



Dream Big Institution

No. 1 Platform For Preparation of Govt Exams

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(Memory Based Paper)

**Principles
&**

Practices of Banking



- Q1. Which of the following statements accurately defines a bullet payment?
- I. A single lump-sum payment settled at the end of a loan's term.
 - II. Consistent monthly payments spread across the duration of a loan.
 - III. The initial payment made at the commencement of a loan.
 - IV. A substantial payment made during the middle of a loan's term.
- (A) Only I
(B) Only II
(C) II, III
(D) Either I or III
- Q2. Which financial statement would reflect the expenditure incurred on the purchase of raw materials by a firm/company?
- (A) Profit and Loss Statement
(B) Trading Account
(C) Balance Sheet
(D) Either A or B
- Q3. What is a key difference between the Net Present Value (NPV) and Internal Rate of Return (IRR) methods of investment appraisal?
- (A) NPV provides the actual monetary gain or loss, while IRR expresses returns as a percentage.
(B) NPV assumes reinvestment at the project's internal rate of return, while IRR assumes reinvestment at the cost of capital.
(C) NPV is used for short-term projects, while IRR is used for long-term projects.
(D) NPV is preferred for projects with uncertain cash flows, while IRR is used for projects with predictable cash flows.
- Q4. Where would revenue generated from a business's core operations typically be recorded?
- I. P&L Statement
 - II. Balance Sheet
 - III. Trading account
 - IV. Cash flow statement
- (A) Only I
(B) Only III
(C) Either I or III
(D) I, II & III
- Q5. What is the primary focus of Section 10 of the Income Tax Act?
- (A) Incomes not included in total income
(B) Deductions for business expenses
(C) Taxation of capital gains
(D) None of the above

- Q6. Under which section of the Income Tax Act can an individual claim deductions on health insurance premiums?
- I. Section 80C
 - II. Section 80D
 - III. Section 80E
 - IV. Section 80CC
- (A) Only I
(B) Only IV
(C) Only II
(D) II, & III
- Q7. In which of the following industries is Process Costing most likely to be used?
- I. Oil refining
 - II. Automobile manufacturing
 - III. Chemical manufacturing
 - IV. Fashion designing
- (A) Only I
(B) Only II
(C) Only I & III
(D) I, II, III, IV
- Q8. Which of the following best describes the concept of "Margin of Safety" in business?
- (A) The amount of profit a company makes above its competitors
(B) The cushion or buffer between actual sales and the break-even point
(C) The difference between gross profit and net profit
(D) The percentage of revenue allocated for operating expenses
- Q9. Consider the given statements in the context of Marginal Costing. Choose the ones that is/are incorrect.
- I. Under this method, all indirect costs are to be written off against profits, in the period in which they arise.
 - II. Under marginal costing, total costs are segregated into the fixed cost and the variable costs.
 - III. Under marginal costing technique, the inventory valuation may become unrealistic as fixed costs are not included in the value of work-in-process and finished goods.
 - IV. It assumes that the sales price per unit will remain same irrespective of production and sales.
- (A) Only II & IV
(B) Only II
(C) Only I & IV
(D) All the statements are correct.
- Q10. What is the primary focus of a production budget?
- (A) Estimating future sales figures
(B) Planning the resources needed for production activities
(C) Calculating the cost of production
(D) Analyzing the profitability of the production process

- Q11. Which of the following statements about a bank reconciliation statement is correct?
- I. A bank reconciliation statement is prepared to identify discrepancies between a company's accounting records and the bank statement.
 - II. A credit balance in the bank statement represents overdraft.
 - III. Bank service charges and interest earned are adjustments made on the company's books.
 - IV. A bank reconciliation statement is only necessary for large corporations and is not relevant for small businesses.
- (A) I and II
(B) I and III
(C) II and III
(D) I, II, and III
- Q12. Which of the following statements regarding standard costing are correct?
- I. Standard costing involves setting predetermined cost levels for materials, labor, and overhead.
 - II. It provides a benchmark for evaluating actual performance against expected costs.
 - III. Standard costing is primarily used for historical cost reporting.
 - IV. Variances in standard costing can provide insights into areas of operational efficiency or inefficiency.
- (A) I & II
(B) I, II & III
(C) I, II & III
(D) I, II & IV
- Q13. What does a high debt/equity ratio indicate for a company?
- (A) The company has a higher level of financial leverage
(B) The company is more conservative in its financing approach
(C) The company is at a lower risk of default
(D) None of the above
- Q14. Which one of the following statements about Corporate Social Responsibility (CSR) is not correct?
- I. Corporate social responsibility is traditionally grouped in four categories, viz. environmental, philanthropic, ethical, and economic responsibility.
 - II. The statutory obligations are laid down in Section 135 of the Companies Act, 2013 which, inter alia, mention the activities that a company can undertake under CSR.
 - III. The companies must disclose the details of the CSR activities separately in the Annual report of the Board of Directors.
- (A) Only I
(B) Only II
(C) Only III
(D) All statements are correct
- Q15. Which statement accurately describes the relationship between bond price and yield to maturity (YTM)?
- (A) A bond's price and YTM are directly proportional.
(B) A bond's price and YTM are inversely proportional.
(C) A bond's price is not affected by its YTM.
(D) A bond's price is only affected by its face value.

- Q16. Which statement best describes the Going Concern Principle in accounting?
- (A) It means the business is guaranteed to be profitable in the future.
 - (B) It assumes that the business will continue its operations for the foreseeable future.
 - (C) It requires businesses to cease operations if they are not currently profitable.
 - (D) It implies that all expenses should be paid immediately to ensure ongoing operations.
- Q17. What does the accrual concept in accounting entail?
- (A) Recognizing revenue and expenses when they are incurred, regardless of when cash is exchanged
 - (B) Recording revenue and expenses only when cash is received or paid
 - (C) Recognizing revenue and expenses only at the end of the financial year
 - (D) Ignoring revenue and expenses in financial statements
- Q18. Depreciation is computed for the following purposes:
- I. To ascertain the current market value of an asset.
 - II. To distribute the cost of an asset over its useful lifespan.
 - III. To establish the salvage value of an asset.
 - IV. To compute the tax liability associated with an asset.
- (A) Only I
 - (B) Only II
 - (C) II, III
 - (D) I, II, III, IV
- Q19. Which of the following accurately defines the break-even point?
- (A) The point at which a company covers all its costs and begins to generate profit
 - (B) The point at which a company's revenue equals its total expenses.
 - (C) The point at which a company's total sales revenue equals its variable costs.
 - (D) The point at which a company reaches its maximum production capacity.
- Q20. Which accounting rule applies to Cash Account?
- I. Debit all expenses and losses, credit all incomes and gains
 - II. Debit the receiver, credit the giver
 - III. Debit what comes in, credit what goes out
- (A) Only I
 - (B) Only II
 - (C) Only III
 - (D) Either I or III
- Q21. Which of the following can be used to calculate net worth?
- I. Total Assets - Creditors
 - II. Capital + Reserves & Surplus
 - III. Current Assets - Current Liabilities
 - IV. Capital - Reserves & Surplus
- (A) Only I
 - (B) Only I & II
 - (C) Only I & III
 - (D) Only II

Q22. How can Net Working Capital be calculated?

- I. Total Assets - Total Liabilities
 - II. Current Assets - Current Liabilities
 - III. Current Assets + Current Liabilities
 - IV. Total Assets + Total Liabilities
- (A) Only I
(B) Only II
(C) Only III
(D) I, II, III, IV

Q23. The formula for calculation of Quick Ratio:

- I. $\frac{\text{Current Assets}}{\text{Current Liabilities}}$
 - II. $\frac{\text{Current Liabilities}}{\text{Current Assets}}$
 - III. $\frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$
 - IV. $\frac{\text{Current Liabilities} - \text{Inventory}}{\text{Current Assets}}$
- (A) Only I
(B) Only III
(C) II, III
(D) I, II, III, IV

Q24. Under Section 80C of the Income Tax Act, an individual can claim a deduction for:

- I. Medical insurance premium paid
 - II. Life insurance premiums
 - III. Contribution towards the Public Provident Fund (PPF)
 - IV. Repayments made towards the principal component of home loan EMIs
- (A) Only I
(B) Only II
(C) Only II & III
(D) Only II, III, & IV

Q25. The East India Company, established by the British, was an example of:

- I. Public Limited Company
 - II. Private Company
 - III. Partnership firm
 - IV. Joint Stock Company
- (A) Only I
(B) Only II
(C) Only IV
(D) Both III & IV

Q26. A company has total assets worth Rs. 20,00,000 and its owners' equity (capital) is Rs. 8,00,000. What are the outside liabilities?

- (A) ₹ 12,00,000
- (B) ₹ 3,00,000
- (C) ₹ 7,00,000
- (D) ₹ 8,00,000

- Q27. A company has current assets of Rs. 10,00,000 and current liabilities of Rs. 5,00,000. What is the working capital?
(A) Rs. 5,00,000
(B) Rs. 10,00,000
(C) Rs. 2,00,000
(D) None of the above
- Q28. A company has current assets of Rs. 1,50,000, with Rs. 40,000 of that being inventory. Its current liabilities amount to Rs. 60,000. What is the quick ratio?
(A) 1.833
(B) 1.533
(C) 1.75
(D) 2
- Q29. A company has total liabilities of Rs. 5,00,000 and total assets of Rs. 10,00,000. Calculate the debt to assets ratio.
(A) 0.25
(B) 0.5
(C) 0.75
(D) 1
- Q30. Company ABC has a current stock price of Rs. 50 per share. Its earnings per share (EPS) for the last year were Rs. 5. Calculate the priceearnings ratio (P/E ratio).
(A) 10
(B) 20
(C) 50
(D) 500
- Q31. A company has fixed assets worth Rs. 4,00,000 and long-term funds amounting to Rs. 6,00,000. Calculate the fixed assets ratio.
(A) 0.33
(B) 0.5
(C) 0.67
(D) 1
- Q32. A company purchases a machine for Rs. 50,000 with an estimated salvage value of Rs. 5,000 after 5 years. What will be the annual depreciation expense using the Straight Line Method (SLM)?
(A) ₹9,000
(B) ₹ 10,000
(C) ₹9,500
(D) ₹ 10,500



