

FORMAN CHRISTIAN COLLEGE, LAHORE
(A CHARTERED UNIVERSITY)

Class I.COM-II

Subject: Principles of Banking

Updated Notes

Book and Past Papers



Estd 1864

FORMAN CHRISTIAN COLLEGE, LAHORE
(A Chartered University)

DEPARTMENT OF COMMERCE

SUBJECT: PRINCIPLES OF BANKING

CLASS I.COM-II

CHAPTER NO. 1 BEGINNING AND EVOLUTION OF BANK

Qno.01 How was the word “Bank / banking” derived?

Ans. Different banking expert have different opinion about the derivation of the word bank. According to French experts, it has been derived from the French word **Banque**. Whereas Germans say that the word Bank has been derived from the German word **Back**. Whereas Italian experts argue that it has been derived from the Italian words **Bancus** or **Banco**.

Qno.02 Define insolvent / bankrupt.

Ans. The early bankers transacted their money lending activities on benches in the market place. The banking in its initial stages was confined to deal in money transactions only. If any banker was not in the position to pay his debts, then the creditors break his bench and he was considered as insolvent. Now a days, if any bank faces this situation, it is called bankrupt.

Qno.03 When history of Banking started?

Ans. Banking has been present in different forms right from beginning of human life. About three thousand years ago there was a nation called “Sumerian” who started giving loans to the people. These loans were repayable in form of cash or commodities. Sumerian used lumps of gold and silver as money.

Qno.04 When banking started in Iraq?

Ans. During two thousand years B.C., the tradition of banking was developed in Iraq. The king Hammurabi (1728-1686 B.C) the founder of Babylonian Empire laid down the rules of banking operations. Later (during 5th century B.C) the banking business came to an end in Iraq because the Jews have been put to exile and most of them went to Greece.

Qno.05 When the banking started in Greece?

Ans. Banking reached Greece from Iraq and made great progress in the 4th century B.C. in the old ages, there was a tradition in Greece of giving loans on interest basis and here temples served as earliest banks.

Qno.06 When the banking started in Rome?

Ans. The business banking was carried on in Rome in 3rd century B.C., the trade and banking business made a rapid growth in Rome after the settlement of Jewish traders.

Qno.07 When the banking started in Italy?

Ans. In the middle of 12th century, the banking sector started to grow in Italy. In the city of Venice, first formal bank was established in 1157 named “Bank of Venice”.

Qno.08 When the banking started in Europe?

Ans. In Europe, the banks comprising the functions of accepting deposits and transferring money were formed or established at different times named German Public bank 1401, Bank of Barcelona 1401 etc.

Qno.09 When banking started in Sub-Continent?

Ans. It is very much evident that during 2000 B.C., there was a developed banking system in the sub-continent which was mostly managed by the “**Sahukars**” and “**Money Lenders**”

Qno.10 When the banking started in Pakistan?

Ans. At the time of partition banking sector of Pakistan was in miserable condition but with the passage of time it grew rapidly. State Bank of Pakistan was established on **First July 1948** inaugurated by Quaid-e-Azam Muhammad Ali Jinnah. National Bank of Pakistan was established on **8th November 1949**.

Qno.11 Which people considered important role for the evolution of banking?

Ans The modern banking is not the result of an accident rather it is initiated because of man’s increasing demands and needs. Following four parties or sectors of society played a vital role for the establishment of bank. They are considered “Ancestors” of banks due to their contributions in the development of banking system. Kings, Merchants, Money Lenders / Seths, Gold Smiths

Qno.12 What was the role of Kings in Evolution of banking system?

Ans. The role of kings had been vital in the introduction and development of banking system. The king framed rules and made laws of lending or borrowing money for the purpose of business transaction. These laws facilitated both lender and borrower in their dealings at the same time.

Qno.13 What was the role of Merchants in Evolution of banking system?

Ans. In the past (12th and 14th century), the merchants were considered as very rich and respectable people due to good repute of dealing money. Therefore, general public started and continued financial transaction with them also beginning the credit instrument (Bank Draft, Bill of Exchange etc.) in this time period.

Qno.14 What was the role of Money Lender / Seth in Evolution of banking system?

Ans. Money Lenders / Seth were rich people who started to lend their surplus money to needy people on interest basis. Money lenders were used to call as "SETH" during the reign of Mugals.

Qno.15 What was the role of Gold Smiths in Evolution of banking system?

Ans. Due to the confidence in the integrity and solvency of goldsmiths the people considered them as honest and trust worthy. They were the people who nurtured the banking system started by merchants. Cheques were also introduced in this time period for written evidence in favor of depositors to get their money and other valuables back.

Qno.16 Define Banking under Company Ordinance 1962. / Define Bank.

OR

Define Bank Under Companies Act 2017

Ans. Banking means accepting for the purpose of lending and investing the deposits money from the general public repayable on demand or withdrawable by cheque, draft, order or otherwise.

OR

In Pakistan the banks were established under the company's act 1913 but government got the authority in this regard after the process of Nationalization in 1974 and now banks are formed under the company's Act 2017.

Qno.17 Define Formation of Bank by Royal Order.

Ans. In different countries where Royal system is prevailing, the banks are formed by the order of king. For this purpose, a special order is issued by the king, which includes all the legal provisions required for the formation of bank. E.g., Chartered Bank of England, Royal Bank of Scotland.

Qno.18 Define Formation of Bank by Special Ordinance.

Ans. Under this method, the bank is formed by the special ordinance of the president of a country to meet the economic and financial requirements of a different sectors. However, this special ordinance of forming bank should be endorsed by the national assembly or Parliament of the country. E.g., State Bank of Pakistan, National Bank of Pakistan, Zarai Taraqati bank limited etc.

Qno.19 Define Formation of Bank by Cooperative Society Act?

Ans. In our country, these banks are established under the cooperative societies act 1925. They may be registered with the registrar of cooperative society at provincial head quarter. The first cooperative bank was established in 1851 in Germany. In Pakistan, a Federal Cooperative Bank was set up in 1976.

Qno.20 Define Formation of Bank by Companies Act 2017.

Ans. In Pakistan, the banks were established under the company's act 1913 but government got the authority in this regard after the process of nationalization in 1974. And now banks are formed under company's act 2017.

Qno.21 What are different stages of Formation of Bank?

Ans. There are three different stages given below

1. Promotion Stage
2. Incorporation Stage
3. Certificate of Commencement

Qno.22 Define Promotion Stage.

Ans. It is a stage when concerned people (Promoters) take the following steps: Idea, Preliminary Investigation, Estimation of Preliminary Expenses, Name of Bank, Financial Resources, Preparation of Essential documents, Sanction of Capital Issue.

Qno.23 Define Incorporation Stage.

Ans. For registration or incorporation of a bank, promoters have to perform the following formalities: Filing Documents, MOA, A.O.A, Prospectus, List of Directors, Written consent of directors, Declaration of qualifying shares.

Qno.24 Define Certificate of Commencement.

Ans. After getting certificate of incorporation, every public bank has to obtain the certificate of commencement to start its business activities, which requires the fulfilment of following conditions: arrangement of capital, issuance of prospectus, minimum subscription, allotment of shares.

Qno.25 Define Memorandum of Association.

Ans. It is a document, which determination the rights, powers and objects of bank. It is the most important legal document, which must be submitted to the registrar before the establishment of bank.
1. Name Clause, 2. Object Clause, 3. Head Office Clause, 4. Capital Clause, 5. Liability Clause
6. Association Clause

Qno.26 Define Article of Association.

Ans. It is the second important document of the company, which includes the rules and regulations necessary to run the company and to govern the internal organization.
1. Capital and division into shares 2. Different types of shares 3. Value of shares
4. Method for the transfer of shares 5. Conversion of shares. 6. Appointment of Directors

Qno.27 Define Prospectus.

Ans. The document is advertised for raising the capital. In this regard the general public is invited to purchase the shares. An attested copy of prospectus should be submitted to the registrar's office. It also contains the date of issue. 1. All points of Memorandum 2. Name Address of Bank 3. Name and Address of Directors 4. Name and Address of Auditors 5. Conditions on which the shares to be issued 6. Voting rights of shareholders.

Qno.28 What is meant by Statement In Lieu of Prospectus?

Ans. If the bank is not in a position to submit prospectus at the time of registration, then another statement containing all necessary information is sent to the registrar's office. This statement is known as "Statement In Lieu of Prospectus".

Qno.29 Define Chartered Bank.

Ans. These are the banks which are established by the order of King (Royal Order). They perform the same functions like other commercial banks or function laid down in their charter. E.g., Chartered Bank of England etc.

Qno.30 Define Statutory Bank / Special Order.

Ans. These are the banks formed by the order of president or by the special act of parliament. The main object of these bank is the welfare of public and profit is not so important. E.g., IDBL, ZTBL etc.

Qno.31 Define Schedule Bank.

Ans. These are the banks, which are registered in the list of central bank. They are bound to follow the instructions and policies of central bank. E.g., HBL, MCB etc.

Qno.32 Define Non-Schedule Bank.

Ans. These are the banks, which are not registered in the list of central bank. They are not bound to follow the instructions and policies of the central bank. E.g., Sindh Provincial Cooperative Bank, Balochistan Provincial Cooperative Bank etc.

Qno.33 Define Central Bank / State Bank of Pakistan.

Ans. Every civilized country has its own central bank. Its main function is to manage the monetary system of the country internally as well as externally. The primary objective is not to earn profit but provides guidelines to other banks which improves banking system. It has sole authority of note issue. E.g., State Bank of Pakistan.

Qno.34 Define Commercial Banks.

Ans. These are profit oriented institutions. They accept deposits and provide short term, medium term, and long-term loans for various sectors. These are called heart of financial structure. They also perform the agency and utility services to facilitate the customers in financial matters.

Qno.35 Define Government Banks.

Ans. These are the banks which are owned by central or provincial government of any country. The

government is responsible to frame and control the policies of these banks and has sole right to receive all benefits and profits. E.g., National Bank of Pakistan, First Woman Bank Limited etc.

Qno.36 Define Private Banks.

Ans. These are the banks, which are owned by the people of any country. The people (shareholder) elect the directors to frame and control the policies and they also share the profits or losses of these banks. Bank Alfalah Ltd. And HBL etc.

Qno.37 Define Home Banks.

Ans. These banks are owned and controlled by the government or the people of that country in which they provided the banking services. E.g., National Bank of Pakistan and Habib Bank Limited.

Qno.38 Define Foreign Bank.

