the traders and business firms by discounting their bills. In this way, businessmen get loans on the basis of their bills of exchange before the time of their maturity

5. Investment of Funds

The banks invest their surplus funds in three types of securities—Government securities, other approved securities and other securities. Government securities include both, central and state governments, such as treasury bills, national savings certificate etc. Other securities include securities of state associated bodies like electricity boards, housing boards, debentures of Land Development Banks units of UTI, shares of Regional Rural banks etc.

6. Agency Functions

Banks function in the form of agents and representatives of their customers. Customers give their consent for performing such functions. The important functions of these types are as follows:

(i) Banks collect cheques, drafts, bills of exchange and dividends of the shares for their customers.

(ii) (ii) Banks make payment for their clients and at times accept the bills of exchange: of their customers for which payment is made at the fixed time.

7. Miscellaneous Functions

Besides the functions mentioned above, banks perform many other functions of general utility which are as follows:

(i) Banks make arrangement of lockers for the safe custody of valuable assets of their customers such as gold, silver, legal documents etc.

(ii) Banks give reference for their customers.

(iii) Banks collect necessary and useful statistics relating to trade and industry

(iv) For facilitating foreign trade, banks undertake to sell and purchase foreign exchange.

(v) Banks advise their clients relating to investment decisions as specialist

(vi) Bank does the under-writing of shares and debentures also.

(vii) Banks issue letters of credit.

(viii) During natural calamities, banks are highly useful in mobilizing funds and donations.

(ix) Banks provide loans for consumer durables like Car, Air-conditioner, and Fridge etc.

AGENCY SERVICES OF COMMERCIAL BANKS

Agency Services or Agency functions of commercial banks are elaborated in detail below

1.Collection of Cheques, Dividends, Interests etc.

Collecting cheques, drafts, bill of exchange, dividends, interests etc. on behalf of its customers and credit the amount in their account is one of the most important agency services rendered by the banks. Banker accepts standing instructions from the customers and arranges to collect dividend, interest, pension, salaries, bills etc. on behalf of his customers.

2. Payment of Subscription, Rent, Insurance Premium etc.

Banks undertake the payment of subscriptions, rent, insurance premium etc. on behalf of the customers and debit the account with the amount. It accepts the standing instructions of the customer and arranges for. The payment of such expenses on their behalf. It charges a small amount by way of commission for these services.

3. Conduct of Stock Exchange Transactions

Banks purchase and sell various securities such as shares, debentures, bonds etc. of joint stock companies both private and Government on behalf of their customers.

4. Acting as Executor, Trustees, Attorneys etc.

Banks act as executors of will, trustees, attorneys and administrators. As an executor it preserves the ―Wills‖ of the customers and executes them after their death. As a trustee, it takes care of the funds of the customers. As an attorney, it signs transfer forms and documents on behalf of the customer.

5. Preparation of Income Tax Returns

Banks prepare income tax returns for their customers through their tax service departments.

6. Conducting Foreign Exchange Transactions

Commercial banks purchase and sell foreign exchange for their customers.

7. Banker acts as an agent to the customer

When a customer deposits cheques, drafts, bills or any other promissory notes, the banker collects them and on realization credits the account of the customer. For this activity, the banker is given commission. Banks also act as a correspondent, representative of their customers. Some banks may even get the travelers‘ tickets, passport etc. for their customers.


Various types of bank deposits
BANK
Savings deposit
Recurring deposit
Current deposit
Fixed deposit


DIFFERENT TYPES OF
DEPOSIT ACCOUNT

Types of Accounts

A financial account between a bank and a customer is known as a bank account. Deposit accounts are those accounts which are opened with the purpose of holding credit balances whereas loan accounts are opened with the purpose of holding debit balances. Accounts are categorized by the function rather than nature of the balance they hold, e.g. savings account.

Current Account

An account which can be operated any number of times on a working day without any restriction on the number and amount of withdrawals is known as a current account. As the banker is under a responsibility to repay these deposits on demand, they are called deemed deposits. Current accounts suit the requirements of joint stock companies, public authorities, corporations, etc. whose banking transactions happen to be numerous per day. Cheque facility is available for the investor. A current account carries certain privileges which are not available to other account holder

1. Third party cheques and cheques with endorments may be deposited in the current account for collection and credit.
2. Overdraft facilities are given in case of current accounts only.
3. The loans allowed by banks to their customer are not given in the form of cash but via the current accounts. Thus current accounts earn interest on all types of advances allowed by the banker.