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- Q33. A company purchases a machine for Rs. 100,000. The estimated useful life of the machine is 5 years, and the salvage value is Rs. 10,000. Calculate the depreciation expense for the second year using the Written Down Value (WDV) method. If the company uses the reducing balance depreciation method with a depreciation rate of 20%, find the book value of the machine at the end of the third year?
- (A) ₹46,080
(B) ₹86,400
(C) ₹49,830
(D) ₹51,360
- Q34. When a company receives cash from a customer, which account will be debited and which account will be credited?
- (A) Cash account will be debited; Customer's account will be credited
(B) Cash account will be credited; Customer's account will be debited
(C) Cash account will be debited; Sales account will be credited
(D) Cash account will be credited; Sales account will be debited
- Q35. Which financial statement provides information about the cash flows of a company during a specific period?
- I. Income Statement
II. Balance Sheet
III. Cash Flow Statement
IV. Statement of Retained Earnings
- (A) Only I
(B) II & III
(C) Only III
(D) III & IV
- Q36. NPV (Net Present Value), IRR (Internal Rate of Return), and ARR (Accounting Rate of Return) are concepts used in:
- (A) Marketing Strategy
(B) Capital Investment Decisions
(C) Operations Management
(D) Equipment Leasing
- Q37. Which of the following is an example of CSR (Corporate Social Responsibility)?
- (A) Donating a portion of profits to a local charity.
(B) Providing employees with extra vacation days.
(C) Offering discounts to loyal customers.
(D) Increasing advertising budgets.
- Q38. The straight-line depreciation method evenly distributes the cost of an asset over its useful life. Which statement is accurate regarding straightline depreciation?
- (A) The depreciation cost remains consistent over the asset's useful life.
(B) The depreciation cost diminishes over the asset's useful life.
(C) The depreciation cost escalates over the asset's useful life.
(D) The concept of depreciation cost doesn't apply to intangible assets.

- Q39. A company purchases a computer system for Rs. 80,000 with a salvage value of Rs. 10,000 after 4 years. Using the Straight-Line Method (SLM) of depreciation, what will be the annual depreciation expense?
- (A) ₹20,000 (B) ₹40,000
(C) ₹50,000 (D) None of the above
- Q40. What is the nominal rate of interest?
- (A) The interest rate before accounting for inflation
(B) The interest rate adjusted for inflation
(C) The interest rate compounded annually
(D) The interest rate that is used in the calculation of present value
- Q41. Which of the following statements is/are correct in the context of AS-1?
- I. AS-1 deals with the disclosure in the financial statements of significant accounting policies followed in the preparation and presentation of such statements.
II. The purpose of this standard is to promote a better understanding of the financial statements by disclosures.
III. AS-1 specifies that all significant accounting policies adopted in the preparation of financial statements should be disclosed.
IV. If any of the fundamental accounting assumptions, viz., going concern, consistency and accrual is not followed, the fact should be disclosed.
- (A) Only I
(B) Only II
(C) Only III
(D) I, II, III, IV
- Q42. AS-5 deals with the treatment in the financial statements of a prior period and extraordinary items and changes in accounting policies. Select the statements which are correct in this context.
- I. When the items of income and expense arising from the profit or loss from the ordinary activities are of such size, nature, or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately.
II. Disposals of long-term investments require a separate disclosure.
III. Prior Period Items are incomes or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and therefore, are not expected to recur frequently or regularly.
- (A) Only I & II
(B) Only II
(C) Only II & III
(D) I, II, & III
- Q43. Which of the following is/are the advantages of Bank Reconciliation Statement?
- I. It enables the management to verify the precision of the entries recorded in the cash book.
II. It serves as a crucial control method for management.
III. It exposes any fraudulent activities carried out by cash and check-handling staff, thereby empowering management to exert effective control.
IV. It aids in identifying mistakes and allows for prompt corrective measures to be taken regarding balances.
- (A) I & II
(B) II, III & IV
(C) II, III
(D) I, II, III, IV

- Q44. A company purchases a piece of equipment for Rs. 8,20,000. The estimated useful life is 8 years and the salvage value is Rs. 65,000. If the company uses a depreciation rate of 20% using the Written Down Value (WDV) method, what will be the book value of the equipment after 2 years?
- (A) ₹4,39,000
(B) ₹5,10,300
(C) ₹4,83,200
(D) ₹4,23,200
- Q45. As per the annual Financial Statements in the form of Profit and Loss Account and Balance Sheet are required to be audited in accordance with the requirements of applicable statutes.
- (A) Companies Act, 2013
(B) RBI Act, 1934
(C) Banking Regulation Act, 1949
(D) Both A and B
- Q46. Which of the following is/are the disadvantages of computerized accounting?
- I. Increased risk of security breaches
II. Initial setup cost and training expenses
III. Inability to carry out complex accounting transactions
IV. Reduced data accuracy
- (A) Only I
(B) Only II
(C) Only I & II
(D) Only I, IV
- Q47. What is a contract between two parties whereby they agree to exchange a stream of interest payments on a notional principal for a given period at pre-agreed intervals of time?
- (A) Mortgage Agreement
(B) Loan Modification
(C) Interest Rate Swap
(D) Payment Plan
- Q48. Costing refers to:
- I. The process of calculating the overall expenses incurred in manufacturing a product or delivering a service.
II. Distributing costs to different divisions or cost centers within a company.
III. Analyzing costs to understand their patterns and connection with production levels.
IV. Determining a company's profit or loss by evaluating its revenue and expenditures.
- (A) Only I
(B) Only II
(C) Only III
(D) I, II, III, IV

- Q49. Which of the following statements is correct in the context of trading account?
- It shows the revenues, expenses, along with net profit or loss of a company for a specific period.
 - The trading account calculates the gross profit or loss of a business by comparing the cost of goods sold with the sales revenue.
 - It includes only direct costs related to the purchase and sale of goods.
 - The trading account is the first step in preparing the final accounts of a business.
- (A) Only I
(B) Only II
(C) II, III, IV
(D) I, II, III, IV
- Q50. Corporate Social Responsibility (CSR) entails:
- Environmental protection
 - Social development
 - Ethical business practices
 - Philanthropic giving
- (A) Only I
(B) Only III
(C) Only II & III
(D) I, II, III, IV
- Q51. What is the highest discount a company can provide when issuing new equity shares?
- (A) 10% of the face value
(B) 5% of the face value
(C) 1% of the face value
(D) Fresh shares cannot be issued at discount
- Q52. A company purchases machinery for Rs. 50 lakhs for its production facility. It pays 60% in cash and the remaining 40% through a bank loan. What will be the effect of this transaction on the company's financial position?
- (A) Machinery increases by Rs. 50 lakhs, cash decreases by Rs. 30 lakhs, and there is a new liability of Rs. 20 lakhs.
(B) Machinery increases by Rs. 30 lakhs, cash decreases by Rs. 20 lakhs, and there is a new liability of Rs. 50 lakhs.
(C) Machinery increases by Rs. 50 lakhs, cash decreases by Rs. 20 lakhs, and there is a new liability of Rs. 30 lakhs.
(D) Machinery increases by Rs. 30 lakhs, cash decreases by Rs. 30 lakhs, and there is a new liability of Rs. 20 lakhs.
- Q53. What is meant by Reserve Capital?
- (A) The portion of subscribed but yet-to-be called-up capital.
(B) Profits that have been accumulated over several years.
(C) A segment of Capital Reserve set aside for specific purposes.
(D) A portion of Capital Redemption Reserve earmarked for future use.
- Q54. A company issued 15,000 shares at Rs. 20 each, with an application money of Rs. 5 and an allotment money of Rs. 8. If 200 shareholders fail to pay the allotment money, resulting in the forfeiture of their shares, what will be the balance in the forfeiture account?
- (A) Rs. 75,000
(B) Rs. 2000
(C) Rs. 1500
(D) Rs 1000

- Q55. In bookkeeping, what does a debit represent?
- (A) An entry on the left hand side of an account
 - (B) Decrease in asset
 - (C) Increase in liability
 - (D) An entry on the right hand side of an account
- Q56. What kind of purchases are recorded in the Purchase Book (or Purchases Journal)?
- (A) Credit purchases of goods-in-trade
 - (B) Cash purchases of goods-in-trade
 - (C) Both A and B
 - (D) Credit purchases of fixed assets
- Q57. According to accounting principles, which valuation method should be applied for determining the value of closing stock?
- (A) Take the higher of the purchase cost or market value.
 - (B) Take the average of the purchase cost and market value.
 - (C) Take the purchase cost only.
 - (D) Take the lower of the purchase cost or market value.
- Q58. What is an error of omission in accounting?
- (A) Failing to record a transaction in the books of accounts.
 - (B) Recording a transaction but with an incorrect amount.
 - (C) Recording a transaction on the wrong date.
 - (D) Incorrectly classifying a transaction in the financial statements.
- Q59. In order to rectify a sale of Rs. 7,500 that was erroneously posted to Mohan instead of Sohan, which of the following journal entries should be made?
- (A) Debit Mohan account and credit Sohan account with Rs. 7,500
 - (B) Debit Mohan account and credit Sales account with Rs. 7,500
 - (C) Debit Sales account and credit Sohan with Rs. 15,000
 - (D) Debit Sales account and credit Sohan account with Rs. 7,500
- Q60. Most of the companies in India are statutorily required to spend at least of their average net profits, made during the previous financial years, towards the Corporate Social Responsibility (CSR) in the current financial year.
- (A) 2%, 2
 - (B) 2%, 3
 - (C) 3%, 2
 - (D) 3%, 3
- Q61. What kind of voucher is issued by the bank when it in case it issues cheques/pay orders?
- (A) A debit voucher
 - (B) A credit voucher
 - (C) A composite voucher
 - (D) A consolidated voucher

- Q62. A businessman purchased goods against cash from Mohan. Which of the following accounts will be debited?
- (A) Cash A/c
(B) Goods A/c
(C) Mohan's A/c
(D) Both A and B
- Q63. A company has total assets worth Rs. 5,00,000 and total liabilities of Rs. 3,00,000. What is the net worth of the company?
- (A) Rs. 8 lakhs
(B) Rs. 5 lakhs
(C) Rs. 3 lakhs
(D) Rs. 2 lakhs
- Q64. Expenditures in accounting can be categorized into two main types: capital expenditures and revenue expenditures. What kind of expenditure is acquisition of machinery by a manufacturing firm?
- (A) Capital expenditure
(B) Revenue expenditure
(C) Deferred revenue expenditure
(D) None of the above
- Q65. In case of direct rates, if the forward rate is more than the spot rate, the is called as being at a
- (A) base currency, premium
(B) base currency, discount
(C) foreign currency, premium
(D) None of the above
- Q66. Calculate the interest differential using the following information:
- Forward points = 0.01650
 - No. of days in the year = 365
 - Spot rate = 1.25
 - Forward period = 90.days
- (A) 5.35%
(B) 4.50%
(C) 5.55%
(D) 5.90%
- Q67. For a 4-year loan paid back in equal quarterly installments, which type of annuity results in a higher future value:
- (A) Annual annuity
(B) Annuity due
(C) Special annuity
(D) Ordinary annuity