Ans. These banks are not owned and controlled by the government or people of that country in which they are providing bank services. E.g., City Bank, Standard Chartered bank of England etc.

Qno.39 Define Agricultural Development Banks.

Ans. These banks are formed to develop the agriculture sector of the country. They provide the loans to purchase modern machinery, fertilizers and seeds etc. Zarai Taraqati Bank Limited.

Qno.40 Define Industrial Development Banks.

Ans. These banks are established to promote the industrial sector of the country. They provide loans to setup new industries, extensions of existing industries and rehabilitation of sick units. Industrial Development Bank of Pakistan Limited.

Qno.41 Define Regional Development Banks.

Ans. These banks are established to develop a particular region of the world. They help to improve the living conditions and to obtain modern technology for the development. E.g., Asian Development Bank.

Qno.42 Define International Development Banks.

Ans. These are the banks, which provide assistance for the progress and economic development of all the countries. They work for the development of industry, agricultural and social welfare of all countries. E.g., International Bank of Reconstruction and Development.

Qno.43 Define Savings Bank.

Ans. These are the banks, which are established to encourage and to collect the scattered savings of poor and middleclass people. They also give profits to depositors and their savings contributes a lot for the development of country. E.g., National Saving Centers and Post Office.

Qno.44 Define Exchange Banks. / How Exchange Bank earns profit?

Ans. These are the banks, which provide foreign exchange to importers and exporters of the country. E.g., Western Union Bank etc. / Exchange Bank buys foreign currency at low price and sells at high price and the difference is profit.

Qno.45 Define Investment Banks.

Ans. These are the banks, which provide capital to different companies by purchasing their shares and also finance for the purchase and sale of securities like stocks and shares. They also act as underwriters by purchasing the shares of new companies. E.g., Atlas Investment Bank Ltd.

Qno.46 Define Mortgage Banks.

Ans. These banks provide loans to people against their movable and immovable property. Generally, they pledge or mortgage property in form of gold, silver and financial documents and immovable property like house, shop and land. E.g., Mortgage Bank of Australia and Spain.

Qno.47 Define Consumer Banks

Ans. These banks are established to facilitate the consumer for purchasing consumer goods. Normally these loans are termed as non-productive loan. There is no consumer bank in Pakistan. The commercial banks are performing the functions of consumer banking.

Qno.48 Define Cooperative Banks.

Ans. These banks are setup to provide credit facilities to small farmers and industrialists to raise their income level. These banks are formed under Co-operative Societies Act 1925 and can be registered with the registrar of Co-operative societies at provincial headquarter. They may be scheduled or non-scheduled banks. E.g., Punjab Provincial Co-operative Bank etc.

Qno.49 Define Micro Finance Bank.

Ans. Micro Finance Bank is a newly introduced concept in banking system. MFB has been more appreciated in developing countries like Pakistan because of its key function of encouraging small business community like shopkeepers, small traders and farmers etc. E.g., Khushali Bank and Finca Micro Finance Bank.

Qno.50 Define School Banks.

Ans. These banks are established to develop the habit of savings among school children. In this system of a banking the banks officials provide banking facilities to student at their schools. This system is not prevailing in Pakistan. E.g., Beloit Saving Bank, which was established in USA 1882.

Qno.51 Define Consortium Banks.

Ans. These are the banks, established and run by some other banks. Member banks from their own sources provide the funds of consortium banks. These banks provide finance to big business houses and industries to meet their long-term requirement. Orion Bank and British East Bank etc.

Qno.52 Define Labour Banks.

Ans. The first labour bank was set-up in America. A labour union can establish this bank for the welfare of employees. The employees contribute in different funds e.g., Pension Fund, Group Insurance, Social Security Fund during their employment. E.g., Savings Bank of Chicago, Amalgamated Trusts Chicago of America etc.

Qno.53 Define Islamic Banks.

Ans. Islamic banks are the banks which operates under the provision of sharia. Islamic banks offer their clients the products and services duly approved by Sharai Supervisory Committee which are called Shariah Complaint Products". These banks work on profit and loss sharing principles. E.g., Meezan Bank Limited, Dubai Islamic Bank etc.

Qno.54 Describe the characteristics of the bank.

Ans. Receipts of deposits, repayable on demand or otherwise.
Lending or investing the money at his own disposal.
Collection of cheques and bills on the behalf of customers.

Qno.55 Who are promoters?

Ans. They are the persons who work for the establishment of a bank.

OR

Promoters are those persons who take initiative for the formation of a bank.

Qno.56 When, where and which name world's first bank was established?

Ans. World's first bank was established in 1157 in Venice the famous city of Italy with the name Bank of Venice.

CHAPTER NO. 2 COMMERCIAL BANK

Qno.01 Does commercial bank profit-oriented organization or not?

Ans. Yes, Commercial Banks involves in making profit by investing other's money and not by investing commercial bank's own money.

Qno.02 From Where Commercial bank system was originated?

Ans. Commercial banking system was originated from the financial activities Goldsmiths of early age.

Qno.03 What is Role played by the Modern Commercial Bank in Country?

Ans. Modern Commercial banks play a vital role in shaping the economic destiny of a country. They collect the scattered savings of people and make them available for society desirable and economically beneficial purposes. They also contribute to the growth and stability of economy as well as to the welfare of the population.

Qno.04 How many kinds of Commercial Bank?

Ans. There are two major kinds of Commercial Banks 1. Scheduled Banks 2. Non-scheduled Banks

Qno.05 Define Commercial Bank. / Define Bank. / Define Bank under Banking Companies Ordinance 1962.

Ans. Banking means accepting, for the purpose of lending or investing the deposit of money from public, repayable on demand or withdrawable by cheque, draft, order or otherwise.

Qno.06 What are the major functions of Commercial Banks?

Ans. There are two major functions of Commercial Banks. 1. Primary Functions 2. Secondary Functions

Qno.07 Define Primary Functions.

Ans. In Primary Functions we deposit our savings in different nature of accounts.

Qno.08 What is meant by Receiving of deposits?

Ans. Money kept or deposited in the bank which the depositor can withdraw under prescribed conditions is called a receiving of deposit.

Qno.09 How many different types of account?

Ans. There are three basic different types of account.

1. Current Account 2. Profit and Loss Saving / Sharing Account 3. Fixed Deposit Account

Qno.10 Define Current Account.

Ans. In this account money can be deposited and withdrawn at any time during banking hours. Majority of customers particularly business class, government departments, public bodies keep their money in current accounts. Generally, interest is not paid on this account.

Qno.11 Define Savings Account.

Ans. Person with little savings (low income or salaried persons), deposit their money in the saving account. Savings deposits can be withdrawn on demand up to a certain limit. Bank also pay interest on these accounts.

Qno.12 Define Fixed Deposits Account.

Ans. In this account, money is deposited for a fixed period of time. High rate of interest / Profit is paid on this deposit. The period is fixed at the time of opening bank account. Within the fixed period, the account holders are not entitled withdraw money from the account.

Qno.13 Define Foreign Currency Account.

Ans. This account is opened in foreign currency instead of local currency. In Pakistan, this account can only be nominated branches of commercial banks. Foreign currency account can be opened in form of savings, Fixed and Current account. This account is exempt from zakat.

Qno.14 Define the term advancing loans.

Ans. Loan is a sum of money that is given by one party to another for a limited amount of time. It is the second primary function of commercial banks is to lend money. The banks do not keep the deposited money of the people useless in their safes. They advance it to those who need it for the trade and industry. In short, banks borrow money in order to lend.

Qno.15 How many types of LOANS ACCORDING TO TERM?

Ans. There are five types of loans according to term.

1.Demand Loans, 2. Short Term Loans, 3. Medium Term Loans, 4. Long Term Loans, 5. Project Loans

Qno.16 Define Demand Loans.

Ans. These are the loans, which can be demanded by the bank at any time. Generally, these loans are issued to rich and trust worthy people. These loans can be recovered on lump sum or installments basis according to the desire of borrower.

Qno.17 Define Short Term Loans.

Ans. These loans are issued to meet day-to-day requirements of the business for the period up to One year.

Qno.18 Define Medium Term Loans.

Ans. These loans are given to purchase raw materials and to meet the administrative expenses for the period of One to Five Years.

Note The concept of medium-term loans has been vanishing gradually in modern banking.

Qno.19 Define the term Long Term Loans.

Ans. These loans are issued for the purpose of investment and to purchased fixed assets like Building, Plant & Machinery etc. for the period of Five to Ten years.

Qno.20 Define Project Loans.

Ans. These are the loans, which are issued by the banks to complete the project of big industries.

Qno.21 How many types of LOANS ACCORDING TO ISSUE?

Ans. There are five types of loans according to issue:

1.Cash Credit / Cash Finance, 2. By Opening Loan Account, 3. By overdraft, 4.BY Mortgage / Pledge, 5.By Discounting of Bill of Exchange.

Qno.22 Define the term Cash Credit / Cash Finance.

Ans. Banks also give cash credit against Current Assets such as Shares and Bonds etc. the sanctioned amount of loan is transferred to the account of customer. The bank charges interest on the utilization or withdrawn amount only.

Qno.23 Define the term By Opening Loan Account.

Ans. In this method bank opens loan account in the name of customer instead of giving cash as loan. The customer can draw money according to the requirements from loan account. In this method, the bank charges interest on the total amount of loan whether withdrawn or not.

Qno.24 Define the term By Overdraft / Running Finance.

Ans. Banks allow their trustful customers to draw more than the deposit they have in their bank accounts. Banks charges interest on overdraft on daily basis. In modern banking overdraft facility is known as RUNNING FINANCE.

Qno.25 Define the term Mortgage / Pledge.

Ans. Banks grants loans against the security of different immovable or movable assets like Land, Property, and gold etc. Generally, loans are granted for a long period of time under mortgage or pledge.

Qno.26 Define the term By Discounting of Bill of Exchange.

Ans. Discounting the bill of exchange means that bank accepts the bill as security for granting loan. It is also a source of income for the bank, because it always deducts a nominal amount as discounting charges. But it is notable that bank accepts only reputed and clear bill of exchange.

Qno.27 Define the term Agency Services.

Ans. Commercial banks provide certain services to their customers in return for some commission, these are called agency functions. Some of the agency functions of a commercial bank are listed below. Collection of cheques, bills, and drafts. Payment of interest, installments of loans, insurance premium, etc.

Qno.28 Define the term Trustee.

Ans. Bank also act as a trustee on the behalf of customer. In this capacity, the bank takes care of the affairs of its client.