Savings Account

The main purpose of savings accounts is encouraging savings of households. The main features of savings account are:

1. Restriction on withdrawals: In the interest of the objective of savings bank accounts, the banks levy certain limitations on the right of depositor to withdraw money within a given period. The number of withdrawals over a period of 6 months is limited to 50. Minimum amount to withdraw by a withdrawal form is ` 1 and that from a cheque is ` 5.
2. Restriction on deposits: The banks do not accept cheques or other official documents payable to a third party for the purpose of deposit in the savings account.
3. Minimum balance: There is a minimum balance that needs to be maintained in the SB accounts as prescribed by the banks and specific charges are levied if the minimum balance is not maintained.
4. Payment of interest: The rate of interest payable by the banks on deposits maintained in savings accounts is prescribed by the RBI. Interest is computed at quarterly or longer rests of period.
5. Cheques: Cheque facility is provided to the depositor only when they keep a minimum balance with the bank according to its rules. Only cheques payable to the customer having SB accounts are collected.

Term Deposits (Time Deposits)

Time deposits refer to those deposits where the money is deposited within a fixed tenor and cannot be withdrawn before the maturity time. Alternatively known as term deposits, all-time deposits are eligible for interest payment.

A widely used time deposit or term deposit is ‘Fixed deposit’, where the interest rate is dependent upon the tenor and amount of deposits. The interest rate is generally higher for time deposits with long tenor. Considering its nature, there are 3 types of Bank deposits under times deposits as follows:

Fixed Deposits(FD)

- In these Bank deposits, the bank accepts deposits ranging from 7 days to 10 years maximum.
- A Fixed rate of interest is paid at regular intervals until fixed terms of maturity.
- The Rate of interest on Fixed Deposits (FD) depends upon the periods of deposits.
- The longer the tenor of the deposit is, the highest rate of interest is offered.
- The pre-withdrawal facility is available with pre-determined penalties.
- NBFCs like Bajaj Finance offer a higher rate of interest than banks. You can also avail additional benefits if you are availing a Fixed Deposit for senior citizen

Recurring Deposits(RD)

- In recurring deposits, a customer has to deposit a fixed amount with decided installments at regular time intervals
- Each installment may vary from Rs. 5/- to Rs. 500/- or more per month.
- The repayment of the principal amount and accumulated interest is made at the end of the term.
- Salaried or regular income generating persons is the main target of this kind of deposits.
- A recurring deposit can usually be opened for any period of time from 6 months to 120 months.
- **Demand Deposits**

When the amount deposited can be withdrawn by the customers/depositors without any prior notice to the bank, it is called demand deposits. Therefore, the account holder can easily withdraw the funds from these accounts anytime by issuing a cheque, using ATM or withdrawal form from the bank branches.

The money as demand deposits is considered as the liquid money and therefore can be encashed anytime from anywhere. Apart from this such deposits can be transferred from one person to another via cheques or electronic transfers. There are two types of demand deposits exist which are as follows:

ATM

AUTOMATED TELLER MACHINE

AUTOMATED TELLER MACHINE (ATM)

An automated teller machine or automatic teller machine (ATM) is computerized telecommunications device that provides a financial institution's customers a secure method of performing financial transactions in a public space without a human clerk or bank teller. An earlier version of an ATM was developed in 1939 in York, by the than city bank of New York, but removed only after 6 months of installation due to the lack of customer acceptance. This status quo was maintained for nearly 25 years till Barclays bank of UK installed an ATM in 1967 in London. ATMs first came into wide use during the early eighties to mid-eighties in the west and picked up later in the 1990s in India. ATMs can be interior (i.e., located in the branch premises) or exterior (located anywhere outside the branch premises, e.g. at railway stations, airports, shopping malls, etc.,) banks need not obtain permission of the RBI for installation of ATMs at branches and extension counters for which they hold licenses issued by the reserve bank. They can also install offsite ATMs without RBI approval. However, they should obtain a licence from the regional office of DBOD (department of banking operations and development) of RBI, before operational zing the ATM, so as to be in conformity with section 23 of the banking regulation act.

How to Operate ATM Machine

The Automated teller machine is very simple to operate. The step by step algorithm for ATM operation is discussed below.

- ✓ First, need to visit the nearby ATM center & place your ATM card within the machine.
- ✓ Select your language which appears on the ATM monitor like your local language, Hindi, and English.
- ✓ Select the transaction type from different transactions like money transfer, withdrawal, deposit, etc.
- ✓ Choose the account type like savings or current.
- ✓ Enter your 4-digit ATM pin number and enter the required amount to withdraw.
- ✓ Gather the money and collect your receipt
- ✓ For further transactions, you can perform another also by selecting the option.

Features

The features of the automated teller machine include the following.

- Transfer funds between linked bank accounts
- Receive account balance
- Prints recent transactions list
- Change your pin
- Deposit your cash
- Prepaid mobile recharge
- Bill payments
- Cash withdrawal
- Perform a range of features in your foreign language.

Advantages

The **advantages of an automated teller machine** include the following.