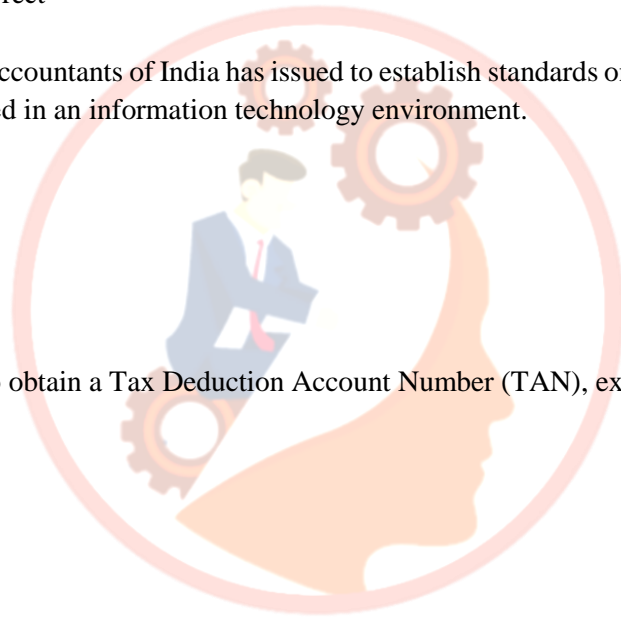
- Q68. A person takes out a loan of Rs. 1,00,000 at an annual interest rate of 8% for a tenure of 3 years. What will be the monthly EMI (Equated Monthly Installment) amount?
- (A) Rs. 3245
(B) Rs.3134
(C) Rs.3145
(D) None of the above
- Q69. When a specified amount of money is needed at a specified future date, it is a good practice to accumulate systematically a fund by means of Such a fund is called a sinking fund.
- (A) Random investments
(B) Lump sum payments
(C) Equal periodic deposits
(D) Variable contributions
- Q70. What is a characteristic of callable bonds?
- (A) They have a fixed interest rate.
(B) They are also known as zero-coupon bonds.
(C) They are not subject to interest rate risk.
(D) The issuer has the option to redeem them before maturity.
- Q71. Calculate the Income Elasticity (IE) for a bond. If the percentage change in price for the bond in period 't' is 4% and the percentage change in yield to maturity for the bond is 2%, what is the Income Elasticity?
- (A) 0.5
(B) 1
(C) 2
(D) 4
- Q72. ABC Ltd. has an average inventory of Rs. 50,000 and its cost of goods sold (COGS) is Rs. 2,00,000. Calculate the stock turnover ratio.
- (A) 3 times
(B) 4 times
(C) 5 times
(D) 6 times
- Q73. Which of the following is a measure of liquidity of a company?
- I. Inventory Turnover Ratio
II. Current Ratio
III. Quick Ratio
IV. Operating Ratio
- (A) II & III
(B) I & II
(C) II & IV
(D) I, II, III

- Q74. A is the home currency price of one unit of the foreign currency.
- (A) Selling rate
 - (B) Buying rate
 - (C) Direct rate
 - (D) Indirect rate
- Q75. A company is experiencing a 10% increase in its year-on-year profit, but it still maintains negative cash flow. How would you assess this situation in the long term?
- (A) Favourable
 - (B) Unfavourable
 - (C) Insufficient information
 - (D) None of the above
- Q76. Dividend paid is a part of which activity in the cash flow statement?
- (A) Operating activities
 - (B) Investing activities
 - (C) Financing activities
 - (D) Either A or B
- Q77. How is the amortization of patents treated in the cash flow statement?
- (A) Added back to net income under Operating Activities
 - (B) Deducted from net income under Operating Activities
 - (C) Included under Investing Activities
 - (D) Included under Financing Activities
- Q78. are oriented more towards growth as they discourage consumption and help enhance savings.
- (A) Direct Tax
 - (B) Sales Tax
 - (C) Indirect tax
 - (D) Income Taxes
- Q79. How is a budget typically expressed?
- (A) Solely in monetary terms.
 - (B) Solely in physical units.
 - (C) In both monetary terms and physical units.
 - (D) In neither monetary terms nor physical units.
- Q80. is designed to change as volume of output changes.
- (A) Flexible Budget
 - (B) Fixed budget
 - (C) Master budget
 - (D) All of the above

- Q81. In which type of accounting is the concept of break-even point primarily utilized?
- (A) Tax Accounting
 (B) Marginal Costing
 (C) Management Costing
 (D) Cost Accounting
- Q82. Which of the following is an accurate formula of Margin of Safety?
- (A) $\frac{\text{Sale Price}}{\text{Contribution}} \times 100$
 (B) Total Sales - (Variable Cost + Fixed Cost)
 (C) $\frac{\text{Estimated sales}}{\text{Break-even sales}} \times 100$
 (D) $\frac{\text{Estimated Sales} - \text{Break even Sales}}{\text{Estimated Sales}} \times 100$
- Q83. What is the primary significance of the Profit Volume (P/N) ratio in financial analysis?
- (A) It gives an idea of profitability of each product.
 (B) It can be used by the management to decide about pushing the sales of certain products.
 (C) It is helpful in deciding whether to purchase certain components from outside or continue in-house production.
 (D) All of the above
- Q84. Which method of costing is typically used when a business produces similar items in large quantities?
- (A) Job Costing
 (B) Batch Costing
 (C) Process Costing
 (D) Contract Costing
- Q85. Which of the following types of accounting uses financial planning as a tool?
- (A) Cost Accounting
 (B) Financial Accounting
 (C) Management Accounting
 (D) All of the above
- Q86. Discounted cash flow (DCF) methods are a set of valuation techniques used to estimate the value of an investment based on its expected future cash flows.
 Which of the following method is a discounting techniques of investment appraisal?
- (A) IRR Method
 (B) NPV Method
 (C) Average Rate of Return
 (D) Both A & B
- Q87. Working capital loans are normally sanctioned for but are payable on demand.
- (A) one year
 (B) two year
 (C) three years
 (D) six months

- Q88. Which of the following have Separate legal identity?
- (A) Company
(B) Sole proprietary
(C) Partnership
(D) All of the above
- Q89. Which theory focuses on the relationship between a company and its external constituencies, emphasizing duties and responsibilities?
- (A) Agency Theory
(B) Stakeholder Theory
(C) Neither A nor B
(D) Both A & B
- Q90. What primarily determines the value of a derivative?
- (A) Historical performance of the underlying asset
(B) Current market conditions
(C) Expected future movements of the underlying asset
(D) Previous day's trading volume
- Q91. Consider the following statements in the context of Swaps. Choose the one that is not correct.
- (A) A swap is a custom tailored bilateral agreement in which cash flows are determined by applying a prearranged formula on a notional principal.
(B) In interest rate swap, there is no exchange of principal.
(C) Use of swap is not allowed in India.
(D) Swap can be used for asset liability management.
- Q92. A firm borrows money for long-term primarily for:
- (A) Financing capital investments and expansion
(B) Partly financing the current assets
(C) Purchasing fixed assets
(D) All of the above
- Q93. The return on a bond/debenture, purchased by an investor in the secondary market, is equal to Yield to Maturity (YTM) of that bond/debenture.
What is the formula of YTM of a bond/debenture?
(M is the Maturity value, P is the present market value and n is the number of years left to maturity)
- (A) $\frac{\text{Annual Interest Payment} + (M - P)}{0.6 \times M + 0.4 \times P}$
(B) $\text{Annual Interest Payment} + \frac{(M - P)}{n}$
(C) $\frac{\text{Annual Interest Payment} + (M - P)}{0.6 \times P + 0.4 \times M}$
(D) $\text{Annual Interest Payment} + \frac{(M - P)}{n}$

- Q94. Which of the following factors can influence the capital structure of a firm?
- I. Market demand for the firm's products
 - II. Cost of debt
 - III. Taxation
- (A) Only I & II
(B) Only II
(C) Only III
(D) Only II & III
- Q95. Which of the following factors does not contribute to an increase in risk and uncertainties in the banking sector?
- (A) Rapid changes in economic conditions
(B) Complex financial products and derivatives
(C) Stringent regulatory policies
(D) None of the above is correct
- Q96. The Institute of Chartered Accountants of India has issued to establish standards on procedures to be followed when an internal audit is conducted in an information technology environment.
- (A) SA 15
(B) SA 16
(C) SA 13
(D) SA 14
- Q97. Fill in the blank:
Each deductor is required to obtain a Tax Deduction Account Number (TAN), except when tax is deducted under _____.
- (A) Section 194-IA
(B) Section 193-IA
(C) Section 196-IA
(D) Section 198-IA
- Q98. Profit is the financial gain that a business or individual earns from their activities. Which of the following factors influence profit directly?
- I. Market demand
 - II. Employee satisfaction
 - III. Selling price
 - IV. Cost of Goods Sold
- (A) Only I & III
(B) I, II, & III
(C) I, II, & IV
(D) I, III, & IV



Q99. A standard price is a predetermined or established cost that a company expects to incur in producing a unit of a product or delivering a service. It serves as a benchmark or reference point against which actual costs and performance can be compared.

Which of the following factors influences the determination of a standard price?

- (A) Market demand
- (B) Historical costs
- (C) Employee preferences
- (D) Advertising expenses

Q100. Costing is the process of determining the expenditure incurred in producing a product or providing a service. Correct costing is crucial for any business organisation as it has a direct bearing on all its sales and marketing strategies. Among the mentioned methods, which of the following is not the method of costing?

