

COVENANT UNIVERSITY

TUTORIAL KIT

PROGRAMME: BANKING AND
FINANCE

ALPHA SEMESTER

100 LEVEL



Raising A New Generation Of Leaders

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BFN 111: Introduction to banking and finance

COVENANT UNIVERSITY
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TITLE OF EXAMINATION: B.Sc. Degree Examinations

COLLEGE: Business and Social Sciences

SCHOOL: School of Business

DEPARTMENT: Banking and Finance

SESSION: 2014/2015

SEMESTER: ALPHA

COURSE CODE: BFN 111

COURSE TITLE: Introduction to Banking and Finance

CREDIT UNITS: 2

INSTRUCTIONS: Attempt ALL Questions. Shade deeply or Erase cleanly (when needed)

TIME: 1 ½ HOURS

1. ----- can be defined as any legal human activity that satisfies human wants at a profit. (a) A goal (b) An organization (c) A business (d) A mission
2. A major feature of a sole proprietorship is ----- except (a) ownership by one person (b) unlimited liability (c) separate legal entity (d) limited capital.
3. An advantage of a sole trader is ----- (a) privacy (b) unlimited capital (c) perpetual existence (d) division of labour
4. A sole proprietorship has one of the following as a major source of capital (a) contributions of partners (b) shares (c) bonds (d) trade credit
5. The level of efficiency and success of a sole trade business depends particularly on ----- (a) advice from experts (b) managerial capability of the owner (c) availability of capital (d) quick decision taking
6. ----- is a firm's aim, target/mission or a height the firm wishes to attain or reach. (a) Objectives (b) Goals (c) Vision (d) Purpose
7. ----- can be described to include the system of circulation of money and the seeking and granting of credit facilities. (a) Money (b) Policy (c) Finance (d) Banking.
8. Firms are usually faced with ----- basic questions of finance (a) Four (b) Two (c) five (d) Three
9. Two of the basic decisions in finance include ----- and ----- . (a) investment decision and dividend decision (b) Banking decision and investment decision (c) investment and borrowing decision (d) dividend and money decision.
10. Finance functions can further be divided into ----- and ----- functions. (a) managerial and routine (b) finance and banking (c) decision and planning (d) controlling and organizing
11. Supervision of cash receipts/ payments and safeguarding of cash balances is a ----- finance function. (a) managerial (b) planning (c) routine (d) organizing
12. The ----- is charged with the responsibility of formulating major financial policies in the firm. (a) treasurer (b) controller (c) chief financial officer (d) the accountant
13. ----- and ----- represent the instruments and the institutions by which the attainment of all financial objectives are facilitated. (a) Money and banking (b) Money and market (c) Money and policy (d) Policy and Finance
14. A ----- is a form of business that exists between two or more persons with the sole aim of making profit (a) partnership (b) limited business (c) sole trade (d) public corporations
15. ----- is a written agreement, rules and regulations guiding the members of a partnership business (a) Law and ethics of partnership (b) Article of partnership (c) Partnership deed (d) Memorandum of Association
16. There are ----- common categories of partnership (a) four (b) two (c) three (d) five.