Qno.29 Define the term arbitrator.

Ans. Banks act as arbitrator and provide information relating to the credit worthiness and transactions of their customer to settle any dispute.

Qno.30 Define Automated Teller Machine.

Ans. Now a days, modern commercial bank use computerized counters to provide twenty-four hours cash services through automated teller machine to their valuable customers.

Qno.31 Define Cash Deposit Machine.

Ans. It is another facility of 24 hours banking services in which the customers / account holders can deposit the money in their bank accounts at any time through cash deposit machine.

Qno.32 Define the term Underwriter.

Ans. Banks underwrites shares and bonds etc. issued by Government, Public bodies, Trading Corporations in order to raise capital or fund or Loan.

OR

The institutions, which enter into agreement with the promotor of a newly started bank / company to take up the remaining shares of the new bank / company which have not been taken up by the public.

Qno.33 Define the term underwriting commission.

Ans. The function performed by underwriters for raising capital is called underwriting and the remuneration of the underwriters called underwriting commission.

Qno.34 What is meant by cash reserve of a bank?

Ans. The cash, which is possessed by any trading bank in order to meet the immediate demands of its customers is termed as cash reserve.

Qno.35 What are the different forms of cash reserve of bank.?

Ans. Cash reserve of a bank can be in following three forms
Cash in hand in form of Coins and Currency, Cash with Central Bank, Balance with other bank

Qno.36 Define the term Credit Creation.

Ans. Bank is the Factory of Credit Creation. Or Loans create deposits and Deposits creates Loans.

Qno.37 How many ways of Credit Creation?

Ans. By discounting B.O.E, By Supply of Loans, By Making Investments.

Qno.38 Write down the formula of Credit Creation.

Ans. $\text{Total Deposit} = \text{Primary (New) Deposit} \times \frac{1}{\text{Reserve Ratio}}$

Qno.39 Define Balance Sheet.

Ans. Balance Sheet is a statement of assets and liabilities of Business at a particular time.

Qno.40 What is the importance of Balance Sheet?

Ans. Financial Position, Advancing Policy, Profitability, Future Prospects.

Qno.41 What is the importance of Commercial bank in a country's development?

Ans. Commercial bank contributes to the country's development in the following ways.
Trade Development, Agricultural Development, Industrial Development, Development of Foreign Trade, Easy transfer of Money.

Qno.42 What is the effect of re-discounting of bills of exchange on cash reserve of commercial banks?

Ans. If there is a central bank in the locality to provide re-discounting facilities to the member banks then the amount of cash reserve required would be smaller. Because the commercial banks re-discount the bills with the central bank to get the funds in need.

Qno.43 What is meant by Loan?

Ans. Loan is a sum of money that is given by one party to another for a limited amount of time and charge certain interest rate.

Qno.44 How do the commercial banks help in increasing the employment in country?

Ans. A country's economic prosperity depends on the development of trade, commerce, industry, agriculture, transport and communication etc., these sectors are financed by commercial banks and employment opportunities increases.

Qno.45 How a commercial bank discount a bill of exchange?

Ans. A bank also creates credit through discounting of bills of exchange. In this method the bank discounts the bill and issue a cheque book after the opening of account for the amount of discounted bill instead of giving cash.

CHAPTER NO. 3 ELECTRONIC BANKING

Qno.01 Define E-banking.

Ans. E-banking can be defined as the automatic delivery of banking products and services to customers through interactive electronic communication.

Qno.02 What is the (ETO-2002)-Electronic Transaction Order 2002?

Ans. The central bank of Pakistan (State Bank of Pakistan) issued Electronic Transactions Ordinance 2002 to meet the modern requirement and trends of banking sector. The main objective of the said ordinance was to provide better, modern and instant facilities to the customer.

Qno.03 What are the advantages of E-Banking?

Ans. The benefits of E-Banking can be explained under the following three heads
1-Benefits to Customer, 2-Benefits to Banker, 3-Benefits to Economy

Qno.04 What are different merits of e-banking for customer?

Ans.

1. Customer can withdraw Cash any time through ATMs.
2. Customer can get mini bank statement at any time through ATMs.
3. Customer can operate his / her bank account from office / home through internet banking.
4. Customer can deposit their utility bills through internet banking.
5. Customer can get instant information regarding new product and services.
6. Day by Day Credit Card demand is increasing so People can shop without carrying paper money etc.

Qno.05 What are different benefits to Bankers of e-banking?

Ans.

1. State Bank of Pakistan played a very vibrant role to introduced E-Banking in Pakistan.
2. E-Banking played vital role to control overheads and operating cost of the banks.
3. Banks are using E-Banking facilities to their customers at their door step.
4. Banks performance is increasing day-by-day through using E-Banking.
5. Banks are providing modern banking facilities to their customers so customers making their business transaction easy.
6. E-Banking helps the Banks to reduced their Paper cost, manual work and keep up to date their record.

Qno.06 What are different benefits to Economy of e-banking?

Ans.

1. E-Banking provide the platform to economy for productivity and bring prosperity.
2. Through E-Banking our Economy of a country is growing day-by-day.
3. More Employment opportunities due to growth of economy and banking sector.
4. Increase in their incomes higher the living standard of people.

Qno.07 What are the products of E-Banking?

Ans. Credit Cards, Debit Cards, ATM, Online Banking, Mobile Banking

Qno.08 Define Credit Card.

Ans. A Credit Card is part of system of payments, issued to users of the system. It is small plastic card entitling its holders to buy goods and services based on the holder's promise to pay for these goods and services.

Qno.09 Define Floor Limit.

Ans. Bank fixes the limit of credit card according to the financial position of the customer. This limit is called Floor Limit and customer cannot buy more than the fixed amount of this card.

Qno.10 Define Debit Card.

Ans. A plastic card issued by a bank to a depositor, encoded so that it may be used in A.T.Ms or in P.O.S (Point of Sale) systems, like swapping machines.

Qno.11 Define Automated Teller Machine.

Ans. It is unattended computer terminal that performs basic Teller Functions when a card holder inserts a card into A.T.M and enters the correct PIN code on 24 hours basis.

Qno.12 What is PIN code?

Ans. A numeric code used in many electronic financial transactions. Personal Identification Number (PIN) are usually used in conjunctions with usernames or other passwords. They are usually required when using bank debit or credit cards.

Qno.13 Define Online Banking.

Ans. Online Banking is a system that allowed individuals to perform banking activities at home or office via internet.

Qno.14 What are facilities can be obtained from online Banking?

Ans. Depositing the money, Withdrawal from bank, Transfer or payment of money.

Qno.15 Write two disadvantages of ATM.

Ans. 1- Charge of Fee, 2- Limitation of withdrawals.

CHAPTER NO. 4 CENTRAL BANK

Qno.01 Define Central Bank.

Ans. "The guiding principle of a central bank is that it should act only in the public interest for the welfare of the country as a whole and without regard to profits as a primary consideration".

OR

"The bank, which is established to strengthen the credit system, to increase the pace of economic growth and to promote the welfare of the country".

Qno.02 What are the Principles/Object of Central Bank?

Ans.

1. Economic Stability	2. National Interest
3. Effective Policy of credit control	4. Special Authorities
5. Constitutional Limitations	6. Free from Political Pressure
7. Custodian of Banking System	8. Custodian of Credit System

Qno.03 Define "Principles of Constitutional Limitations" of Central Bank.

Ans. Central Bank works according to the framed rules and regulations of the government. The Central bank not only observes the constitutional limits but also instructs the other banks and financial institutions to observe the said limits.

Qno.04 What is meant by the "Principle of National Interest" of Central Bank?

Ans. The basic object of Central Bank is not to earn the profit but rather to work in the best interest of the nation. Central Bank always prefers national interest to all other things.

Qno.05 What are the Functions of Central Bank?

Ans.

1. Sole Authority of Note Issue.	2. Bankers to Government
3. Banker's Bank	4. Controller of Foreign Exchange
5. Custodian of Metallic Reserve	6. Leader of Capital Market
7. Exchange Rate Stability	8. Representatives of Foreign Trade
9. Additional Functions / Miscellaneous Functions	

Qno.06 Why has Central Bank been given the authority of note issue?

Ans. This authority has been given to central bank for:

1. Uniformity in the Notes
2. To check undue expansion of notes.

3. To regulate currency according to its demand.
4. To make sure that notes are issued is the liability of the bank and get full support of state.

Qno.07 What is the Role / Importance of Central Bank?

- Ans.**
- | | |
|----------------------------------|--|
| 1. International Trade | 2. Rate of Exchange |
| 3. Economic Policies | 4. Implementation of Economic Policies |
| 5. Supervision of Banking System | 6. Controller of Credit |
| 7. Guidance to the Govt. | 8. International Receipts and Payments |
| 9. Custodian of Foreign Exchange | 10. International Monetary System |
| 11. Advanced Policies | 12. Banker's Bank |

Qno.08 What are the Principles of Note Issue?

Ans. There are two principles of note issue. The first is **CURRENCY PRINCIPLES** and the second is **BANKING PRINCIPLES**.

There are different views about these principles. One school of thought says that there should be full convertibility of notes into gold bullion. The second school of thought gives important to the elasticity of supply.

Qno.09 Define Currency Principle.

Ans. According to Mr. Lord Overstone, paper money is an economical and convenient substitute of metallic money. They insist that paper money is circulation should be backed by **100% GOLD RESERVES**. So, there will always be availability of gold for the redemption of notes when presented which creates stability in price level, exchange rates because every note issued is covered by gold reserves.

Qno.10 Define Banking Principle.

Ans. According to Mr. Tooke, there is no need to have the reserves of gold and silver for the issuance of notes. The banks are authorized to regulate the note issue keeping in view the needs of Trade and Industry. The banks themselves maintain the adequate reserves of gold for meeting the obligation of notes thus proper ratio will be maintained between the supply of money and the gold reserves.

Qno.11 What is different method of Note Issue?

Ans. There are different methods of note issue adopted by different countries of the world at different times. The important of them are as under

1. Fixed Fiduciary System
2. Proportional Reserve System
3. Minimum Reserve System

Qno.12 Define Fixed Fiduciary System.

Ans. Under Fixed Fiduciary System, the government fixes a fixed amount of notes without keeping any metallic reserve. But this portion of currency must be **backed** by **Government Securities (T-Bills, T-Notes, T-Bonds, Govt.-Bonds) which is called Fiduciary Limit**. The notes issued other than fiduciary limit must be fully backed by gold or silver reserves.

Qno.13 Define Proportional Reserve System.