- (A) Unit Costing
- (B) Batch costing
- (C) Contract costing
- (D) Manufacturing costing



Dream Big Institution

Answer Key

Q1. (D)	Q21. (B)	Q41. (D)	Q61. (C)	Q81. (A)
Q2. (C)	Q22. (D)	Q42. (B)	Q62. (B)	Q82. (B)
Q3. (B)	Q23. (B)	Q43. (A)	Q63. (D)	Q83. (A)
Q4. (C)	Q24. (C)	Q44. (C)	Q64. (C)	Q84. (D)
Q5. (C)	Q25. (A)	Q45. (B)	Q65. (A)	Q85. (D)
Q6. (D)	Q26. (A)	Q46. (A)	Q66. (D)	Q86. (B)
Q7. (A)	Q27. (A)	Q47. (A)	Q67. (B)	Q87. (D)
Q8. (B)	Q28. (D)	Q48. (C)	Q68. (A)	Q88. (A)
Q9. (B)	Q29. (D)	Q49. (C)	Q69. (C)	Q89. (A)
Q10. (C)	Q30. (C)	Q50. (A)	Q70. (D)	Q90. (B)
Q11. (D)	Q31. (A)	Q51. (C)	Q71. (A)	Q91. (A)
Q12. (B)	Q32. (D)	Q52. (A)	Q72. (D)	Q92. (A)
Q13. (C)	Q33. (B)	Q53. (A)	Q73. (C)	Q93. (D)
Q14. (B)	Q34. (C)	Q54. (A)	Q74. (D)	Q94. (C)
Q15. (A)	Q35. (A)	Q55. (A)	Q75. (B)	Q95. (C)
Q16. (A)	Q36. (D)	Q56. (C)	Q76. (B)	Q96. (C)
Q17. (A)	Q37. (C)	Q57. (D)	Q77. (A)	Q97. (A)
Q18. (C)	Q38. (A)	Q58. (A)	Q78. (B)	Q98. (C)
Q19. (A)	Q39. (D)	Q59. (C)	Q79. (A)	Q99. (B)
Q20. (A)	Q40. (B)	Q60. (D)	Q80. (C)	Q100. (A)

Dream Big Institution

Hints & Solutions

Q1. Solution:

Life insurance policies are acceptable either as a primary or collateral security for an advance. It is an actionable claim. Borrowers take a life insurance policy for two purposes -

1. It is a source of income for the dependents of the assured in case of his death.
2. It is an ideal form of saving since along with income tax deduction on the premium, loans can be raised on the policies in times of need.

Q2. Solution:

The maximum aggregate loan limit, approved by the NHB for refinance, for bank loans to housing finance companies (HFCs) to facilitate on-lending for activities such as the purchase, construction, reconstruction of individual dwelling units, and slum clearance and rehabilitation of slum dwellers is Rs. 10 lakhs per borrower.

The National Housing Bank (NHB), established under the National Housing Bank Act of 1987, is the apex financial institution for housing.

Q3. Solution:

Any person resident outside India, may maintain account for bona fide transactions denominated in Indian Rupees under Non- Resident (Ordinary) Account Scheme.

Joint Accounts: NRI jointly with residents on 'former or survivor' basis. Jointly by NRIs/PIOs. "Former or Survivor" (F or S): This modality is used for an account opened in the names of two persons. Such account can be operated by the first holder during his/her lifetime. In the event of the death of the first holder, the survivor can operate the account. The balance in the account is payable to the survivor, if desired by him/her.

Q4. Solution:

RuPay is a card payment scheme launched by the National Payments Corporation of India (NPCI). It has been conceived to fulfil RBI's vision to offer a domestic, open-loop, multilateral system that will allow all Indian banks and financial institutions in India to participate in electronic payments. "RuPay", the word itself, has a sense of nationality in it. "RuPay" is the coinage of two terms Rupee and Payment.

Q5. Solution:

In the first phase of computerisation, Banks have adopted Branch-level mechanisation, where stand-alone systems were used to handle transactions of specific products like Savings, Current and Loan accounts.

Advantages:

1. Provides better and speedy customer service
2. Improves housekeeping
3. Analyses the branch-level data for decision making
4. Generates various reports.

Q6. Solution:

Fraudulent transactions in computerised systems may be carried out by unscrupulous elements in several ways.

The causes that facilitate computer fraud are due to inadequate control over data/media, easy access mechanism of systems, and inadequate control over outputs. Most of the banking systems have control facilities and produce reports designed to assist in the prevention or detection of fraud. These controls can be implemented to prevent loopholes in each system.

Q7. Solution:

GLOBAL FINANCIAL CRISIS

- Considered the worst crisis since the 1930 Great Depression.
- Emerged in September 2008 when major US banks faced severe financial turmoil

Causes and Development:

- Real estate boom due to rising property prices and low interest rates.
- Fannie Mae and Freddie Mac abandoned risk management for growth.
- High volume of mortgage loans inflated real estate prices and encouraged borrowing.
- Subprime borrowers received loans, which were pooled, securitized, and sold to raise funds.
- Defaults on subprime mortgages led to an expanding bubble and triggered the crisis.

Q8. Solution:

As per Section 131 of the Negotiable Instruments Act, a banker who has in good faith and without negligence received payment for a customer of a cheque crossed generally or specially to himself shall not, in case the title to the cheque proves defective, incur any liability to the true owner of the cheque by reason only of having received such payment. Thus, Option (B) is the correct answer.

Q9. Solution:

When a customer deposits money with his bank, the customer becomes a lender and the bank becomes a borrower. The money handed over to the bank is a debt. The relationship between the banker and the customer is that of a debtor and a creditor.

Q10. Solution:

Considering the importance of establishing a formal remittance system between India and Nepal, IndoNepal Remittance Facility Scheme (Scheme) was launched by the RBI (in consultation with Nepal Rastra Bank) in May 2008 as an option for cross-border remittances from India to Nepal, with special focus on requirements of migrant workers of Nepali origin working in India. It leverages the National Electronic Funds Transfer (NEFT) ecosystem for origination of such remittances. The system is designed to ensure faster remittances from India to any part of Nepal with safety and security.

Q11. Solution:

Contrary to popular perception, financial literacy has to be imparted to everyone in the economy viz. users and providers. In the Indian context, the users are broadly the financially excluded resource-poor, the lower and middle income groups and high net worth individuals. Equally important, banks, financial institutions and other market players too need to be literate about their risks and returns framework. Last, but not the least, policymakers including the financial sector regulators must have in-depth knowledge to comprehend and gauge the requirement of the population and financial institutions to drive the agenda.

Q12. Solution:

In India, it was the practice to make payment of a cheque/ draft/ pay order only if presented within a period of six months from the date of the instrument. It was noticed that undue advantage of this facility was being taken by circulating these instruments in the market like cash for six months. Hence, the RBI has reduced the validity of these instruments to three months, effective from April 1, 2012 in exercise of powers conferred by Sec. 35A of the Banking Regulation Act, 1949.

Q13. Solution:

The Sum Insured under the National Agriculture Insurance Scheme (NAIS) extend to the value of the threshold yield of the insured crop at the option of the insured farmers.

In Rabi 1999 season the National Agriculture Insurance Scheme was introduced replacing earlier scheme. Implementation and administration of crop insurance schemes, which were being done by General Insurance Corporation of India (GIC), was taken over by Agriculture Insurance Company of India Ltd. (AIC). In 2016, the Pradhan Mantri Fasal Bima Yojana (PMFBY) replaced all the prevailing yield insurance schemes in India.

Q14. Solution:

Second Method of Lending: In order to graduate the borrowers to enhance their contributions to working capital, they are placed under the second method of lending recommended by the Tandon Committee. This would give a minimum current ratio of 1.33:1. Under this method, the borrower is required to provide for a minimum of 25% of total current assets out of long-term funds. A certain level of credit for purchases and other current liabilities will be available to fund the build-up of current assets and the bank will provide the balance (MPBF). However, total liabilities inclusive of bank finance would never exceed 75% of gross current assets. In case a borrower is not in a position to work under the second method of lending immediately, the excess borrowing is segregated and treated as a working capital term loan repayable in instalments over a period of time. To induce the borrowers to repay this loan, bank may charge higher rate of interest on it.

Q15. Solution:

Outstanding Balance	₹4 lakhs
ECGC Cover	50 percent
Period for which the advance has remained doubtful	More than 2 years remained doubtful (say as on March 31, 2022)
Value of security held	₹1.50 lakh
Provision required to be made <hr/> Outstanding balance	₹4.00 lakh
Less: Value of security held	₹1.50 lakh
Unrealised balance	₹. 2.50 lakh
Less: ECGC Cover (50% of unrealisable balance)	₹1.25 lakh
Net unsecured balance	₹1.25 lakh
Provision for unsecured portion of advance	₹1.25 lakh (@ 100 percent of unsecured portion)

Provision for secured portion of advance (as on March 31, 2022)	₹0.60 lakh (@ 40 per cent of the secured portion)
Total provision to be made	₹1.85 lakh (as on March 31, 2022)

Q16. Solution:

The lending to agriculture sector has been defined to include Farm Credit (which will include short-term crop loans and medium/long-term credit to farmers), Agriculture Infrastructure and Ancillary Activities.

For farm credit financing under Priority Sector Lending the maximum loan amount is ₹50 lakh against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months.

Q17. Solution:

Terms and Conditions for Lending to Housing Intermediary Agencies:

- Term loans may be granted against the direct loans sanctioned/ proposed by the latter, irrespective of the per borrower size of the loan.
- The term loans may be granted against the direct loans sanctioned/proposed to be sanctioned to NRIs, subject to RBI authorisation.
- Interest to be on lines of RBI directions.

Q18. Solution:

The RBI introduced ECS in 1995, which is an upgradation of the paper-based payment system. The objective was to provide an alternative method of effecting bulk and repetitive payment transactions, which would obviate the need for issuing and handling paper instruments and thereby improve payment efficiency and also facilitate better customer service by banks/companies/corporations/Government departments affecting the payments.

Electronic credit clearing: It was launched to provide an alternative to bulk payment transactions passing through the clearing houses, which has greatly obviated the need for issuing a large number of paper-based instruments. This system facilitates transactions that have a single debit and multiple credits. The details of the transactions are furnished on magnetic media for processing, and the banks are getting credit data on magnetic media duly encrypted.

Q19. Solution:

In LANs, each independent system is known as a node, and when such nodes are interconnected, it is known as a LAN. Usually, there will be one central node (Server) providing and controlling all the network services. The client nodes route their requests to the server and obtain the necessary services. The server that handles these services differ depending upon the topology and protocols.

A network topology is the physical and logical arrangement of nodes and connections in a network. Nodes usually include devices such as switches, routers and software with switch and router features. The two basic forms of local area network designs used in information transmission are centralised control and distributed control. The popular centralised control networks are based on star and tree topologies, while the distributed controls are based on ring and bus topologies.

Q20. Solution:

National Automated Clearing House (NACH) was implemented by NPCI for Banks, Financial Institutions, Corporates and Government as a web-based solution to facilitate interbank, high volume, electronic transactions which are repetitive and periodic in nature. NACH System can be used for making bulk transactions towards the

distribution of subsidies, dividends, interest, salary, pension etc. and also for bulk transactions towards the collection of payments pertaining to telephone, electricity, water, loans, investments in mutual funds, insurance premium, etc.