17. A major disadvantage of a partnership is ----- (a) slow expansion (b) lack of continuity (c) slow decision making (d) shared liabilities
18. ----- are usually broader than objectives. (a) Missions (b) Visions (c) Aims (d) Goals
19. ----- can be described as the purpose of a plan that translates goals into action and sets. (a) Purpose (b) Mission (c) Objectives (d) Vision
20. A good objective must be ----- and ----- . (a) realistic and clearly stated (b) specific and measurable (c) reasonable and challenging (d) all of the above
21. Risk is measured in (a) Kilometres (b) litres (c) standard deviation (d) means
22. A business organization owned by a number of people that is operated as a legal person on behalf of its owners is ----- (a) public corporations (b) public enterprises (c) cooperatives societies (d) limited liability companies.
23. Limited liability companies whether private or public may be limited by ----- (a) capital, raw materials and labour (b) shares, guarantee or unlimited (c) guarantee, warranty and capital (d) shares, debentures and capital
24. A major feature of a limited liability company is ----- (a) perpetual succession (b) separate legal entity (c) limited liabilities (d) all of the above
25. The primary financial objective of a business firm is ----- . (a) maximization of shareholders' wealth (b) profit maximization (c) maximization of return on capital employed (d) liquidity
26. The primary non-financial objective of a business firm is ----- . (a) Growth (b) Survival (c) Innovation objective (d) Social responsibility
27. Maximization of the shareholders' wealth is considered to be superior and accepted as the primary financial objective because ----- (a) it considers the timing (time value) of returns (b) it considers both the short term and long term benefits of a firm (c) all of the above (d) none of the above
28. The maximum membership for a private limited liability company (excluding the previous employees) is (a) 50 (b) 20 (c) 10 (d) 100
29. Public corporations/enterprises are formed, owned, managed and financed by ---- (a) shareholders (b) government (c) judiciary (d) institutions.
30. Which of the following is source of risk (a) Trading (b) competition (c) system (d) Budget
31. Capital Budgeting under certainty, assumes that an investment is (a) risk free (b) risky (c) Risk-returns (d) risk averse
32. Dividend Policy where risk is overwhelming has attendant effect on (a) Management (b) public (b) Shareholders fortune (d) Government
33. Types of risk include all the following but (a) Business Risk (b) Financial Risk (c) product Risk (d) Interest Rate Risk
34. Under conditions of uncertainty, future outcomes cannot be estimated because they are (a) fully known (b) partially known (c) known with assurance (d) none of the above
35. Investors normally embark on the following in order to spread risks with exception of (a) Portfolio construction (b) ease of realization (c) Industrial/ Geographical Spread (d) Overseas property.
36. Preference shares are riskier than ordinary shares (a) True (b) false.
37. The only option available for an ordinary shareholder exiting a company is to (a) transfer his stocks (b) save his stocks (c) liquidate his stocks (d) forget his stocks.
38. A situation where term bills of exchange are discounted and the drawer of the bills receives funds before its maturity is known as (a) Bankers acceptances (b) acceptance credit (c) bills discounting (d) invoice discounting.
39. The abstract definition of money deals principally with (a) commodity of money (b) tangibility of money (c) exchange value of money (d) none of the above

40. M_2 is defined as (a) $CC + DD$ (b) $DD + TD$ (c) $CC + DD + SD$ (d) $TD + SD + CC + DD$.
41. A fiduciary issue is (a) money issued by the CBN (b) money issued but not backed by gold (c) bank notes (d) money issued on trust.
42. An example of near money is (a) cash (b) bank account balance (c) coins (d) treasury bills.
43. The most important characteristics of money is (a) portability (b) homogeneity (c) divisibility (d) none of the above.
44. The supply of money is affected by one of the following (a) buying and selling of treasury bills (b) changes in high powered money (c) high activities in the capital market (d) transactions in the money market.
45. The correct equation of the theory of demand for money is (a) $V=PQ/M$ (b) $V=PM/Q$ (c) $V=MQ/P$ (d) $P=VM/Q$.
46. The basic theory of money creation is based on (a) Deposits and loans (b) buying and selling of credit (c) deposit and selling (d) loans and money.
47. The critical factor to the eventual money created is the (a) number of banks (b) number of borrowers (c) legal reserve ratio (d) none of the above.
48. How much would be created if the reserve ratio is 12% and the initial deposit is ₦1000.00 (a) ₦12000 (c) ₦8333.33 (d) ₦833.33.
49. Financial market involves the transfer of (a) money and credit (b) bills and credit (c) assets and liabilities (d) cash and credit.
50. One of the following is not an instrument in the money market in Nigeria (a) Development stock (b) Treasury certificates (c) commercial papers (d) call money.
51. One of the following is not regularly traded on the stock exchange in Nigeria (a) ordinary stocks (b) preference Shares (c) Debenture stocks (d) none of the above.
52. Another name for par value is (a) actual value (b) market value (c) traded value (d) nominal value.
53. The bear market in the capital market is a market of (a) bears are sold (b) bull fighting takes place (c) falling prices (d) rising prices
54. One of the following is a gilt edge instrument (a) Cadbury shares (b) Globacom debenture stocks (c) Treasury bill (d) all of the above.
55. The CSCS Plc is (a) Capital Securities Clearing System (b) Central System for Commissioned Shares (b) Central Securities Clearing System (d) none of the above.
56. How much would the banking system create if the legal reserve ratio is set at 6% with a new N5000 deposit? (a) N30,000 (b) N50,000 (c) N150,000 (d) N83,333.33
57. A concept that allows a company to continue for indefinite time period is known as (a) limited liability (b) perpetual succession (c) *ad infinitum* (d) none of the above.
58. A general partner is but (a) active (b) ordinary (c) passive (d) normal.
59. Short-term sources of finance are usually available for up to year(s) (a) One (b) one and half (c) two (d) two and quarter
60. Short-term finance by its nature can be used to finance all the following but..... (a) Stock (b) working capital (c) fixed asset (d) none of the above
61. Sources of short-term capital include all but one of the following..... (a) bank term loan (b) commercial paper (c) Trade Credit (d) Debt Factoring.
62. Various types of trade credit that exists include all but one of the following (a) Trade acceptances (b) Notes payable (c) Open account (d) account payable.

