# VIDYA BHAWAN BALIKA VIDYA PITH

# शक्ति उत्थान आश्रम लखीसराय बिहार

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**Public Deposits**

The deposits that are raised by organizations directly from the public are known as public deposits. Rates of interest offered on public deposits are usually higher than that offered on bank deposits. Any person who is interested in depositing money in an organisation can do so by filling up a prescribed form. The organisation in return issues a deposit receipt as acknowledgment of the debt. Public deposits can take care of both medium and short-term financial requirements of a business. The deposits are beneficial to both the depositor as well as to the organisation. While the depositors get higher interest rate than that offered by banks, the cost of deposits to the company is less than the cost of borrowings from banks. Companies generally invite public deposits for a period upto three years. The acceptance of public deposits is regulated by the Reserve Bank of India Merits

**The merits of public deposits are:**

(i) The procedure of obtaining deposits is simple and does not contain restrictive conditions as are generally there in a loan agreement;

(ii) Cost of public deposits is generally lower than the cost of borrowings from banks and financial institutions;

(iii) Public deposits do not usually create any charge on the assets of the company. The assets can be used as security for raising loans from other sources;

(iv) As the depositors do not have voting rights, the control of the company is not diluted.

**Limitations**

The major limitation of public deposits are as follows:

(i) New companies generally find it difficult to raise funds through public deposits;

(ii) It is an unreliable source of finance as the public may not respond when the company needs money;

(iii) Collection of public deposits may prove difficult, particularly when the size of deposits required is large.

**Commercial Paper (CP)**

Commercial Paper emerged as a source of short term finance in our country in the early nineties. Commercial paper is an unsecured promissory note issued by a firm to raise funds for a short period, varying from 90 days to 364 days. It is issued by one firm to other business firms, insurance companies, pension funds and banks. The amount raised by CP is generally very large. As the debt is totally unsecured, the firms having good credit rating can issue the CP. Its regulation comes under the purview of the Reserve Bank of India.

The merits and limitations of a Commercial Paper are as follows:

**Merits**

(i) A commercial paper is sold on an unsecured basis and does not contain any restrictive conditions;

(ii) As it is a freely transferable instrument, it has high liquidity;

(iii) It provides more funds compared to other sources. Generally, the cost of CP to the issuing firm is lower than the cost of commercial bank loans;

(iv) A commercial paper provides a continuous source of funds. This is because their maturity can be tailored to suit the requirements of the issuing firm. Further, maturing commercial paper can be repaid by selling new commercial paper;

(v) Companies can park their excess funds in commercial paper thereby earning some good return on the same.

**Limitations**

(I)Only financially sound and highly rated firms can raise money through commercial papers. New and moderately rated firms are not in a position to raise funds by this method;

(ii) The size of money that can be raised through commercial paper is limited to the excess liquidity available with the suppliers of funds at a particular time;

(iii) Commercial paper is an impersonal method of financing. As such if a firm is not in a position to redeem its paper due to financial difficulties, extending the maturity of a CP is not possible.