Q21. Solution:

The Whistle Blowers Protection Act, 2011 received the assent from the President of India in May 2014. It provides a mechanism to investigate alleged corruption and misuse of power by public servants and also protect the complainant who exposes alleged wrongdoing in government bodies, projects and offices. The wrongdoing might take the form of fraud, corruption or mismanagement. The Act provides punishment for false or frivolous complaints. The protection of genuine complainant is the responsibility of the CVC.

Q22. Solution:

Section 71 of the Consumer Protection Act, 2019, deals with the enforcement of orders issued by the District/State/National Commission. As per Section 71, every order made by District/ State/ National Commission shall be enforced by it in the same manner as if it were a decree made by a Court in a suit before it and the provisions of Order XXI of the First Schedule to the Code of Civil Procedure, 1908 shall be applicable.

Q23. Solution:

Banker's lien is the right of the banker to retain possession of the goods and securities owned by the debtor until the debt due from the latter is paid. The banker's lien is an implied pledge. A banker's right of lien is more than a general lien, as it confers upon the banker the power to sell the goods and securities in case of default by a customer. Since such right of lien resembles a pledge, it is usually called an 'implied pledge'.

Q24. Solution:

Any alteration in the original state of a cheque such as date, amount, payee's name, changing the word 'order' to bearer appearing after payee's name or in endorsement is called material alteration. However, filling amount both in words and figures which was blank earlier does not amount to material alteration.

Any material alteration of a negotiable instrument renders it void as against anyone who is a party thereto at the time of making such an alteration and does not consent thereto, unless it was made in order to carry out the common intention of the original parties. Any material alteration should be authenticated under the full signature of the drawer.

Q25. Solution:

The term 'customer' of a bank is not defined by law. Ordinarily, a person who has an account in a bank is considered as a customer. The legal judgments in the past, however, used to qualify this statement by laying emphasis on the period for which an account had actually been maintained with the bank.

Kerala High Court observed in the case of Central Bank of India Ltd. Bombay vs. V.Gopinathan Nair and others (A.I.R., 1979, Kerala 74): "Broadly speaking, a customer is a person who has the habit of resorting to the same place or person to do business. So far as banking transactions are concerned he is a person whose money has been accepted on the footing that banker will honour up to the amount standing to his credit, irrespective of his connection being of short or long standing."

For the purpose of KYC requirements, a 'Customer' is defined as:

- A person or entity that maintains an account and/or has a business relationship with the bank or conducts a transaction with the bank.
- One on whose behalf the account is maintained or a transaction is conducted (i.e. the beneficial owner).
- Beneficiaries of transactions conducted by professional intermediaries, such as Stock Brokers, Chartered Accountants, Solicitors etc. as permitted under the law, and

- Any person or entity connected with a financial transaction which can pose significant reputational or other risks to the bank, say, a wire transfer or issue of a high value demand draft as a single transaction.

Q26. Solution:

Limitation period for recovery of Debt in India is governed by the Limitation Act, 1963. The Limitation Act, 1963 specifies certain prescribed period within which any suit appeal or application can be made. A banker is allowed to take legal action by filing a suit, prefer an appeal and apply for recovery only when the documents are within the period of limitation. If the documents are expired or are time barred, the banker cannot take any legal course of action to recover the dues.

Acknowledgement of debt: By obtaining acknowledgement of debt in writing from the borrower before expiry of the prescribed period of limitation, limitation period is extended.

Q27. Solution:

An operating cycle refers to the time it takes a company to buy goods, sell them and receive cash from the sale of said goods. In other words, it denotes the time taken for a company to turn its inventories into cash. Thus, operating cycle helps in determining the working capital requirement of a firm.

Q28. Solution:

In Letter of Credit, reimbursing Bank is the bank, which is appointed by the Issuing bank to make reimbursement to the negotiating, paying or confirming bank.

Q29. Solution:

Emphasis is laid on multiple doses of assistance over a period of time, to enable them to access higher amounts of credit for taking up sustainable livelihoods and improve on the quality of life. Additional loan can be sanctioned based on the repayment behavior and performance of the SHG, even when the earlier loan is outstanding.

Cash Credit Limit (CCL): Minimum loan of Rs. 6 lakhs for 3 years, fixing a yearly drawing power (DP) is sanctioned.

The drawing power may be enhanced annually based on the repayment performance of the SHG:

First Year - 6 times of the existing corpus or minimum of Rs. 1 lakh whichever is higher.

Second Year - 8 times of the existing corpus or minimum of Rs. 2 lakh whichever is higher.

Third Year - Minimum of Rs. 6 lakh based on the Micro credit plan (MCP) prepared by SHG and appraised by the Federations/ Support agency and the previous history.

Fourth Year Onwards - Above Rs. 6 lakh based on the Micro credit plan (MCP) prepared by SHG and appraised by the Federations/ Support agency and the previous credit history.

Q30. Solution:

'Brown label' ATMs are those Automated Teller Machines where a service provider owns the hardware and lease the ATM to banks, cash management and connectivity to banking networks is the responsibility of sponsor bank whose brand is used on the ATM. Thus, the service provider takes the responsibility of maintenance of the ATM, whereas the sponsor bank takes the responsibility of cash management and connectivity of ATM to the banking network.

Q31. Solution:

RBI Net, a communication software, developed in ' C ' and available for both DOS and UNIX machines. Allows for free format messaging and file transfer on the existing BANKNET infrastructure with the help of servers installed at the four metros. Each RBI Net user interacts with the local server connected to the X.25 switch. The UNIX servers, in turn communicate with each other using TCP/IP over the X.25 protocol. The software allows free

format messaging without any restrictions on the length of the message, enables file transfer of both ASCII-text and Binary files (spreadsheets, databases, programs, etc.), facilitates dial-up access, and has security features, such as end-to-end encryption audit trail, etc. Several departments of banks are also using RBI Net for various applications such as:

1. Transmission of Sec. 42(2) of the RBI Act, 1934, data by commercial banks to regional offices of the department of banking operations and development (DBOD) and furnishing consolidated data by the regional offices of DBOD to central DBOD.
2. Press relations division daily news summary of important financial matters.
3. Department of economic analysis and policy macroeconomic indicators on a weekly basis.

Q32. Solution:

Storage of data in data warehouses and their extraction through data mining techniques can be applied in:

1. Loan risk analysis: To analyse the performance of a set of loans that the Bank has previously issued.
2. Credit risk analysis, by the issuer of credit cards using database mining to determine whom to solicit as a client, possibly with preapproved credit limits; and to determine whether to approve each particular credit card transaction.
3. Stock portfolio creation to analyse the performance of a set of securities and fundamental data of the companies that issue the securities.
4. Analysis of the customers' demographic information to help banks focus on particular segments.
5. Risk analysis by insurance companies and banks.

Q33. Solution:

Ethics is a set of moral standards and values acceptable in a society and guides human behaviour. It holds people from taking decisions that may be harmful to others or the society. Ethical principles are universal in nature. Ethics is prescriptive in nature - deals with what must be or ought to be done.

Q34. Solution:

Computer hardware is a physical device of computers that we can see and touch.

Computer hardware: Computer servers, terminals/workstations, disk/tape/cartridge drives, printers, controllers, modems, switches/multiplexers, routers, etc.

Memory is not a part of Computer hardware.

Q35. Solution:

A supply bill arises in relation to transactions with Government and Public Sector Undertakings. A party might have taken a contract for execution and he is entitled for progress payment-based on work done, for which he has to submit bills in accordance with the terms and conditions of the contract. Similarly, parties who have accepted tenders for supply of goods are entitled for payments on the supply of goods for which they submit bills in accordance with the terms of contract. These bills are known as 'Supply Bills'. Procedure to be followed in Respect of Supply Bills: The supplier sends the goods and then produces documents like railway receipt or bill of lading as evidence of the dispatch of goods. These goods must be inspected by an appropriate authority and the supplier should obtain an inspection note. In the case of contracts, obtaining an engineer's certificate regarding the work done is required.

Q36. Solution:

RBI introduced Cheque Truncation System (CTS) for inter-bank clearance of cheques without their physical movement. The cheques are paid based on their electronic images. With suitable amendments to The Negotiable Instruments (NI) Act, 1881, The Information Technology (IT) Act, 2000 and The Bankers' Book Evidence (BBE)

Act, 1891, the legal framework for cheque truncation and e-cheques was put in place, in 2002. CTS was introduced with effect from February 1, 2008, and is now fully operational. No material alterations are allowed in cheques processed via CTS-2010 as any material alteration of a negotiable instrument renders it void.

Q37. Solution:

Diamond Dollar Account Scheme - DDA Account Firms and companies which comply with the eligibility criteria stipulated in the Foreign Trade Policy of the Government of India may open DDA accounts.

(i) Realisation of export proceeds and local sales (in USD) of rough, cut, polished diamonds; and pre and post shipment finance availed in USD can be credited.

(ii) Payments for purchase of rough, cut and polished diamonds can be made. Funds can be transferred to rupee account.

(iii) The account should be a non-interest bearing current account.

Q38. Solution:

Delay in affording Credit for Cheque Deposited:

In the year 2000, a customer deposited a cheque of retirement benefits in Bank A, which was sent for collection. The amount was not credited and the bank was not giving satisfactory reply despite his repeated visits. The customer obtained a photocopy of the paid cheque from the issuer. The cheque was duly debited to the issuer's account and Bank A had received the proceeds. Then the bank credited his account in January 2010 but did not pay any interest for the intervening period. On approaching the banking ombudsman, the BO observed that there was gross deficiency on the part of the bank. The complainant, a person of small means, was deprived of his retirement benefits for 10 years. The bank was directed to pay interest at applicable fixed deposit rate plus 2% for the period till 31-7-2007, and from 1-8-2007 till 1-12-2010 interest as per the bank's compensation policy which was effective from 10-8-2007. The bank was also directed to pay a compensation of Rs. 10,000 to the complainant.

Q39. Solution:

RBI has deregulated the interest rate for Savings Bank Deposits and banks are free to decide their interest rates, subject to the following conditions:

First, each bank will have to offer a uniform interest rate on savings bank deposits up to Rs.1 lakh, irrespective of the amount in the account within this limit.