- Automated teller machines are easily arranged in different areas so that every bank customer can visit the machine to execute any transaction.
- It is used to withdraw the money in a fraction of minutes so that time can be saved.
- To get an ATM card at present, the process is hassle-free because no documentation work is required. All the banks are providing an ATM card at the time of opening an account.
- ATM machines provide the transaction details to know the balance of the account holder
- Utility payments can be done by using an ATM card
- ATMs provide 24X7 service
- ATM is much secured because it can be used only when the person knows the ATM password.
- ATMs will reduce the workload for the bank employees.
- It reduces the cash-carrying because anyone can withdraw the money at any ATM center so it works like a cashpoint
- The ATM provides 24 hours service
- The ATM provides privacy in banking communications

- The ATMs reduce the workload banks staff
- The ATM may give customer new currency notes
- The ATMs are convenient for banks customers
- The ATM is very beneficial for travelers
- The ATM provides services without any error

Disadvantages

The **disadvantages of automated teller machines** include the following.

- IT charges some amount once free transactions exceed
- Once ATM card damages then cash withdraw is not possible
- Possibility of cash robbery from ATMs
- ATM pin can be easily hacked by criminals by operating an ATM
- The risk of theft is high while going to ATMs

Automated Teller Machine Working Principle

The automated teller machine is simply a data terminal with two inputs and four output devices. These devices are interfaced with the processor. The processor is the heart of the ATM. All the ATMs working around the world are based on a centralized database system. The ATM has to connect and communicate with the host processor (server).

The host processor is communicating with the internet service provider (ISP). It is the gateway through all the ATM networks available to the cardholder. When a cardholder wants to do an ATM transaction, the user provides necessary information through a card reader and keypad. The ATM forwards this information to the host processor. The host processor enters the transaction request to the cardholder bank.

If the cardholder requests the cash, the host processor takes the cash from the cardholder's account. Once the funds are transferred from the customer account to the host processor bank account, the processor sends the approval code to the ATM and the authorized machine to dispense the cash. This is the way to get the amount on ATMs. The ATM network is fully based on a centralized database environment. This will make life easier and secure cash.

INTERNET BANKING

E-Banking

1.Electronic banking has many names like e banking, virtual banking, online banking, or internet banking. It is simply the use of electronic and telecommunications network for delivering various banking products and services. Through e-banking, a customer can access his account and conduct many transactions using his computer or mobile phone.

2. **Informational Websites** – These websites offer general information about the bank and its products and services to customers.

3.Transactional Websites – These websites allow customers to conduct transactions on the bank's website. Further, these transactions can range from a simple retail account balance inquiry to a large business-to-business funds transfer. The following table lists some common retail and wholesale e-banking services offered by banks and financial institutions:

Common E-Banking Services

Retail Services	Wholesale Services
Account management	Account management
Bill payment	Cash management
New account opening	Small business loan applications, approvals, or advances
Consumer wire transfers	Commercial wire transfers
Investment / Brokerage services	Business-to-business payments
Loan application and approval	Employee benefits / pension administration
Account aggregation	

Importance of e-banking

We will look at the importance of electronic banking for banks, individual customers, and businesses separately.

Banks

1.Lesser transaction costs – electronic transactions are the cheapest modes of transaction

2.A reduced margin for human error – since the information is relayed electronically, there is no room for human error

3.Lesser paperwork – digital records reduce paperwork and make the process easier to handle. Also, it is environment-friendly.

4.Reduced fixed costs – A lesser need for branches which translates into a lower fixed cost.

5.More loyal customers – since e-banking services are customer-friendly, banks experience higher loyalty from its customers

Customers

- Convenience – a customer can access his account and transact from anywhere 24x7x365.
- Lower cost per transaction – since the customer does not have to visit the branch for every transaction, it saves him both time and money.
- No geographical barriers – In traditional banking systems, geographical distances could hamper certain banking transactions. However, with e-banking, geographical barriers are reduced.

Businesses

- ✓ Account reviews – Business owners and designated staff members can access the accounts quickly using an online banking interface. This allows them to review the account activity and also ensure the smooth functioning of the account.
- ✓ Better productivity – Electronic banking improves productivity. It allows the automation of regular monthly payments and a host of other features to enhance the productivity of the business.
- ✓ Lower costs – Usually, costs in banking relationships are based on the resources utilized. If a certain business requires more assistance with wire transfers, deposits, etc., then the bank charges it higher fees. With online banking, these expenses are minimized.
- ✓ Lesser errors – Electronic banking helps reduce errors in regular banking transactions. Bad handwriting, mistaken information, etc. can cause errors which can prove costly. Also, easy review of the account activity enhances the accuracy of financial transactions.
- ✓ Reduced fraud – Electronic banking provides a digital footprint for all employees who have the right to modify banking activities. Therefore, the business has better visibility into its transactions making it difficult for any fraudsters to play mischief.

Popular services under e-banking in India

- ATMs (*Automated Teller Machines*)
- Telephone Banking
- Electronic Clearing Cards
- Smart Cards
- EFT (*Electronic Funds Transfer*) System
- ECS (*Electronic Clearing Services*)
- Mobile Banking
- Internet Banking
- Telebanking
- Door-step Banking