63. Informal financial institutions are (a) Institution created by CBN (b) Institution that exist in Financial centre (c) Financial Institutions not regulated by government (d). Government parastatals.
64. Financial dualism implies that (a). Financial market is backward (b). Only elite operate the market (c). Only women operate the market (d). Both formal and informal financial system operates alongside.
65. A primary financial market is a market where (a). Dollars are traded (b). New financial products are sold (c). Government borrow funds (d). Only foreign financial products are allowed to trade.
66. Which of the following is not a money market instrument (a)? Saving account deposit (b) Treasury bill (c) Debenture (d) Money at call
67. The microfinance bank is a type of (a) Community bank (b) Commercial bank (c) Development bank (d) Mortgage bank
68. A market meant for financial assets that are close substitutes for money is (a) Foreign exchange market (b). Informal financial market (c). Money market (d). capital market
69. The treasury certificate was first introduced in (a). 1968 (b). 1966 (c). 1969 (d). 1965
70. The deposit money banks are the main investor in which of the following instrument (a). Money at call (b). Commercial paper (c). Treasury bills (d). Certificate of deposit.
71. Which of these instruments was abolished in 1974 but continue to exist without the participation and involvement of the CBN (a). Treasury certificate (b). Interbank placement (c). Money at call (d). Commercial papers.
72. One of the following is a not a method of accessing capital in the capital market (a) Subscription issues (b) rights issues (c) trading issues (d) private Placement
73. All funds for investment come primarily from (a) Debt (b) equity or personal savings (c) none of the above (d) all of the above.
74. Which of these is NOT an operator of the Money market (a)? Discount houses (b). Deposit Money Bank (c). Nigeria stock exchange (d). Central Bank of Nigeria.
75. The secondary market is a market where (a) Secondary school students trade in (b) Existing financial product are exchange (c) Only privileged people trade in (d) Commercial bank operators.
76. Which of the following is not an operator in the capital market (a)? Stock brokers (b). Registrar (c). Finance houses (d). Underwriters.
77. A capital market is a network of financial institutions and facilities that interact to mobilize and allocate (a). Government fund (b). Long term fund (c). Foreign loan (d). Short- term fund.
78. Which of these is not an instrument of the of the capital market (a). Common stock (b). Debenture (c). Repurchase agreement (d). Preference stock
79. Which of these is an example of quasi money (a)? N50 notes (b). Treasury bills (c). Term deposit (d). N50,000 cheque.
80. Where interest earned is not added back to the principal amount borrowed or invested, it is called (a) Interest (b) Simple interest (c) compound interest (d) Multiple interest.
81. If an individual invest certain sum of money now at a given interest rate, the amount that he will receive at a future date is known as (a) Interest (b) Future interest (c) Compound value (d) Compound interest.
82. Mathematically expressed future value is (a) $FV = A(I+r)^{n-1}$ (b) $FV = A(I+r)^{n+1}$ (c) $FV = A(I+r)^n$ (d) $FV = A(I+r)$
83. Ota Ltd has N15,000 to invest in Ota Microfinance bank savings account that pays 10% per annum. How much would she received at the end of 5 ½ years (a) N23,333.30 (b) N25,336.50 (c) N25337.50 (d) N23333.00