Second, for savings bank deposits over Rs.1 lakh, a bank may provide differential rates of interest, if it so chooses, subject to the condition that banks will not discriminate in the matter of interest paid on such deposits, between one deposit and another of similar amount, accepted on the same date, at any of its offices.

Q40. Solution:

Section 58 (A) of the Transfer of Property Act, 1882 defines the term mortgage. 'A mortgage is the transfer of interest in specific immoveable property, for the purpose of securing the payment of money advanced or to be advanced by way of loan, on existing or future debt or the performance of an engagement which may give rise to a pecuniary liability.'

Q41. Solution:

According to the Reserve Bank of India (RBI) guidelines, an NPA account is upgraded to a standard asset when the entire outstanding balance is repaid. In this case, the party paid the due amount of Rs. 4.50 lakhs on August 22, 2015, which means that the entire outstanding balance was repaid on that date.

Therefore, the account would be categorized as a standard asset on August 22, 2015.

Q42. Solution:

Net Bank Credit (NBC) = Bank Credit in India (–) Bills Rediscounted with RBI and other approved Financial Institutions.

Q43. Solution:

For Domestic commercial banks & foreign banks with 20 branches and above: Target for Priority Sector in Agricultural category is 18 per cent of ANBC or CEOBE, whichever is higher; out of which a target of 10 percent is prescribed for Small and Marginal Farmers (SMFs).

Q44. Solution:

After setting up the Board for Payment and Settlement Systems in 2005, the Reserve Bank of India has released a vision document incorporating a proposal to set up an umbrella institution for all the Retail Payment Systems in the country. The core objective was to consolidate and integrate the multiple systems with varying service levels into a nationwide uniform and standard business process for all retail payment systems. This led to the formation of the National Payments Corporation of India (NPCI).

Q45. Solution:

During the initial stages of computerisation, banks deployed stand-alone computer systems. These stand-alone systems are used by one person at a time. Stand-alone systems involved in processing and analysis of data were best suited for the decision-making process. The managers and executives who were responsible for making managerial decisions used to benefit from such systems. While the standalone systems cannot be used in a multi-user environment, they can be easily connected to the existing multi-user systems to access corporate databases and other shared information and resources. Normally in such cases, a standalone system is called a workstation or a node. The major advantages of installing single-user systems were low equipment cost, less complicated software, easy operational training to the bank staff and better security and control. However, the singleuser system has limitations such as slow processing speed and low data storage capacity.

Q46. Solution:

Electronic Fund Transfer (EFT) facilitates the quick movement of funds through electronic media. EFT mechanism involving inter-bank funds settlement at the national level has come up as an aftermath of the recommendations of the Saraf Committee on technology issues in the payment and settlement system constituted by the RBI in 1994. The Saraf Committee had suggested a hybrid system, both paper and electronic media, for message transmission. It had suggested that high-value institutional funds transfer should be batched every hour. The batch system has since been implemented in 1996.

Q47. Solution:

Integrity is explained as firm adherence to a code of values. For an Individual or for a Business, integrity is the quality or state of being complete or undivided. It means being true to our values and ourselves and also keeping our commitments not only towards others but to ourselves also. In the individual value-set, integrity is the core value, which makes an individual complete or undivided.

Q48. Solution:

In 2016, the Pradhan Mantri Fasal Bima Yojana (PMFBY) replaced all the prevailing yield insurance schemes in India. It has extended coverage under localized risks, post-harvest losses etc. and aims at adoption of technology for the purpose of yield estimation.

Risks Covered & Exclusions: It has two components viz. Basic Cover, and Add-on Coverage. The basic cover is mandatory, add-on covers may be chosen by the State Governments.

Basic Cover: This covers loss of yield to standing crop (sowing to harvesting) on an area based approach due to non-preventable risks like drought, dry spells, flood, inundation, wide spread pest and disease attack, landslides, natural fire due to lightening, storm, hailstorm, and cyclone.

Add-On Coverage: This may include any or all of the following:

- Insured area is prevented from sowing/ planting due to deficit rainfall or adverse seasonal conditions.
- Loss in case of adverse seasonal conditions during the crop season.
- For two weeks from harvesting for crops dried in cut and spread condition in the field against cyclone, cyclonic rains and unseasonal rains.
- Loss/damage due to identified localized risks of hailstorm, landslide, inundation, cloud burst and natural fire due to lightening.
- Crop loss due to attack by wild animals.

Q49. Solution:

As per Sec. 18 of the Indian Stamp Act, every instrument, other than a bill of exchange and promissory note, which are chargeable with duty and executed out of India may be stamped within three months after it has been first received in India.

Q50. Solution:

National Automated Clearing House (NACH) was implemented by NPCI for Banks, Financial Institutions, Corporates and Government as a web-based solution to facilitate interbank, high volume, electronic transactions which are repetitive and periodic in nature. NACH System can be used for making bulk transactions towards the distribution of subsidies, dividends, interest, salary, pension etc. and also for bulk transactions towards the collection of payments pertaining to telephone, electricity, water, loans, investments in mutual funds, insurance premium, etc. NACH was launched with an aim to consolidate multiple ECS systems in the country and to provide a framework for the harmonization of standards & practices and remove local barriers/inhibitors.

Q51. Solution:

As per the recommendations of the Saraf Committee, the Reserve Bank of India decided to set up a countrywide data communication network for banks linking major centres of the country. This network, christened as the INFINET (Indian Financial Network), has been set up in Hyderabad. Indian Financial Network (INFINET) is a closed user group MPLS network for the banking and financial sector. Some activities are Structured Financial Messaging System (SFMS), a messaging system facilitating RTGS, NEFT, Government payments and receipts, etc. It is now being managed by Indian Financial Technology and Allied Services (IFTAS), a wholly owned subsidiary of Reserve Bank of India.

Q52. Solution:

The Supreme Court delivering a judgement in *Morvi Mercantile Bank Ltd. vs Union of India* decided that the bank was entitled to recover the value of goods for the following reasons:

1. Valid pledge can be created by endorsement of railway receipts.
2. For a valid pledge, actual delivery is not necessary and constructive delivery is sufficient.
3. By endorsing the railway receipts, the firm created a valid pledge in bank's favour.
4. Pledge being bailment of goods, the bank as a pledgor will have the rights of owner of goods.

Thus, by endorsing the railway receipts, a valid pledge is created in bank's favour.

Q53. Solution:

Reimbursing Bank is the bank, which is appointed by the Issuing bank to make reimbursement to the negotiating, paying or confirming bank. When there is a default under a Letter of Credit, the reimbursing bank has to pay the full amount due.

Q54. Solution:

Investments in these assets represent that part of firm's capital which is blocked on permanent or fixed basis and is called fixed capital. E.g. acquisition of items such as Land, Plant & Machinery, building, furniture, etc. Business also needs funds for short-term purposes such as purchase of raw material, payment of wages and other day-to-day expenses etc. These funds are known as working capital. In simple words, working capital refers to that part of the firm's funds that is required for financing short-term or current assets such as cash, debtors & inventories.

Q55. Solution:

Real-Time Gross Settlement (RTGS): Settlement of fund transfer orders occurs individually on a continuous and real-time basis. The minimum amount for customer transactions is ₹2 lakh with no upper limit. The RTGS system is available 24 × 7 on all days. There is a real-time transfer of funds to the beneficiary account.

Q56. Solution:

Normally, members in a Self Help Group (SHG) should not exceed twenty; otherwise, registration becomes compulsory. Generally, a SHG may consist of 10 to 20 persons. In difficult areas like deserts, hills, etc. it may have just 5 members.

Q57. Solution:

As per the Reserve Bank of India guidelines, merchant establishments can allow customers and non-customers at their establishments to withdraw cash from their POS systems. As per the guidelines, merchants can allow cardholders to withdraw cash up to ₹2,000 per day, per card, in Tier III and IV centres. Cardholders withdrawing money in Tier I and II centres can only withdraw up to ₹1000 per day, per card.

Q58. Solution:

Unified Payments Interface (UPI) is a system that powers multiple bank accounts into a single mobile application (of any participating bank), merging several banking features, seamless fund routing & merchant payments into one hood. It also caters to the "Peer to Peer" collect request, which can be scheduled and paid as per requirement and convenience. UPI enables immediate money transfer through mobile devices round the clock 24*7 and 365 days, using a single mobile application for accessing different bank accounts.

Q59. Solution:

Special types of bank accounts have been permitted to be maintained in India by NRIs and PIOs. These have certain distinct features so as to serve the dual purpose of managing the country's foreign exchange resources and meet peculiar needs of NRI/ PIO diaspora. These accounts are:

- Non-Resident (External) Rupee Account Scheme
- Foreign Currency (Non-resident) Account (Banks) Scheme
- Non-Resident (Ordinary) Account Scheme

Q60. Solution:

Cases where the amount of debt due to any bank or financial institution or their consortium is Rs. 20 Lakh or more are covered under the Recovery of Debts and Bankruptcy Act.

RTGS is an electronic payment environment where payment instructions are processed on a 'continuous' or 'Real Time' basis and settled on a 'Gross' or 'individual' basis without netting the debits against credits. The transactions are processed continuously on a transaction by transaction basis. RTGS is available round the clock on all days, and allows transfer of funds on almost instantaneous basis. Receiving bank has to ensure that the beneficiary account is credited within 30 minutes of receiving the RTGS message. The minimum amount for RTGS is Rs. 2 lakh. There is no upper ceiling.

Q61. Solution:

Q62. Solution:

Non-performing Assets (NPAs) provisions primarily involve setting aside funds to cover potential losses from bad debts.

NPAs are loans or advances that have ceased to generate income for the lender. Banks create NPA provisions to absorb the losses that may arise from these loans. The amount of the provision is determined by a number of factors, including the age of the loan, the borrower's creditworthiness, and the collateral available.

Q63. Solution:

INDEMNIFIER AND INDEMNIFIED (BANKINDEMNIFIED AND CUSTOMERINDEMNIFIER)

A contract by which one party promises to save the other from loss caused to him by the conduct of the promisor himself or the conduct of any other person is a contract of indemnity. In banking, such relationship occurs in transactions of issue of duplicate demand draft, fixed deposit receipt etc. In these cases the person availing the facility will compensate the other for any loss arising from the wrong/excess payment.

Q64. Solution:

Proprietary data refers to the information relating to the intellectual property rights and trade secrets of any company. All employees are expected to keep confidentiality of the data relating to all stakeholders, customers, vendors, promoters, investors and others who are associated with the bank. Key strategies and sensitive data are to be kept confidential and should not be revealed to competitors through unfair means.