Ans. Under this system, the central bank is required to keep only a certain percentage of notes issued in the form of gold or silver. The reserve proportion is usually from 30% to 40%. It means a central bank can issue Rs.100 notes after keeping gold and silver valuing Rs.30 or Rs.40. Currently Pakistan is using this system to issuing notes.

Qno.14 Define Minimum Reserve System.

Ans. Minimum Reserve System allows the central bank to keep only a fixed amount of reserve against whatever the amount of note issue. The reserve is in the form of gold, silver and foreign exchange or in the form of any of these types of things.

Qno.15 Define Monetary Policy / Credit Control Policy.

Ans. Monetary Policy refers to the measure which the central bank of a country takes in controlling the money back and credit supply in the country with a view to achieving specific economic objective.

Qno.16 Define Inflation.

Ans. It is a state in which the value of money is falling, and prices are rising.

Qno.17 Define deflation.

Ans. It is a state in which the value of money is rising, and prices are falling.

Qno.18 What are different Objectives of Monetary Policy?

- Ans.**
- | | |
|---------------------------------------|--|
| 1. Full Employment | 2. Price Stability |
| 3. Exchange Rate Stability | 4. Equitable Distribution of Credit |
| 5. Foreign Value of Currency | 6. Increase in Investment |
| 7. Deposit of Gold | 8. Stability in Capital Market |
| 9. Production of Wealth | 10. Control on Inflation and deflation |
| 11. Promotion of Economic Development | 12. Increase in Production |

Qno.19 What are the different methods to control the Credit?

Ans. The following are two methods of credit control:

Quantitative Control

1. Interest Rate Policy
2. Open Market Operations
3. Changes in Reserve Ratio
4. Credit Rationing
5. Bank Rate Policy

Qualitative Control

1. Moral Persuasion
2. Publicity
3. Direct Actions
4. Restrictions on Advancing
5. Selective Control
6. Change in Margin

Qno.20 Define Quantitative Methods.

Ans. This method is used to control the total quantity of money and bank credit. They are selective in nature.

Qno.21 Define Interest Rate Policy.

Ans. It means the rate of interest at which commercial banks grant loans against first class securities according to instructions of central bank. In case of inflation the bank rate of interest is raised and discourages the borrowing. On the other hand, if there is deflation, the bank interest rate is lowered which encourages the borrowings.

Qno.22 Define Open Market Operations.

Ans. It means central bank purchase and sale of securities in an open market. If there is more money, the central bank sells the securities in open market. On the other hand, if central bank wants to increase the quantity of money in a country, then it will buy the securities.

Qno.23 What will be the effect of Change the Reserve Ratio?

Ans. The central bank has a right to change the reserve ratio to control the credit with member banks. If the more quantity of money is in the country, then the ratio will rise and vice versa.

Qno.24 Define Credit rationing.

Ans. Central banks put limits for the grant of credit. The credit is rationed for each bank during financial crisis. If the central bank adopts expansionary monetary policy then the rate of interest is lower. If the central bank adopts contractionary monetary policy then the rate of interest is higher.

Qno.25 Define Bank Rate / Discount Rate Policy.

Ans. The policy refers to the varying of the rate at which the central bank re-discounts the first-class bills of exchange of scheduled banks or advances loans to against approved securities. In case inflation bank increases the bank rate and discount rate and vice versa.

Qno.26 Define Change in Margin. / What is Margin

Ans. Margin means the difference between the amount of loan and the value of security. Minimum margin requirement on security may be relaxed to encourage the borrowings and can be imposed to discourage the borrowings.

Qno.27 Explain the Selective control method with reference to monetary policy.

Ans. In this method, the credit is controlled by increasing or decreasing the buying power of consumers. If there is inflation, the grant of credit is decreased and in case of deflation a lenient policy about consumer credit is adopted.

Qno.28 Write Five limitations / Difficulties in controlling Credit.

Ans. 1. Non-Cooperation, 2. Object of Loan 3. Political Conditions 4. Foreign Banks 5. Other Financial Institutions

Qno.29 Define Clearing House.

Ans. Clearing House is that department of Central Bank where the representatives of member banks and financial institutions gather to clear their claims.

OR

Clearing House provides a process by which the counterclaims of member banks are offset, and balances settled.

Qno.30 Describe the advantages of Clearing House.

Ans. 1. Saving in time and labour 2. Easy transfer of cash from one place to another 3. No need to keep large cash reserves. 4. Control over credit 5. Large Credit due to less need of cash of cash reserve.

Qno.31 "Custodian of Foreign Exchange", with reference to Central Bank. Explain

Ans. The Central Bank is responsible for the management of foreign exchange and maintenance of the external value of the home currency. Moreover, foreign exchange reserves are also kept with the central bank.

Qno.32 Define NIFT.

Ans. National Institutional Facilitation Technologies is a private limited agency which is providing almost 80% clearing house facilities in Pakistan on the behalf of SBP.

CHAPTER NO. 5 SCHEDULED BANK AND NON-SCHEDULED BANK

Qno. 01 Define Scheduled Bank

Ans. The Banks which are registered in the list of Central Bank under its charter, called scheduled banks. They provide banking services according to the policies and instructions of Central Bank.
e.g., Habib Bank Ltd. And Muslim Commercial Bank Ltd.

Qno. 02 Define Non-Scheduled Bank.

Ans. The Banks which are not registered in the list of Central Bank under its charter, known as Non-scheduled banks. They are not bound to perform banking services according to the policies and instructions of Central Bank.
e.g., Sindh Provincial Cooperative Bank, Punjab Provincial Cooperative Bank

Qno.03 Under which law a scheduled bank can be registered?

Ans. In Pakistan, Scheduled Banks are registered under State Bank of Pakistan Act 1956 Sec.37(I).

Qno.04 Describe any two features of Scheduled Bank.

Ans.

1. Central Bank provide clearing house facility to Scheduled bank.
2. Whenever scheduled bank faces the problem of fund deficiency, they can take the loan from Central Bank.

Qno.05 Write down the Five advantages of Scheduled Bank.

Ans.

1. Guidance from Central Bank
2. Credit Facility
3. Re-discounting facility

Qno.06 Which bank has the facility of Clearing House?

Ans. Scheduled Bank has the facility of Clearing House.

Qno.07 Which documents have to submit by the Non-Scheduled Bank in Central Bank to become a Scheduled Bank?

Ans. Whenever, a Non-scheduled bank wants to change its status then it is required to submit following documents according to rules.

1. Memorandum of Association
2. Article of Association of Bank
3. Audited Annual Report

Qno.08 Which bank has the facility of money transfer?

Ans. Scheduled Bank has the facility of money transfer.

Qno.09 What is the limit of paid-up capital of Scheduled Banks in Pakistan?

Ans. The paid-up capital of scheduled banks in Pakistan should be 10 billion by 31-12-2013.

Qno.10 What percentage of Scheduled Bank Assets to keep within a country?

Ans. Under section 30 every scheduled bank is restricted to keep 85% of its total Assets / deposits within a country.

CHAPTER NO. 6 BANK ACCOUNTS

Qno.01 Define Bank Account.

Ans. Bank is a sort of agreement between bank and the account holder in which not only the amount but also the valuables and documents can be deposited into the bank.

Qno.02 What information given in Account Opening Form?

Ans.

- Branch of Bank
- Account Number
- Type of Account
- Title of Account
- Address
- Telephone No.
- Occupation etc.

Qno.03 Describe some basic reason for opening bank account / Advantages.

Ans.

- Safety of cash
- Source of income
- Saving motive
- Facility in business
- Foreign trade
- Payments and Receipts of crossed cheques

Qno.04 Mention the steps involved in Opening bank account.

- Ans.**
1. Selection of Bank and branch
 2. Selection of account
 3. Method of opening account
 - i. Contact with Bank
 - ii. Getting Form
 - iii. Document Attached
 - iv. Specimen Signature Card
 - v. Issuance of Account Number
 - vi. Deposit of Amount
 - vii. Issuance of Document

Qno.05 What is meant by Specimen Signature Card?

Ans. While submitting form the bank issue specimen signature card and obtains full signature of account holder for future reference. Bank keeps this card in its record.

Qno.06 Which documents are provided by a joint stock company for the opening a bank account?

- Ans.**
1. Memorandum of Association
 2. Articles of Association
 3. Certificate of Incorporation
 4. Certificate of Commencement (For Public Limited Company)
 5. Resolution Passed for opening an account
 6. List of directors and their approval.

Qno.07 What is meant by Pay-in-slip? / Why pay-in-slip is used?

Ans. This book contains printed slips. Whenever a customer wants to deposit cash or cheque into the bank, he or she has to fill up a slip. This is dully filled slip is presented to cashier along with the money and cheque. Two authorized officers sign this slip and return it to the customer.

Qno.08 What are the contents of Pay-in-slip?

- Ans.**
1. Date
 2. Name of accountholder
 3. Account Number
 4. Nature of Account
 5. Amount to be deposited
 6. Signature of depositor and payee.

Qno.09 Which types of documents provided by bank to customer on the opening of an account?

- Ans.**
1. Pay-in-Slip
 2. Pass Book
 3. Cheque Book
 4. Bank Statement

Qno.10 Define Passbook.

Ans. Passbook is a book in which bank keeps the record of all receipts and payments of a customer. This book is issued to current and saving account holder.

Qno.11 Write the contents of Passbook.

- Ans.**
1. Date
 2. Details of deposit and withdrawals
 3. Cheque Number
 4. Deposited Amount.
 5. Withdrawals
 6. Debit or Credit column
 7. Balance
 8. Signature.

Qno.12 Define Cheque Book.

Ans. Cheque book is a printed book which is issued to every new account holder or on demand (excluding fixed deposit).

Each page of this book id called cheque. The account holder uses these cheques to withdraw money from the account. This book contains 25, 50 and 100 cheques.

Qno.13 Write different contents of Cheque Book.

- Ans.**
1. Nature of account and number
 2. Date
 3. Name of payee
 4. Amount in figures and words
 5. Type of cheque

6. Signature of account holder
7. Cheque number

Qno.14 Define Bank Statement.

Ans. The bank statement is supplied to account holder periodically or when he asked for. In this statement all the transactions as to deposits and withdrawals or debit and credit transactions are recorded to show the correct balance of the account holder. We can get the mini bank statement from ATM also.

Qno.15 Define Cash Book.

Ans. A book in which all receipts and payments of a business concern are recorded chronologically is called cash book.

Qno.16 What are different precautions before opening bank account?

