



BRAINWARE UNIVERSITY

Course – B. Com.

Principles and Practices of Banking – Functions of Banks (Credits/Loans) - (BCMC 201)

(Semester – 2)

Time allotted: 3 Hours

Full Marks : 70

[The figure in the margin indicates full marks. Candidates are required to give their answers in their own words as far as practicable.]

Group –A

(Multiple Choice Type Question)

(10 x 1 = 10)

1. Answer all questions

i) Cardinal principles of lending are

- (a) safety and liquidity
- (b) profitability and diversification of risks
- (c) purpose and security
- (d) all of a,b & c .

ii) Liquidity means

- (a) Cash on hand
- (b) Cash and Bank balance
- (c) short term current assets which can be converted into cash easily.
- (d) All of above
- (e) None

iii) Working Capital means-----

- (a) Requirements for the day to day transactions
- (b) Excess of current assets over current liabilities
- (c) Fixed assets – Current assets
- (d) None of the above

iv) A micro enterprise in manufacturing sector is one where the investment in plant & machinery does not exceed

- (a) 10 lakh
- (b) 20 lakh
- (c) 25 lakh
- (d) 50 lakh

v) Major current assets are -----

- (a) Marketable Investments and cash /receivables/inventories
- (b) Inventories + cash + receivables
- (c) shares in sister concern + Unquoted shares + Cash
- (d) All of the above

vi) Term Loans mean loans-----

- (a) Payable after one year to 10 years
- (b) Repayments are done in instalments
- (c) Term Loans are utilized for acquisition of fixed assets
- (d) All of above

vii) What are the sources of working capital ?

- (a) trade credits + unsecured loans + deposits
- (b) Bank borrowing + Advance payments
- (c) Net working capital
- (d) All of the above.

viii) The loan value (amount of loan) under retail lending normally range between

- (a) Rs.20,000 to Rs.100 lakh.
- (b) Rs.100 lakh to Rs.10 crore
- (c) More than Rs.10 crore
- (d) None

- ix) Kisan credit cards are issued to farmers.....
- (a) to withdraw money from ATM
 - (b) to purchase farm equipments
 - (c) to purchase agricultural implements
 - (d) to meet their cultivation needs and non-farm equipments, including purchase of inputs and other short-term requirements for allied activities.
- x) Scale of finance for crop loans is decided by
- (a) District Level Technical Committee
 - (b) State Level Technical committee
 - (c) Block Level Technical committee
 - (d) Individual

(Group – B)

(Short Answer Type Question)

3 x 5 = 15

Answer any three questions :

2. What are the different process for assessment of working capital loan?
3. What are the cardinal principles of lending?
4. Explain the importance of ratio analysis in sanctioning credit.
5. What are the categories under Priority Sector redefined by RBI on 23.04.2015 ?
6. Define Primary security and Collateral security.

(Group – C)

(Long Answer Type Question)

3 x 15 = 45

Answer any three questions:

7. Distinguish ‘Pledge and ‘Hypothecation’ with reference to defining act, definition, parties involved, whether security is movable or immovable, nature of charge.
8. Define Bank Guarantee as per Indian contract Act,1872. What is Financial Guarantee and how it differs from Personal Guarantee? Whether Deferred Payment Guarantee is a financial guarantee or performance guarantee?
[5 + 5 + 5 = 15]

9. Define MSME as per MSMED Act,2006. Distinguish Industrial Enterprises and service Enterprises with suitable example. Whether 'Investment' or 'Amount of Loan' is a criteria for classification of Micro, Small and Medium Enterprises? [10 + 3 + 2 = 15]

10. i) A borrower has approached for working capital limit from a bank and submitted the following information –

- | | |
|--|------------------|
| (a) Procurement of Raw material | - 30 days. |
| (b) Conversion/Processing time | - 15 days |
| (c) Average time of holding of finished good | - 15 days |
| (d) Average collection period | - 30 days |
| (e) Total Operating expenses per annum | - Rs. 60.00 lacs |
| (f) Total Turnover per annum | - Rs. 70.00 lacs |

Assuming there is 360 days in a year, find out the number of Operating Cycles in a year and working capital requirement of the borrower under operating cycle method.

ii) A borrower has approached your bank for working capital limit and his requirement of working capital limit is Rs. 10 to 12 crore. He has submitted the following information:

Current Assets of the Company : Rs. 16.00 crore

Other current Liabilities : Rs. 1.60 crore

You have to assess what will be the required Net Working Capital and the Projected Bank Finance (PBF) under second method of lending. [7+8 = 15]

11. Define Letter of credit. Who are the different parties in a Letter of credit? What are the different documents to be submitted in a letter of credit? Explain the function of letter of credit with a suitable example. [4 + 4 + 4 + 3 = 15]

OR

Write short notes on: (*Any three*) [3 x 5 = 15]

- Hypothecation
- Pledge
- Limitation of loan documents
- Floating charge
- EMI