Q65. Solution:

"A "Promissory note" is an instrument in writing (not being a bank-note or a currency-note) containing an unconditional undertaking, signed by the maker, to pay a certain sum of money to, or to the order of, a certain person, or to the bearer of the instrument."

Q66. Solution:

Following documents have been notified as Officially Valid Documents for KYC purposes:

1. Passport;
2. Driving Licence;
3. Proof of possession of Aadhaar number;
4. Voter's Identity Card issued by the Election Commission of India;
5. Job card issued by NREGA duly signed by an officer of the State Government; and
6. Letter issued by the National Population Register (NPR) containing details of name and address.

Q67. Solution:

RBI introduced Cheque Truncation System (CTS) for inter-bank clearance of cheques without their physical movement. The cheques are paid based on their electronic images.

Truncation is the process of stopping the flow of the physical cheque by the presenting bank enroute to the paying bank branch. Instead, an electronic image of the cheque is transmitted to the paying branch through the clearing house, along with relevant information like data on the MICR band, date of presentation, presenting bank, etc. The Negotiable Instruments Act defines a truncated cheque to mean "a cheque which is truncated during the course of a clearing cycle, either by the Clearing House or by the bank, whether paying or receiving payment, immediately on generation of an electronic image for transmission, substituting the further physical movement of the cheque in writing".

Q68. Solution:

Income Recognition - Policy

The policy of income recognition has to be objective and based on the record of recovery. Internationally, income is not recognised from an NPA on an accrual basis, but is booked as income only when it is actually received. Following basic norms are to be followed for income recognition:

- Banks should not charge and take to the income account, interest on any NPA, including in case of Government guaranteed accounts.
- Interest on advances against term deposits, NSCs, IVPs, KVPs and Life policies are taken to the income account on the due date, provided adequate margin is available in the accounts.
- Fees and commissions earned because of renegotiations or rescheduling of outstanding debts should be recognised on an accrual basis over the period of time covered by the renegotiated or rescheduled extension of credit. Reversal of Income
- Interest Income: If any advance, including bills purchased and discounted, becomes an NPA, the interest accrued and credited to income account in the past periods, should be reversed or provided for if the same is not realised. This will apply to Government guaranteed accounts also.
- Fees, commission, etc.: In respect of NPAs, fees, commission and similar income that have accrued will cease to accrue in the current period, and reversed or provided for, with respect to past periods, if uncollected.
- Finance Charge on Leased Assets: The finance charge component of finance income [as defined in 'AS 19- Leases' issued by the Council of the Institute of Chartered Accountants of India (ICAI)] on the leased asset which has accrued and was credited to income account before the asset became nonperforming, and remaining unrealised, should be reversed or provided for in the current accounting period.

Q69. Solution:

Microfinance and Non-Banking Finance Companies - Micro Finance Institutions (NBFCMFIs):

Microfinance provides small loans and other financial services to poor and low-income households. It is designed to promote financial inclusion of the poor and low-income households to come out of poverty, increase their income levels and improve overall living standards.

Certain MFIs which fulfill the following criteria are exempted from registration with RBI :

- (i) Purpose and Quantum of Credit: Providing credit not exceeding Rs. 50,000 for a business enterprise and Rs. 1,25,000 for a dwelling unit to any poor person; and
- (ii) Licensing: Under Section 8 of the Companies Act, 2013; and
- (iii) Public Deposits: It does not accept public deposits as defined in RBI Directions.

Q70. Solution:

Ethical dilemma occurs when there is a clash between the two rights. The problem is how to decide which right is more right than the other right. Say, if a particular product division of a company has become unprofitable - If the unit is continued, losses will mount up and it may become a burden on other units. If the unit is closed, the people

working in it will lose their jobs. Both the rival actions seem as right. A more complex ethical dilemma is faced by organization when there is conflict between economic goals or economic performance and social performance.

1. Significant value - conflicts among differing interests.
2. Real alternatives that are equally justifiable.
3. Significant consequences on stakeholders in situation.

Q71. Solution:

Farmers with landholding of up to 1 hectare are categorised as Marginal Farmers. Farmers with a landholding of more than 1 hectare and up to 2 hectares are categorized as Small Farmers.

Q72. Solution:

The Priority targets and sub-targets as fixed for each category are applicable to every commercial bank [including Regional Rural Bank (RRB), Small Finance Bank (SFB), Local Area Bank] and Primary (Urban) Co- operative Bank (UCB) other than Salary Earners' Bank.

Q73. Solution:

Star topology is the most prevalent network topology commonly employed by banks.

Star Topology: Central node often acts as the master. All the other nodes are connected to the master by a separate medium (cable). While this topology gives the advantage of maximum ability to change and if one node fails, it will not affect the entire network. Disadvantages are it cannot handle large traffic, as every transaction has to pass through the central node.

Q74. Solution:

A Wide Area Network (WAN) is defined as a large scale computer network spread over a span of sizeable geographic area, normally utilising the telecommunication network. In the banking sector, the WANs are generally used to interconnect branches with the regional/zonal offices and those offices onward are connected to head office. Generally, the transmission speed and capacity are limited, and the data transfer rates are very low in WANs compared to LANs.

Each of the computers connected in a WAN requires connectivity to a telecommunication line. Connectivity can also be established by using satellite links or microwave links.

Q75. Solution:

'Business ethics' means established principles that guide behaviour in the world of business. Investors, employees, customers, interest groups, legal system, and the community often determine whether a specific action is right or wrong, ethical or unethical. Business ethics aids in prioritizing moral values in the firm and also ensures that behaviours are aligned with those values. An organization following dubious and unethical business practices might tarnish its reputation, and experience failures in long- term.

Thus, Exploitation of employees does not fall under the purview of business ethics.

Q76. Solution:

The computer network that links computers, network devices and peripherals within a localized area, say, within a building, is known as LAN. Computers and related equipment can be connected through nodes placed anywhere in the network. Generally, LAN will not extend beyond 100 meters for Cat5e cables. However, the distance and the number of nodes supported vary depending on the medium used to establish the network. A LAN distinguishably uses network adapters that employ special techniques to share a common medium (such as a cable or a radio or light wave) between the connected nodes. A LAN also uses some software to deal with simultaneous requests for

services from many client stations. Sharing common cabling and pooling resources within a workgroup are the key elements of LAN operation.

Q77. Solution:

IMPS is an instant payment inter-bank robust electronic funds transfer system in India. IMPS offers an inter-bank electronic fund transfer service that could be accessed on multiple channels like Mobile, Internet, ATM, SMS. The service is available 24×7 throughout the year including bank holidays. It is managed by the National Payments Corporation of India (NPCI) and is built upon the existing National Financial Switch (NFS) network.

The eligible criteria for the Banks who can participate in IMPS is that the entity should have valid banking or prepaid payment instrument license from Reserve Bank of India to participate in IMPS. The IMPS procedural guidelines are framed under the provisions of the Payment and Settlement System Act 2007 and are binding on all members of IMPS.

IMPS provides a robust & real-time fund transfer that offers an instant, 24×7 , interbank electronic fund transfer service that could be accessed on multiple channels like Mobile, Internet, ATM, SMS, Branch and USSD (*99#). IMPS allows transferring of funds instantly within banks across India. Transactions made through IMPS are not only safe but also economical.

Q78. Solution:

Negotiating Bank: The bank in the beneficiary's/exporter's country which negotiates the bills (i.e. makes payment on the bills drawn by the seller and accepts the documents). If the Letter of Credit specifies a bank then that bank is the negotiating bank, and is also called the nominated bank or paying bank. If the Letter of Credit however does not specify a bank, then any bank can be the negotiating bank, since the issuing bank's open invitation contained in the credit is an offer, which is accepted as soon as the negotiating bank negotiates the bill and accepts the documents.

Issuing Bank (Opening Bank/ Importer's Bank): The bank which opens the Letter of Credit on request of the applicant/buyer.

Advising Bank (Notifying Bank): The bank in the beneficiary's/exporter's country through which the Letter of Credit is advised to the beneficiary, enabling the beneficiary to rely on its authenticity and genuineness.

Confirming Bank: The advising bank is only required to advise the credit to the beneficiary. If the seller is not conversant with the issuing bank or not satisfied with its financial position, he may ask for an additional assurance/guarantee from another bank located in his country/place, that is for confirming the Letter of Credit.

Reimbursing Bank: It is the bank, which is appointed by the Issuing bank to make reimbursement to the negotiating, paying or confirming bank.

Q79. Solution:

In 2016, the Pradhan Mantri Fasal Bima Yojana (PMFBY) replaced all the prevailing yield insurance schemes in India. It has extended coverage under localized risks, post-harvest losses etc. and aims at adoption of technology for the purpose of yield estimation. Under the Pradhan Mantri Fasal Bima Yojana, States/UTs choose either the Scale of Finance or Notional Average Value (Notional Average Yield * MSP/Farm Gate) price method for computation of Sum Insured for a district-crop combination for the entire period of the contract. The cropwise sum insured notified in the first year/ season could be changed in the subsequent year/ season as per the change in the Scale of finance or MSP/ Farm gate price as available for the notified crop and decided upon by the State.

Exclusions: Losses arising out of war and nuclear risks, malicious damage and other preventable risks.

Q80. Solution:

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Q81. Solution:

Routers: A router is a networking device, it forwards data packets between computer networks. Routers perform the traffic directing functions on the Internet. Data sent through the internet, such as a web page or email, is in the form of data packets. A packet is typically forwarded from one router to another router through the networks that constitute an internet until it reaches its destination node.

Hub: It is a hardware device helps to connect several devices to a single network and also connects segments of LAN. It broadcasts data to every computer or Ethernet-based device connected to it. It is less sophisticated than a switch.

Q82. Solution:

ATMs, which are set up, owned, and operated by non-banks, are called White Label ATMs (WLAs). The Reserve Bank of India (RBI) released the first guidelines in June 2012 to introduce "White Label ATMs" to expand banking services in the country. White label ATMs (WLAs) do not display any bank's branding/signage, and hence they are called White Label ATMs. They serve all banks' customers and will be interconnected with the entire ATM network in the country. Customers from any bank can transact on such White Label ATM's, which is comparable to nonhome bank ATMs. This initiative is aimed at Financial Inclusion for the country with aiding the ATM penetration in Tier 1 to Tier 6 cities, towns and villages.