- Ans.**
1. Introduction to customer
 2. Documents required
 3. Signature
 4. Filling of the Form
 5. Personal information
 6. Initial Deposit
 7. The issuance of cheque book

Qno.17 Define Profit & Loss sharing and saving account.

Ans. This account is suitable for low income or salaried persons. This account was introduced by the order of government on 1st January 1985. Previously this account named as saving account. Bank pays profit on this account. Zakat is deducted on this account on 1st Ramazan-ul-Mubarak.

Qno.18 Define Profit & Loss sharing Term Deposit.

Ans. This account of commercial banks is suitable for those people who expect to have surplus money for a long time and they not only want to save the money but also want to make it a source of income.

Qno.19 Define Current Account.

Ans. Current Account is opened in all commercial banks. It is also called running and active account. There are no restrictions on deposits and withdrawals. This account is usually operated by business class, firms, and public and private organizations. No profit is paid on this account rather the bank recovers incidental charges for services rendered.

Note: In modern day banking some banks pay special profit on the specified amount of the account.

Qno.20 Define Foreign Currency Account.

Ans. This account is opened in foreign currency instead of local currency. In Pakistan this account can only be opened in nominated branches of commercial banks. Foreign Currency account can be opened in form of Saving, Fixed and Current accounts. This is exempt from zakat and tax.

Qno.21 Define Basic Banking Account. / Write two features of BBA.

Ans. In Compliance with the directive of State Bank of Pakistan the Basic Banking Account has been launched with effect from February 27, 2006. This product has been introduced to facilitate the low-income group as well as existing account holders who wish to convert regular saving and current account into Basic Banking Account.

1. The basic banking account can be opened with a minimum balance Rs.1,000/- only
2. Basic Banking Account will be closed automatically if it maintains zero balance for six months consecutively.

Qno.22 Define Enhanced Saving Account.

Ans. Under the supervision of Pakistan Banks Association, all the scheduled banks offer Enhanced Saving Account to PLS saving account holders if their accounts maintain an average balance Rs.20,000. On this account, account holders can earn profit up to 4% Per annum.

Qno.23 What are different advantages to Government when Customer Opens a Bank Account?

Ans. In June 2015, State Bank of Pakistan directed all commercial banks to simplify the account opening procedures and requirements a new account category namely "Asaan Account" for low risk customers which can be opened against minimum deposit RS.100 with no minimum balance requirement.

Qno.24 What are different advantages to banker when Customer Opens a Bank Account?

- Ans.**
1. Increase in Resources
 2. Source of Income
 3. Increase in Investment
 4. Development of Banking System

Qno.25 What are different advantages to Government when Customer Opens a Bank Account?

- Ans.**
1. More Employment
 2. Source of Income
 3. Economic Development

4. Balance of Payment
- Qno.26 What are different advantages to Customer when opens a Bank Account?**
- Ans.**
1. Safety of Cash
 2. Source of Income
 3. Increase in Savings
 4. Transfer of Money
 5. Facility of Overdraft.
 6. Helpful for Foreign Trade
- Qno.27 Define Bank Mandate Form.**
- Ans.** If an accountholder empowers a person to sign his cheques, then he supplies the name and specimen signature of that person to bank on a prescribed form. This form is called Bank Mandate Form.
- Qno.28 What are different advantages to Government when Customer Opens a Bank Account?**
- Ans.** Zakat is not deducted on the balance of current account.
- Qno.29 Write down the names of four types of Bank Account.**
- Ans.**
1. Current Account
 2. Saving Account
 3. Fixed Deposit Account
 4. Foreign Currency Account
- Qno.30 What is meant by Checking Account? / In which accounts do we use cheque?**
- Ans.** The account in which the depositors use cheques to withdraw amount is known as checking amount. E.g., Current Account and Saving Account.
- Qno.31 Write four points of difference between saving and fixed deposits.**
- Ans.**
1. Suitability
 2. Minimum Amount
 3. Rate of profit
 4. Use of Passbook.
- Qno.32 Why a bank wants to increase its customers? Give two reasons.**
- Ans.** Bank always desire to increase its customers because in these ways a bank can increase its resources and income.
- Qno.33 On Which type of bank account, bank does not issue cheque book?**
- Ans.** Bank does not issue cheque book on fixed deposit.

CHAPTER NO. 7 BANKER & CUSTOMER RELATIONSHIP

- Qno.01 Define Banker.**
- Ans.** Bank is a dealer in debts of its own and other people. It accepts the deposits of people and lends to the needy.
- Qno.02 Define Bank Customer.**
- Ans.** A customer is one who has an account with a banker or for whom a banker habitually undertakes to act as such.
- Qno.03 What is meant by an individual customer of the bank?**
- Ans.** Any person literate or illiterate but not a lunatic (Mentally ill), mental, patient, drug addict or bankrupt etc. can open account with bank. The bank demands a photograph from an illiterate person and thumbs expression on all necessary documents where as a literate person requires signature only.
- Qno.04 What are the different relationships of Banker and Customer?**
- Ans.**
1. **Basic Relation Debtor and Creditor:**
 - i. Bank (Debtor) and Customer (Creditor)
 - ii. Bank (Creditor) and Customer (Debtor)
 2. **Other Relations:**
 - i. Bailer (Customer) and Bailee (Bank)
 - ii. Mortgager (Customer) and Mortgagee (Bank)
 - iii. Pledger (Pawnor) (Customer) and Pledgee (Pawnee) (Bank)
 - iv. Advisor (Bank) and Advisee (Customer)
 - v. Seller (Bank) and Purchaser (Customer)
 - vi. Principal (Customer) and Agent (Bank)
 - vii. Modarib (Customer) and Zarib (Rab-ul-mal) (Bank)
 - viii. Beneficiary (Customer) and Trustee (Bank)
 - ix. Hirer (Customer) and Owner (Bank)
 - x. Lessor (Bank) and Lessee (Customer)
 - xi. Cordial Relation between Banker and Customer (for sharing reliable and confidential information)

Qno.05 Define Primary relation of banker and customer.

Ans. The relation between a banker and his customer is primarily that of a debtor and creditor.

Qno.06 When Bank (Debtor) and Customer (Creditor) relation created?

Ans. When a customer deposits money in his account, the money is to be considered as the money of depositor so he has the right to withdraw it any time as per rules of bank. Here the bank is debtor and customer is creditor.

Qno.07 When Bank (Creditor) and Customer (Debtor) relation created?

Ans. When a customer takes loan from bank or avails overdraft from bank the bank is a creditor and customer is a debtor in this relation.

Qno.08 Define the relation Bailor and Bailee.

Ans. When a banker takes charge of his customers valuables goods bank becomes **bailee** customer becomes **bailor**.

It is an old relation of banker and customer.

Qno.09 Define the relation Mortgager and Mortgagee.

Ans. When a banker accepts real state like land and building etc. as a security of loan by way of mortgage. The relationship becomes that of **Mortgager (Customer)** and **Mortgagee (Bank)**.

Qno.10 Define the relation Lessor and Lessee.

Ans. When a banker provides finance to a customer on the basis of lease financing the relationship becomes Lessor and Lessee. In this case the **Banker** is **Lessor** and the **customer** is **Lessee**.

Qno.11 Define the relation Principal and Agent.

Ans. When a banker acts according to the instructions or on the behalf of its customer then relationship of **Principal (Customer)** and **Agent (Bank)** exists.

Qno.12 Define the relation Modarib and Zarib.

Ans. When a banker provides finance to customer under the agreement of Modaraba the partnership becomes that of **Zarib (Rab-ul-mal) (Banker)** and **Modarib (Customer) (Aamal)**.

Qno.13 Define the relation Seller and Purchaser.

Ans. Under deferred payments sale on markup mode of financing the **banker (Seller)** of goods and **customer (purchaser)** of the same.

Qno.14 Define the relation between Trustee and Beneficiary.

Ans. When a bank receives securities and valuable goods for the custody the **banker** is **Trustee** and **Customer** is **Beneficiary**.

Qno.15 Define the relation between Pledger and Pledgee.

Ans. When a customer pledges an article (goods and documents) with the banker as a security for payment of debt. The **customer** becomes **Pledger** and **Bank** becomes **Pledgee**.

Qno.16 Define the relation Hirer and Owner.

Ans. In case of hire purchase financing the **banker** is the **owner** of the assets and the **customer** is the **hirer** of the same.

Qno.17 Define the relation Advisor and Advisee.

Ans. When bank gives financial advice to its customer then **bank** becomes **Advisor** and **Customer** becomes **Advisee**.

Qno.18 Why the cordial relation is created between bank and customer?

Ans. Sometimes the banker is in a position to establish cordial relation with his customer by providing reliable and confidential information about the general standing of people.

Qno.19 What are the Rights of Customer?

Ans.

1. To draw a cheque
2. To receive a Passbook
3. Correction
4. To Sue
5. To receiving deposits
6. To receiving Profits

Qno.20 What are the duties of Customer?

Ans.

1. Banking hours
2. Outdated cheques
3. Unauthorized Persons
4. Warnings
5. Careful draw a cheque

Qno.21 What are the Rights of Banker?

Ans.

1. Compound Interest
2. To claim charges
3. Lien
4. Adjustment of Balance

Qno.22 What are the Duties of Banker?

- Ans.**
1. Secrecy
 2. Payments
 3. Collections
 4. Trustee
 5. Purchases and Sells of Securities
 6. Opening a letter of Credit
 7. Safe Deposits
 8. Dealing in Foreign Exchange

Qno.23 What are the different causes that banker terminate the relation with customer?

- Ans.**
1. Death of customer
 2. Customer's Insanity
 3. Customer Insolvency
 4. Order of Court
 5. Insufficient Balance
 6. Notice of Assignment
 7. Non-Profitable

Qno.24 What are the different causes that Customer terminate the relation with Banker?

- Ans.**
1. Change in Residence
 2. Lack of Confidence
 3. Unsatisfactory Performance
 4. Low Profit / Interest

Qno.25 What are different kinds of Bank's Customer?

- Ans.**
1. Individual Customer
 - i. Married Women
 - ii. Pardah Nasheen Women
 - iii. Minor Customer
 2. Joint Customer
 3. Trustee
 4. Business Organization
 - i. Sole Proprietorship
 - ii. Partnership
 - iii. Joint Stock Company
 5. Non-Trading Concerns
 6. Govt. Organizations

Qno.26 Define Individual Customer.

Ans. Any person literate or illiterate but not a lunatic, mental patient, drugs addict, or bankrupt etc. can open an account with bank.