84. Which of these alternative formulas below is used in finding interest rate with fv , pv and period given
- (a) $n\left(\sqrt{\frac{fv}{pv}}\right)-1$ (b) $n\sqrt{\frac{fv-1}{pv}}$ (c) $n\left(\sqrt{\frac{fv}{pv-1}}\right)$ (d) $n-1\sqrt{\frac{fv}{pv}}$
85. John lent N30,000 to a friend at a certain annual interest rate so as to produce a return of N60,000 at the end of the next three years. What is the interest rate (a) 25% (b) 26% (c) 26.50% (d) 25.1%.
86. To know how the value of an asset (investment) that yields regular sum annually we use (a) annuity (b) perpetuity (c) discounting (d) sinking fund.
87. Most Non-Governmental organizations are usually limited by (a) shares (b) unlimited (c) guarantee (d) capital.
88. Financial risk is (a) risk is sourcing money (b) risk in managing finance (c) risk in paying debts (d) risk in the mix of equity and debt
89. One of the greatest disadvantages of the cooperatives is (a) there is so much illiteracy (b) elected leaders may not have capacity to run the Cooperative (c) Poor savings (d) legal entity.
90. The time value of money finds its initial application in (a) Simple interest (b) FV (c) PV (d) Compound interest.
91. The compound interest basic formula has an automatic in built-mechanism for estimating interest on interest plus principal. (a) False (b) True (c) Not known (d) False and true
92. Janet desires to deposit N1500 into a bank being money received from his in-law. He approached you to establish for him how long it would take the N1500 to double itself if deposited in a bank that pays 10% interest per annum. (a) 7 years (b) 7.37 years (c) 7.27 years (d) 7.07 years.
93. How long will it take the sum of N500 to double itself if deposited in bank that pays 12% interest per annum but compounded semi-annually? (a) 5 years (b) 5.85 years (c) 5 – 90 years (d) 5.95 years.
94. An investor expects to receive N45,000 in four years' time. How much must he invest now at 7% rate of interest in order to achieve this objective? (a) 34,330 (b) 34,332 (c) 34,330.50 (d) 34,331.05
95. Suppose Mary has the opportunity of receiving N200, N300 and N400 in year 1, 2 and 3 respectively with a discount rate of 9% per annum, find the present value of this stream of income. (a) 744 (b) 744.80 (c) 744.82 (d) 744.87.
96. One of the following is a factor that affects the value of money (a) Inflation (b) Interest (c) Certainty (d) Deflation.
97. How much will an investor have after 5 years if he invests ₦10,000 at 10% simple interest per annum? (a) 15000 (b) 15,300 (c) 15250 (d) 15150.
98. Esther saves ₦500.00 every year over 5 years. How much will this amount to if the interest rate is 8% per annum (a) ₦ 734.66 (b) ₦2933.30 (c) ₦3673.32 (d) ₦2500.00
99. Dr Prudent wants to save to buy a car of his choice in 5 years' time costing ₦2,000,000.00. How much should he be saving on annual basis if the savings interest is 12% per annum (a) ₦1,134,853.71 (b) ₦357,142.86 (c) ₦400,000.00 (d) ₦314,836.68.
100. Dr Ibibande borrowed ₦1,000,000.00 mortgage loan repayable over 5 years from at Primary mortgage institution in Lagos. How much is the amount to be amortised on annual basis if the interest rate is 10% (a) ₦250,000.00 (b) ₦ 263,797.00 (c) ₦322,102.00 (d) ₦402,627.50.