Q83. Solution:

The term digital currency, also known as digital money, electronic money or electronic currency, is a type of currency available in digital form instead of banknotes and coins. The functionality of digital currency is similar to physical currencies but can be exchanged remotely with instantaneous transactions across the world. Some examples of digital currencies are virtual currencies, cryptocurrencies, and central bank digital currency. Digital currencies may be used to buy physical goods and services and may also be restricted to certain communities. Digital money can either be centralized, where there is a central point of control over the money supply, or decentralized, where the control over the money supply can come from various sources. Digital currency can be stored in a stored-value card or other devices. Network money is another form of electronic money that allows the transfer of value on the Internet.

A central bank digital currency (CBDC) which is also known as digital fiat currency, is a digital currency issued and guaranteed by a central bank, which can be used to make digital payments.

Q84. Solution:

Core Banking Solutions has evolved over the past few years to such an extent that almost every Banking transaction can be recorded in CBS. CBS's common features or capabilities are given below among the popular Core Banking Solutions.

- Customer accounts management

- Office account management
- Loans disbursement and management
- Cash deposits and withdrawals
- Transactions management (online and History)
- Inward/Outward clearing process
- Calculation of Interest on Advances and deposits
- Charges/Fees Application
- Application of minimum balance charges, transaction charges, cheque book charges etc.
- Asset Classification and Income recognition, NPA Management
- Non-Performing Assets Management (NPA)
- Customer relationship management (CRM) activities
- Interfaces with payment systems, Regulators, Third-party service providers
- Interfaces with Alternate delivery channels
- Generation of Reports, multi-currency Balance sheets, P&L statements

Q85. Solution:

As per the Negotiable Instruments Act, if interest at a specified rate is expressly made payable on a bill of exchange, then interest shall be calculated at such rate. If no rate of interest is specified in the instrument, interest due thereon shall be calculated at the rate of eighteen per cent p.a.

Q86. Solution:

Section 131 of the Negotiable Instruments Act grants protection to a collecting banker. This is applicable to both cheques and drafts. The protection under Section 131 is subject to satisfying following conditions:

- The collecting banker acts in good faith.
- It acts without negligence.
- It receives payment for a customer.
- The cheque is crossed generally or specially to the collecting bank.
- It verifies the prima facie genuineness of the cheque for collecting payment under CTS clearing.
- It looks for any fraud, forgery or tampering that can be verified with due diligence and ordinary care, and is apparent on the face of the cheque to be truncated.

Q87. Solution:

Garnishee order is an attachment order issued by a Court under order 21, Rule 46 of Civil procedure code, that is obtained by the judgment creditor attaching the funds belonging to a judgment debtor in the hands of latter's debtors, including a bank (the Garnishee). A garnishee order served on a bank attaches the credit balance in the account of the customer named, to the extent specified in the order. If no amount is specified, the order attaches all sums owing and accruing to the customer as on the date and time it is served and received by the bank. Cheques presented after service of the garnishee order should be returned with the remark 'Refer to Drawer'. The service of the garnishee order nisi is the preliminary proceedings of a Court. This is to be followed by subsequent proceedings of a Court to make it absolute, when it is called garnishee absolute. The order applies only to the balance in the account of the customer (i.e. amount accruing due or payable to the customer) at the time of receipt of the order.

Q88. Solution:

The term working capital denotes the requirement of the money by a manufacturing enterprise for financing of its day-to-day requirements, like:

1. Purchase of raw materials, stores and spares.

2. Payment of wages to employees.
3. Payment of other expenses towards energy, fuel and water consumption, statutory dues, rates and taxes carriage expenses etc.
4. Other expenses required to be incurred in connection with the production, selling and administration, etc.

Q89. Solution:

Agent and principal are defined under Section 182 of the Indian Contract Act, 1872. According to the section an agent is a person employed to do any act for another or to represent another in dealings with third persons. The person for whom such act is done, or who is so represented, is called the principal.

When banks collect various financial instruments for their customers, this law comes into force. The authority of the agent is restricted to what is explicitly mentioned by the principal and the agent cannot construe some additional authority. In an emergency, an agent has authority to do all acts to protect his principal from loss as would be done by a person of ordinary prudence, in his own case, under similar circumstances.

If acts are done by an agent on behalf of the principal without his knowledge or authority, the principal may elect to ratify or to disown such acts.

Q90. Solution:

Employees trading based on the internal information of the client which is not available to public amounts to insider trading. Say, just before a specific bank account of a large company is going to become NPA that is not announced officially, an employee knowing this sells the stocks of the company or advises friends to sell and get out of the stock, amounts to insider trading. Also, dealing in the stock of the bank where one is employed based on significant information that is not available to the public amounts to insider trading. SEBI has issued Insider trading rules which also include provisions regarding consequences of violation of the rules and declarations to be made by the employees on a quarterly basis.

Q91. Solution:

General Norms for Provisions on Advances:

1. Loss Assets: Loss assets should be written off. If loss assets are permitted to remain in the books for any reason, 100 per cent of the outstanding should be provided for.
2. Doubtful Assets: 100 per cent of the extent to which the advance is not covered by the realisable value of the security to which the bank has a valid recourse and the realisable value is estimated on a realistic basis. In regard to the secured portion, provision may be made at the rates ranging from 25 per cent to 100 per cent of the secured portion depending upon the period for which the asset has remained doubtful.
3. Substandard Assets: A general provision of 15 per cent on total outstanding should be made without making any allowance for ECGC guarantee cover and securities available. The unsecured exposures, which are identified as 'substandard' would attract additional provision of 10% per cent, i.e. a total of 25 per cent on the outstanding balance.
4. Standard Assets: The provisions on standard assets should not be reckoned for arriving at net NPAs. The provisions towards Standard Assets need not be netted from gross advances.

Q92. Solution:

The capital conservation buffer is designed to strengthen an institution's financial resilience during economic cycles. Capital Conservation Buffer is a concept introduced in the International Basel III norms. The concept gained importance after the financial crisis of 2008, when large banks witnessed their capital eroding at a fast pace due to the stress in the system. The Capital Conservation Buffer is aimed to cover the losses on risky investments. The Basel Committee on Banking Supervision introduced capital buffer under two structures namely, Capital Conservation Buffer (CCB) and Countercyclical Capital Buffer (CCB). In India the regulatory authority has decided

to implement both. Banks are required to maintain a capital conservation buffer of 2.5%, comprised of Common Equity Tier 1 capital, above the regulatory minimum capital requirement of 9%. Banks should not distribute capital (i.e. pay dividends or bonuses in any form) in case capital level falls below the stipulated level.

Q93. Solution:

Categories of Priority Sector Lending are as follows:

1. Agriculture
2. Micro, Small and Medium Enterprises (MSME)
3. Export Credit (Not applicable to RRBs and LLBs)
4. Education
5. Housing
6. Social Infrastructure
7. Renewable Energy
8. Others
9. Weaker Sections

Q94. Solution:

An attachment order is an order preventing the disposal or dealing with the property of a debtor until a debt is paid. Attachment orders are normally issued by competent authorities like Income Tax Dept./ GST authorities, Enforcement Directorate, National Investigation Agency, PF/ Employees State Insurance authorities, etc. On receipt of such attachment orders, the fact should be noted in the System with date & time of receipt of such order.

Attachment Orders under The Income Tax Act, 1961: The attachment orders issued by the Income tax Officers lays down certain procedures regarding recovery of tax from the assessee in default. The Income Tax Officer may, by a notice in writing, call upon any person (including a banking company), from whom money is due or may become due to the assessee or any person who holds or may subsequently hold money for, or on account of the assessee to pay to the Income Tax Officer either immediately or upon the money becoming due, so much of the money as is sufficient to satisfy the tax due from the assessee.

Q95. Solution:

With a view to inculcating the habit of thrift and savings, banks allow minors above the age of 10 years to open and operate deposit accounts, subject to certain conditions. Opening of minor's accounts needs completion of KYC formalities of both the minor and her guardian, and ascertaining and recording in the bank's systems her date of birth. The father is the natural guardian for opening the account, but RBI has permitted banks to open minor's account with the mother as a guardian. The term natural guardian does not include step mother or step father. The minor should be literate. Two minors cannot open a joint account.

Q96. Solution:

Total Priority Sector Lending for foreign banks operating in India with less than 20 branches: 40 per cent of ANBC or CEOBE whichever is higher; out of which up to 32% can be in the form of lending to Exports and not less than 8% can be to any other priority sector.

Q97. Solution:

Repo rate is the rate at which the Reserve Bank of India in case of India lends money to commercial banks in the event of any shortfall of funds. Repo rate is used by monetary authorities to control inflation. All new floating rate personal or retail loans (housing, auto, etc.) and floating rate loans extended by banks to Micro and Small Enterprises from October 01, 2019 and floating rate loans to Medium Enterprises from April 01, 2020 shall be benchmarked to one of the following:

1. RBI policy repo rate
2. Government of India 3-Months Treasury Bill yield published by the Financial Benchmarks India Private Ltd. (FBIL)
3. Government of India 6-Months Treasury Bill yield published by the FBIL
4. Any other benchmark market interest rate published by the FBIL.

Q98. Solution:

Benefits of CBS

- Provides new and innovative banking products and services;
- Enables customer services 24*7 from any branch/delivery channel
- Establishes a reliable centralised data repository for the Bank
- Facilitates data warehousing and data mining technologies for business intelligence
- Eases the implementation of integrated customer-centric services like online ATMs, telebanking, internet banking, mobile banking, any-branch banking, kiosk banking, cash management services, etc.
- Enables centralised Management Information, Decision Support and Executive Information systems, ALM, Risk Management.
- Standardisation of the branch automation software using a single version. Quick adoption of software changes as changes are done only at the central level
- Facilitates business process re-engineering (BPR) to streamline the existing processes
- Relieves branch officers from tedious jobs like data backup, MIS generation, etc.
- Servers are not mandatory at branch locations

Q99. Solution:

Bank Draft is a negotiable instrument, and an order drawn by one branch of a bank instructing another branch of the bank to pay a certain sum of money to the order of a certain person. A bank draft is akin to a bill of exchange, is not a cheque, but for the purpose of various protections under the Negotiable Instruments Act it is treated as a cheque. A Demand Draft cannot be payable to bearer as it would amount to a currency note and will be a violation of Section 31 of the RBI Act 1934.

Q100. Solution:

Funds required to sustain working cycle/ production cycle of any unit is called working capital. Working capital for any manufacturing unit means the total amount of circulating funds required for the continuous operations of the unit as a going concern. Working capital is calculated simply by subtracting current liabilities from current assets. Thus, in the present case working capital stands at INR 3,00,000 (Current Assets Current Liabilities)



Dream Big Institution