Qno.27 Define Minor Customer.

Ans. According to Contract Act 1872, Any person whose age is below 18 years is considered as minor and can open a bank account by depositing the required amount and can draw cheques to operate his / her account.

Qno.28 Define Joint Customer.

Ans. When two or more than two persons jointly open an account with a bank then they are known as joint customer.

Qno.29 Define Trustee Account.

Ans. Trustee is a person who take care of the affairs or looks after the property on the behalf of another person. If trustee wants to open an account with bank, then he has to provide trust deed, otherwise the bank does not provide account facility to him.

Qno.30 Explain non-trading concerns a bank customer.

Ans. Clubs, Societies and associations etc. incorporated for some specific purpose may be termed as non-trading concerns. These organizations can also open a bank account. The account is operated by the persons or a persons approved by-laws of the concerned persons.

Qno.31 Explain the process of Partnership firm becoming client of bank.

Ans. The Partners of business may also open a bank account in the name of firm not with their own names. The account is operated according to the partnership deed. Usually, one of the partners to operate the bank account.

CHAPTER NO. 8 BANK FUNDS AND THEIR USE

Qno.01 Define Bank Funds.

Ans. Bank collect funds from different sources to make their profitable use

Qno.02 What is different source of Bank Funds?

Ans. A commercial Bank manages its funds through following sources

1. Bank's own Capital
2. Deposits
3. Loan form other banks
4. Reserve Fund.

Qno.03 Define Bank's own Capital.

Ans. At the time of formation of the bank capital is collected by selling its shares to the general public. It is also known as share capital or paid-up capital. The people who purchase the shares of the bank are known as shareholder / owners of the bank.

Qno.04 Define Deposits.

Ans. Receiving deposits from the customers or accountholder is the second important source of bank funds. Normally the bank has three kinds of accounts i.e., saving account, fixed deposit account and current account and the customers deposit their surplus money in these bank accounts.

Qno.05 Define Loan from other Banks.

Ans. Banks can get the loan and grants from other banks and financial institutions at the time of need. Central Bank is a major source of these loans.

Qno.06 Define Reserve Fund.

Ans. It is a part of profit yearly earned by the bank. Normally, the profit is divided into two parts i.e., dividend and Reserve Fund. Dividend is divided among the shareholders and the bank with a view to meet any deficiency in the future withholds other part. The accumulated reserve funds become a huge amount and a good source of further investment.

Qno.07 What is different use of Bank Funds?

Ans. There is different use of bank funds given below:

1. Advancing Loans
2. Direct Investment
3. Purchase of Shares and Debentures / Bonds

Qno.08 Define Secured Loans.

Ans. The loans granted after keeping certain valuables as security (Collaterals) are known as secured loans.

Qno.09 Define Unsecured Loans.

Ans. The Loans against which no security kept with the bank are called unsecured loans. These loans are granted when goodwill or personal loan guarantee of borrower is thought enough.

Qno.10 Define Direct Investment with respect to use of bank funds.

Ans. Some banks having sound financial background established their own business projects like manufacturing units and commercial enterprises. By this type of investment banks can earn more profits through direct operations.

Qno.11 What is meant by Principles of Advancing Loans?

Ans. Bankers have framed certain rules or principles which they have observed strictly while lending some amount to a party in order to avoided any loss.

Qno.12 What are the Principles of Safety means?

Ans. Banks are profit oriented institutions, so that their first preference is to get the amount of loan back. If the loan is likely to be unsafe the bank would not favor such loan.

Qno.13 What are the Principles of Security means?

Ans. Security means to ensure the payment of loan with in the due time.

Qno.14 What are the qualities of Good Security?

- Ans.**
- Easily marketable
 - Stable Price
 - Non-Perishable
 - Reasonable Margins
 - Easily Transferable

Qno.15 What is the Principles of Income means?

Ans. The main object of commercial bank is to earn profit. So, the granted loan should be a source of reasonable profit. Bankers try to lend their money at higher rates.

Qno.16 Explain the term Principles of Diversifications.

Ans. It means grant of loans to different sectors. Someone has truly said "Don't put all the eggs into one basket". If the

advances are made to different sectors instead to one sector, then the risk will be divided and the amount of loss is least.

Qno.17 Explain the term Principles of Liquidity.

Ans. Liquidity means the assets which are ready to convert in the form of cash easily at the time of need. Whenever bank can demand or provide a short notice to pay back loan amount. While advancing loans the bank should observe its liquidity.

Qno.18 Explain the term Principles of Repayment of Loan.

Ans. Firstly, Bank must observe all aspects regarding the repayment of issued loan.

Qno.19 Explain the term Security.

Ans. When a bank / Financial institution advances a loan to a party it takes some valuables as security against debts. So, that timely recovery of loan can be assured.

OR

A bank before granting a loan to a person / party demands personal guarantee or any valuables asset as collateral, which is known as security.

Qno.20 What are the different forms of Securities?

Ans. The securities may be in the form of:

- i. Shares
- ii. Debentures
- iii. Jewelry
- iv. Goods
- v. Documents
- vi. Insurance Policy
- vii. Land and building etc.

Qno.21 What are the Qualities of a Good Security?

Ans. A good security always holds:

- i. Stable Price
- ii. Easily Saleable
- iii. Easy Price determination
- iv. Safety
- v. Durability
- vi. Source of income
- vii. Increase in Price
- viii. Insured Security
- ix. Portability and Transferability
- x. Low Storage Expenditure

Qno.22 How many kinds of securities are?

Ans. There are different kind of securities which are different in nature and characteristics. Some important kinds of securities and their characteristics are given below:

1. Personal Guarantee
2. Guarantee

Qno.23 Define Personal Guarantee.

Ans. Sometimes the borrower does not present a tangible security as collateral against the loan and makes written promise to pay back the amount of loan according to the terms of loan. It is the personal trust on the borrower. This kind of guarantee is accepted for overdraft and cash credit generally.

Qno.24 Define Guarantee.

Ans. Guarantee is a contract to discharge the liability of a third person, in case he becomes defaulter.

Qno.25 Define Specific Guarantee.

Ans. This kind of guarantee is provided for the payment of a particular loan only.

Qno.26 Define Continuing Guarantee.

Ans. In this kind of guarantee the guarantor promises to pay all the loans taken by the borrower from time to time.

Qno.27 How many parties in Guarantee?

Ans. There are three parties in guarantee

1. **Debtor:** He is the person who takes the loan.
2. **Creditor:** The bank that provides loan to the borrower and accepts guarantee.
3. **Guarantor:** The person or body who gives guarantee to lender for the repayment of loan.

Qno.28 Write Five precautions of Guarantee.

- Ans.**
1. Financial Position
 2. Amount of Loan
 3. Duration of Loan

4. Objective of Loan
5. Moral Character

Qno.29 Define Marketable securities.

Ans. The securities, which can be easily sold in the market or can be converted into cash at very short notice, are known as marketable securities.

1. Shares and Debentures of Companies.
2. National Investment Trust (NIT Units)
3. Government Securities (Bonds, Certificates etc.)

Qno.30 Define Bill of Lading.

Ans. A Bill of Lading (B/L) is a legal document from a carrier to a shipper that:

1. Acknowledges receipt of goods for transport.
2. Serves as a contract of carriage.
3. Acts as a document of title, allowing transfer of ownership of the goods.

It plays a crucial role in shipping and logistics. Such kind of documents also accepted as security against loan.

Qno.31 Define Dock Warrant.

Ans. A Dock Warrant is a document issued by a warehouse or port operator that serves as proof of ownership of goods stored at the facility. It allows the holder to claim the goods and can be transferred to others, similar to a title document. Such kind of documents also accepted as security against loan.

Qno.32 Define Delivery Order / Note.

Ans. A Delivery Order (or Delivery Note) is a document issued by a seller or shipper instructing a carrier or warehouse to release goods to a specified recipient. It confirms that the recipient is authorized to receive the goods and typically includes details like the quantity and description of the items being delivered. Such kind of documents also accepted as security against loan.

Qno.33 Define Railway Receipt.

Ans. A Railway Receipt is a document issued by a railway company as proof of the receipt of goods for transport by rail. It serves as a contract of carriage and a receipt, detailing information such as the type and quantity of goods being shipped, the sender and recipient, and the terms of transport. This receipt is also acceptable as security for taking loan.

Qno.34 Define Immovable Property.

Ans. The assets, which cannot be transferred physically from one place to another are known as immovable properties like land, buildings etc., However Agricultural, Industrial and Development Banks easily accept this kind of security against loan.

Qno.35 Define Life Insurance Policy.

Ans. A life policy is a contract between a certain person and insurance company in which the insurance company promises to pay a stated sum of money either on his death or on his attainment of a certain age provided the premium is paid for the duration of contract. The bank also grants loan against life insurance policy.

Qno.36 Define Lien.

Ans. Lien means the legal right of lender or equitable right on the borrower property, which has been kept as security against a certain loan.

Qno.37 Define an ordinary creditor Lien.

Ans. An ordinary creditor lien cannot sell the security under lien to recover his amount.

Qno.38 Define Banker Lien.

Ans. A banker lien is different from an ordinary lien. Banker lien is an implied pledge (informal agreement) and so the banker can sell the security to recover his amount after giving a notice to the borrower.

Qno.39 Define Pledge.

Ans. Pledge is an actual delivery of rights (documents) as well as the possession of the goods / property to the bank against certain loan. The ownership of the property remains with the pledger (Customer). In case of non-payment the banker serves a notice for the fact and afterwards can sell the goods.

Qno.40 Define the term Hypothecation.

Ans. In case of hypothecation goods are available as security for the debts without transferring them to the lender (Bank). It means the possession and ownership of goods remains with the borrower. In case of non-payment the bank approaches the court of law to receive full rights of selling the hypothecated property.

Qno.41 Define Mortgage.

Ans. Mortgage is a written agreement between borrower (Mortgager) and the lender (Mortgagee) for obtaining loan against immovable property. In this type of security borrower transferred legal rights to lender but keeps possession.

Qno.42 Define Legal Mortgage / Registered Mortgage.

Ans. In case of legal mortgage, the mortgager transfers his legal rights / title of mortgaged property in the name of mortgagee by an agreement. On the repayment of loan, the title of mortgaged property is retransferred to the mortgager. It is also called registered mortgage.

Qno.43 Define Equitable Mortgage / Unregistered Mortgage.

Ans. In case of equitable mortgage, the legal title of the property is not transferred to the mortgagee. The mortgagee can apply to the court to convert the equitable mortgage into legal mortgage if the borrower fails to pay the amount of loan on specified date. It is also called unregistered mortgage.

CHAPTER NO. 9, 10, 11

TOPIC: NEGOTIABLE INSTRUMENT (I, II) AND NON-NEGOTIABLE INSTRUMENT

Qno.01 How does this origin reflect the modern understanding of credit in financial contexts?

Ans. The word credit has been derived from a Latin word Credo / Credere / Creditum which means I trust or I believe. It implies confidence or trust in an individual's solvency.

Qno.02 Define Credit.

Ans. When a person obtains loan on the security of his property and takes the responsibility for its payment in future is called "Credit".

Qno.03 Define Credit Instrument.

Ans. The instrument, which are not actual money but serve as money and perform all its functions, are called credit instruments. E.g., Cheques, Bills of exchange, Credit Card, Trade Credits, Promissory Note etc.

Qno.04 Write features of Credit Instruments.

Ans.

1. In writing.
2. Unconditional.
3. Substitute of money.
4. Necessary for foreign trade.
5. Proof of debt
6. Reduce Risk and loss
7. Saves time and labour
8. Facilitates trade

Qno.05 How many kinds of Credit Instrument?

Ans. There are following two types of credit instrument

1. Negotiable Instrument:

These are such credit instrument whose rights can be transferred to any other person. The rights of these instruments are transferred only by endorsement. E.g., Cheque, Promissory Note, Bills of Exchange and Bank Draft etc.

2. Non-Negotiable Instrument:

These are such instrument whose rights cannot be transferred to any other person. E.g., Bankers Letters of Credit, Money Order and Postal Order etc.

Qno.06 Define Cheque.

Ans. A cheque is an unconditional order in writing, drawn on a specified bank, signed by drawer, directing the bank to pay him on demand a certain sum of money or to a certain person.

Qno.07 How many parties of a Cheque?

Ans. There are following three parties of a cheque

1. **Drawer:** Drawer is a person who draws a cheque and directs a bank for the payment of specified amount to specified person.
2. **Drawee:** it is that branch of bank on which the cheque is drawn for payment.
3. **Payee:** The person who receives the specified amount written on cheque. It may be drawer or anybody else.

Qno.08 List down the elements of cheque

Ans. The information, which is stated on the cheque are called elements or entries of the cheque.

1. Name of Bank
2. Date
3. Nature of Account
4. Account Number
5. Cheque Number
6. Payee

7. Word Bearer or Order
8. Amount in words
9. Amount in Figure
10. Signature of depositor

Qno.09 Define Bearer Cheque.

Ans. It is a cheque which involves no restrictions and any person can withdraw money from the bank without his identification.

Qno.10 Define Order Cheque.

Ans. For the payment of this cheque, the bank demands identification from the payee to certify the name written on the cheque. No any other person except payee can withdraw money from the bank.

Qno.11 Define Crossed Cheque.

Ans. A crossed cheque is a type of cheque that has two parallel lines drawn across its face. This crossing indicates that the cheque can only be deposited into a bank account and cannot be cashed directly at a bank counter.

Qno.12 Define Post dated Cheque.

Ans. A post-dated cheque is a cheque that has a future date written on it, meaning it cannot be cashed or deposited until that date. It's often used to delay payment until sufficient funds are available. However, there's a risk that banks might process it earlier than intended.

Qno.13 Define Anti-dated Cheque.

Ans. An anti-dated cheque is a cheque that has a date on it that is earlier than the date it was written. This means the payment was meant to happen in the past. While it can still be used, banks may question it, and it's usually not recommended to write cheques this way.

Qno.14 Define Outdated Cheque / Stale Cheque.

Ans. An outdated cheque, or stale cheque, is a cheque that has not been cashed or deposited within six months from the date on it. After this time, banks may refuse to pay it, treating it as invalid. It's best to cash or deposit cheques promptly to avoid this problem.

Qno.15 Define Blank Cheque.

Ans. A blank cheque is a cheque that the signer has already signed but doesn't have an amount written on it. This means the person receiving it can fill in any amount they want. While it offers flexibility, it can be risky because someone could write in a large amount. It's important to be careful with blank cheques.

Qno.16 Define Dishonoured Cheque.

Ans. A dishonoured cheque is a cheque that a bank refuses to pay when it is presented for payment. This can happen for several reasons, such as insufficient funds in the account, a closed account, or a signature mismatch. When a cheque is dishonoured, it typically results in fees for the issuer and can damage their creditworthiness.

Qno.17 Define Plain Cheque.

Ans. A plain cheque is a regular cheque without any special features or restrictions. It can be written for any amount and is used for everyday payments, like bills or purchases. It doesn't have specific instructions or conditions.

Qno.18 State the reasons of dishonouring of a cheque.

- Ans.**
1. Insufficient Funds
 2. Closed Account
 3. Signature Mismatch
 4. Stale Cheque
 5. Post-dated Cheque
 6. Alterations
 7. Legal Issues
 8. Technical Errors

Qno.19 How does this origin reflect the modern understanding of Endorsement in financial contexts?

Ans. Word Endorsement is extracted from the Latin word "In dorsum. "In" means on and "dorsum" means back. The in dorsum means back. It means the writing on the back of the paper is called Endorsement.

Qno.20 Define Endorsement.

Ans. Endorsement means such writing on the back of a cheque which reveals the responsibility in any transferring matter.

OR

Endorsement means to write his name with or without words on the back of a paper or document for confirmation or certification.

Qno.21 Write down the types of Endorsement of a cheque.

- Ans.**
1. General Endorsement
 2. Special or Complete Endorsement
 3. Conditional Endorsement
 4. Partial Endorsement

5. Restricted Endorsement
6. Faculative Endorsement

Qno.22 Define General Endorsement.

Ans. If the drawer / holder of a cheque only signs on the back of cheque in order to transfer then it is called general endorsement.

Qno.23 Define Special or Complete Endorsement.

Ans. While transferring the cheque to a person, if the owner or holder writes the name of endorsee before his signature then the endorsement is said to be complete endorsement.

Qno.24 Define Conditional Endorsement.

Ans. If endorser of the cheque puts a condition for the transfer of cheque, then it is called conditional endorsement. The process of endorsement completes after the fulfillment of the condition. Such endorsement has no legal value.

Qno.25 Define Partial Endorsement.

Ans. it means endorsement of a part of the amount mentioned on the cheque. Such endorsement has also no legal value because endorsement is always done for the full amount of the cheque.

Qno.26 Define Restricted Endorsement.

Ans. It means the endorsement after which the cheque cannot be endorsed further. So only that person can receive the amount in whose favor endorsement is made.

Qno.27 Define Faculative Endorsement.

Ans. In case of dishonor of a cheque a notice is given to endorser to bear the responsibility of loss. However, in case of Faculative endorsement, if notice is not given even then the endorser cannot be exonerated.

Qno.28 Define Crossing a Cheque.

Ans. A cheque is said to be crossed when two transverse parallel lines on the left side of its face are drawn with or without some words. Crossing prevents the possibilities of frauds and wrong payments of the cheque because crossed cheque cannot be encashed at the counter.

Qno.29 How many persons can cross the cheque?

Ans. the following persons or parties can cross a cheque.

1. Drawer of Cheque.
2. Holder of Cheque.
3. Bank

Qno.30 Define Regular Crossing.

Ans. If the cheque is crossed according to the procedure or rules and regulations mentioned in Negotiable Instrument Act 1881 then the crossing is considered legal or valid or regular.

Qno.31 Define General Crossing.

Ans. Where a cheque bears across its face addition of the words "& Co.", "A/c payee only", or "Not Negotiable" or without these words between two transverse parallel lines this cheque shall be deemed to be crossed generally.

Qno.32 Define Special Crossing.

Ans. Where a cheque bears across its face with addition of the name of banker with or without word 'Not Negotiable', then the cheque shall be deemed crossed specially.

Qno.33 Define Irregular Crossing.

Ans. If the cheque is not crossed according to the procedure or rules and regulations mentioned in Negotiable Instrument Act 1881 then the crossing is considered illegal or invalid or irregular.

Qno.34 How does the use of cheque can be increased?

Ans.

- i. By opening new banks.
- ii. Use of post office.
- iii. Mobile Banks.
- iv. Increase in literacy rate.

Qno.35 Define Traveler Cheque.

Ans. These cheques are issued by the banks to travelers on which specified amount is written. The holder of this cheque can withdraw money from any branch of specified bank.

Qno.36 Define Bills of Exchange.

Ans. An instrument in writing containing an unconditional order, signed by the maker directing a certain person to pay a certain sum of money only to or to the order of a certain person or to the bearer of the instrument on demand or at a fixed future time.

Qno.37 How many parties of Bills of Exchange?

Ans. There are three main parties of bill of exchange

1. **Drawer:** The party who draws the bill is called Drawer or the maker.
2. **Drawee:** The party to whom the bill is drawn or addressed.

3. **Payee:** The party to whom the bill is made payable. It may be drawer or any other party.

Qno.38 How many types of Bills of Exchange?

Ans. There are two types of Bills of Exchange

1. **According to Place:**

i. **Inland Bill:**

1. **Sight Bill:** Bill amount is paid on the presentation. Bill is used in local trade
2. **Time Bill:** Bill amount is paid on the expiry of a fixed future time.

ii. **Foreign Bill:**

1. **Sight Bill:** Bill amount is paid on the presentation on bill
2. **Time Bill:** Bill amount is paid on the expiry of a fixed future time.

2. **According to Object:**

1. **Trade Bills of Exchange:** It is a bill, which is issued or drawn to settle any trade credit transaction.
2. **Accommodation Bills of Exchange:** This bill of exchange does not involve any trade transaction. It is accepted only for accommodation (Financial help) purpose.

Qno.39 Define Dishonoured Bills of Exchange.

Ans. The bill is not paid on the due date is called dishonoured bill. The noting and protesting charges is necessary in such case.

Qno.39 Define Promissory Note.

Ans. A Promissory Note is an instrument in writing containing an unconditional promise signed by the maker to pay a certain sum of money only to or to the order of a certain person or to the bearer of the instrument on demand or at a fixed future time.

Qno.40 How many parties involved in Promissory Note?

Ans. There are two parties in Promissory Note

1. **Maker (Drawer):** The drawer or the maker of promissory note is that person who borrows money or purchases goods on credit.
2. **Payee (Drawee):** He is the person who receives the amount of the promissory note or who lends the money (Creditor).

Qno.41 How many types of Promissory Note?

Ans. There are two types of Promissory Note

1. **Inland Promissory Note:** if the maker (drawer) and the payee belong to the same country and the instrument is made and paid in the same country it is called inland Promissory Note.
2. **Foreign Promissory Note:** if the maker (drawer) and the payee belong to the two different countries and the instrument is made and paid in the two different countries it is called Foreign Promissory Note.

Qno.42 Define Bank Draft.

Ans. Bank Draft is a document drawn by one bank upon on another bank or its other office, which contains an order for the payment of specified amount.

Note: any person can obtain bank draft after paying the bank charges whether he is an account holder of bank or not.

Qno.43 How many parties of bank draft?

Ans. There are four parties involved in bank draft

1. **Sender:** a person who sends money to payee.
2. **Payee:** a person who receives the amount of draft.
3. **Drawer:** it is that branch of bank which issues or makes the draft.
4. **Drawee:** it is that branch of the bank on which the draft is issued / drawn (which pays the amount of draft).

Qno.44 What are the contents of Bank Draft?

- Ans.**
1. Name of draft issuing bank and its branch
 2. Serial number of bank draft
 3. Date of issue
 4. Payee name
 5. Amount of money
 6. Drawee bank and its branch
 7. Signature of manager and on officer of draft issuing bank

Qno.45 How many kinds of Bank Draft?

Ans. There are two kinds of Bank Draft

1. **Order Bank Draft:** in order bank draft the payment is only made to a nominated payee whose name is written on it. Firstly, the bank identifies the payee and then makes the payment.
2. **Crossed Bank Draft:** If two transverse parallel lines are drawn on the face of bank draft then it is known as crossed bank draft. The amount of such draft cannot be received at the bank counter.

Qno.46 Define Treasury Bill.

Ans. The treasury bill is a document in which the government promise to pay a certain sum of money to a person or business concern. The treasury bill is also transferable.

Qno.47 Who is acceptor of the Bill?

Ans. He is the person who accept the bill on the behalf of drawee for payment of bill on due date.

Qno.48 Who is Endorser of Bill?

Ans. He is the person who transfer the rights to receive the amount of bill to any other party. It may be drawer or endorsee.

Qno.49 Define Payee.

Ans. He is a person who receives the amount of bills of exchange, Promissory Note and Cheque.

Qno.50 How discounting a bill of exchange is beneficial to drawer?

Ans. If drawer is in need of money before maturity of bill can get the amount by discounting the bill by banker.

Qno.51 What is retirement of bill of exchange?

Ans. If the drawee of bill of makes its payment before maturity or due date then it is called retirement of bill of exchange.

Qno.52 Define Grace days.

Ans. For the payment of bill, a drawee has been given 3 extra (grace) days.

Qno.53 What is noting and protesting of bill?

Ans. If the drawee does not pay bill on due date (dishonouring of bill) then the drawer gets certification of dishonouring from notary public. In case of foreign bill protesting is also necessary along with noting. The main objective of protesting and noting is to get a reliable proof of dishonouring.

Qno.54 What is renewal of Bill?

Ans. if the acceptor (drawee) is not able to meet the bill on the due date then he can renew his bill with the consent of drawer. In this case the drawer can plus the amount of interest in new bill.

Qno.55 What is meant by acceptance of Bill?

Ans. The bill is signed by drawee for the purpose of acceptance is called acceptance of bill. A bill of exchange is invalid without acceptance.

Qno.56 Write four merits of Bill of Exchange.

Ans.

1. Trade development
2. Easy settlement of payments or receipts
3. Proof of credit
4. Facility of discounting
5. Income of bank
6. Less need of capital
7. Progress of banking
8. Income to Government

Qno.57 What is endorsement of Bill of Exchange?

Ans. If the drawer transfers the rights of bill to his creditor for the settlement of debts, then it is called endorsement of bill of exchange.

Qno.58 Define Bankers Letters of Credit.

Ans. Bankers' letters of credit, we mean the letters, which a banks issues in the favor of a particular person, so that he may get a certain amount of money from that or from its any other branch.

Qno.59 Define Commercial Letter of Credit.

Ans. Commercial banks issue various letters of credit for the international trade, which are called commercial letter of credit. These letter not only act as a money in the international trade but also play an important role in the transfer of money and investment.

Qno.60 Define Letter of Credit.

Ans. The letter of credit is written instrument issued by the buyer's bank authorizing the seller to draw in accordance with the certain terms and conditions.

OR

The letter of credit is a commitment on the part of the buyer's bank to pay or accept draft drawn upon it provided such draft do not exceed a specified amount.

Qno.61 How many parties or persons involved in Commercial Letter of Credit?

Ans. The Commercial of Letter of Credit has the following parties:

1. **Importer:** the person who buys goods from a foreign country is called importer.
2. **Importer's Bank:** It is the bank, which issues the Letter of Credit and assures the exporters bank for the payment. It is also called issuing bank or an opening bank or a buyer's bank.
3. **Exporter:** The person who sells goods to another country is called exporter. The letter of credit is

opened or issued in his favour.

4. **Exporter's Bank:** it is the bank in whose name the Letter of Credit is issued. This bank also advises the exporter for sending goods. It is also called advising bank or negotiating bank or paying bank.

Qno.62 Enlist the points of Opening a Letter of Credit.

- Ans.**
1. Agreement
 2. Preparation of Documents
 3. Contact with the bank
 4. Import License
 5. Application Form
 6. Scrutiny of Applications
 7. Undertaking
 8. Margin Requirement
 9. Issuance of LC
 10. Confirmation
 11. Delivery of Goods
 12. payment

Qno.63 What do you mean by the Margin Requirement with respect to LC?

- Ans.** The bank asks the importer to deposit a certain proportion of the total value of goods to be imported. Normally, the margin requirement may be upto 10% to 40%

Qno.64 Define Clean LC.

- Ans.** It is that LC in which no condition attached to the bill and the exporter has no need to deposit the bill of lading invoice and the paper of insurance policy to get his money.

Qno.65 Define Documentary LC.

- Ans.** A documentary LC provides that the drafts drawn under it are to be accompanied by different documents related to the merchandise e.g., Bill of Lading, Invoice and Insurance policy etc.

Qno.66 Define Confirmed LC.

- Ans.** A confirmed LC is confirmed if it is added the "Confirmation" of the intermediary bank by which that bank also binds itself by giving undertaking to honor the drafts drawn under it.

Qno.67 Define Un-confirmed LC.

- Ans.** In case of this LC, intermediary bank forwards the LC (advises to notify the LC) to the beneficiary but does not assume any liability in this regard.

Qno.68 Define Revocable LC.

- Ans.** The payment of this LC is not confirmed because the bank or importer may cancel or alter the its contents at any time due to any reason. Therefore, the use of revocable LC is very less in international market.

Qno.69 Define Irrevocable LC.

- Ans.** The payment of this LC is confirmed because bank or traders cannot cancel or alter it before payment. So this LC is more reliable in international trade.

Qno.70 Define Fixed LC.

- Ans.** This LC is issued for a particular transaction or for the payment of fixed amount and it is automatically cancelled at the completion of transaction or payment.

Qno.71 Define Revolving LC.

- Ans.** Although, this LC is issued for the payment of specific amount but at the completion of all the transactions it is automatically renewed for the same specific purpose.

Qno.72 Define Red Clause LC.

- Ans.** In this LC the intermediary bank provide loan to exporter for packing and transportation of goods before the shipment of goods. The statement containing the details of order is specially written with red ink.

Qno.73 Define Green Clause LC.

- Ans.** It is the developed form of red clause LC in which the exporter can get the loan not only for packing or transportation but also for storage as well. The statement containing the details of order is specially written with green ink.

Qno.74 Define Back-to-Back LC.

- Ans.** In this LC the receiver of money is not the sender of goods. It means the beneficiary is not the actual supplier. He produces or open his own LC to his bank and on the strength of it gets opened another LC in the favour of the actual suppliers. Thus, the beneficiary buys the goods from the actual supplier and supplies to the same buyer.

Qno.75 What are advantages of commercial letter of credit?

- Ans.**
1. **To Importer:**
 - i. Payment facility
 - ii. Credit standing

2. **To bank:**
 - i. Income of bank
 - ii. Increase in accounts
3. **To exporter:**
 - i. Confirm receipts
 - ii. Pre-shipment finance
4. **Miscellaneous:**
 - i. Facility of Receipts and Payments
 - ii. Progress of International Trade
 - iii. Legal Protection
 - iv. Economic Development
 - v. Tension Free
 - vi. Confidence
 - vii. Compensation of Losses

Qno.76 What is meant by Personal or Private Letter of Credit?

Ans. People, who enjoys recreational or private trips to the foreign countries, don't like to take cash to avoid the chances of loss or theft. So, in order to facilitate such people during their journey, bank issue various kind of letters which are called Personal or Private Letter of Credit

Qno.77 Define Travellers Letter of Credit.

Ans. It is a letter, which is issued to any Traveller to facilitate him financially during journey. In this letter, a bank orders its many other branches of other countries to pay a particular amount to a specific person (whose name is written in the letter).

Qno.78 Define Circular Note.

Ans. The Circular note is such non-negotiable instrument that a bank issues to all of its branches and offices of other countries. This note is issued to give financial aid to the traveler during their journey.

Qno.79 Define Traveller Cheque.

Ans. Travellers Cheque means a cheque which a bank issues to its customers for the availability of money during their journey. The amount of cheque has to be deposited at the time of its issuance. In these cheques the name of the Travellers is written instead of receiver.

Qno.80 Define Money Order.

Ans. Money Order is an order drawn by one post office on another for the payment of money. If a person wants to send money to any other person, then he has to fill a form called Money Order Form. After filing money order form, it is given to the clerk with amount and commission. Clerk issues an acknowledgement of received amount on which the name of receiver is written. This acknowledgement is non-transferable, so only that person can receive whose name is written on it.

Qno.81 Define Postal Order.

Ans. Postal Order is very easy mode of transferring money from one place to another. Postal orders are of different values. The holder of postal order can receive money from post office. Postal order can also be crossed.

Qno.82 Define the term I OWE YOU.

Ans. It is a written document in which the debtor writes these words with his signature that "I OWE YOU", which means "I am your debtor". In this statement neither credit period nor promise for payment is written.

Qno.83 Define Stock Certificate.

Ans. Stock Certificate are the proof that the holder has share in any business on the terms of profit and loss. Their value is written on the certificate. They are bought and sold in stock exchange. Usually limited companies sell / issues such kinds of certificates.