

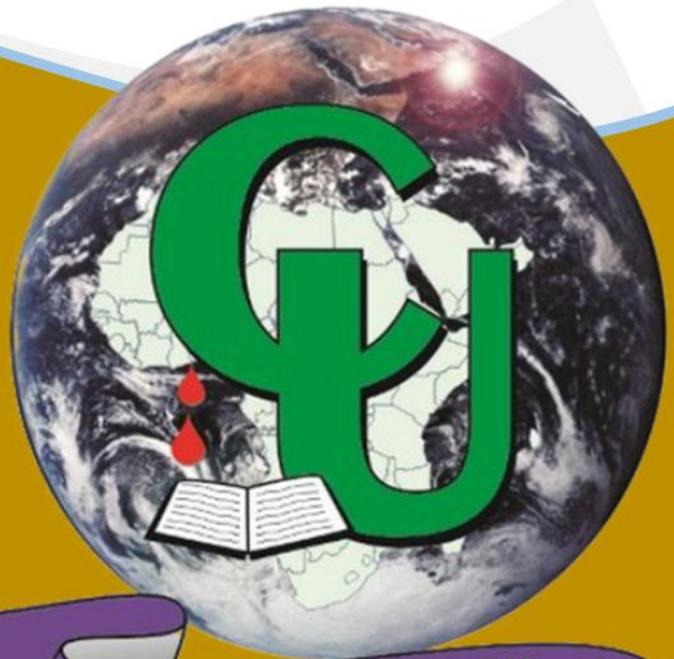
COVENANT UNIVERSITY

TUTORIAL KIT

PROGRAMME: BANKING AND  
FINANCE

OMEGA SEMESTER

100 LEVEL



*Raising A New Generation Of Leaders*

## **DISCLAIMER**

The contents of this document are intended for practice and learning purposes at the undergraduate level. The materials are from different sources including the internet and the contributors do not in any way claim authorship or ownership of them. The materials are also not to be used for any commercial purpose.

## **List of Contents**

### **BFN 121: Introduction to Banking and finance II**

**COVENANT UNIVERSITY**  
**CANAANLAND, KM 10, IDIROKO ROAD**  
**P.M.B 1023, OTA, OGUN STATE, NIGERIA.**

**TITLE OF EXAMINATION:** B.Sc. EXAMINATION

**COLLEGE:** BUSINESS AND SOCIAL SCIENCES

**SCHOOL:** BUSINESS

**DEPARTMENT:** BANKING AND FINANCE

**SESSION:** 2014/2015

**SEMESTER:** OMEGA

**COURSE CODE:** BFN 121 **CREDIT UNIT:** 2

**MAY, 2015**

**COURSE TITLE:** INTRODUCTION TO BANKING AND FINANCE II

**BFN 121 OBJECTIVE EXAM QUESTIONS**

**ANSWER ALL QUESTIONS (1 mark each)**

**TIME ALLOWED: 1 HOUR**

**1 The following risk valuation methods are used in the assessment of insurance risk except**

- (a) Risk identification value (b) Book value (c) Firm Specific value
- (d) Market value (e) Replacement cost or value

**2 Common examples of insurance policy or cover do not include**

- (a) Marine (b) Fire (c) Life (d) Risk Management (e) Liability

**3 The following principles guide the practice of insurance in Nigeria**

- (a) Utmost Good Faith (b) Insurable Interest (c) Contribution (d) Subrogation
- (e) All of the above

**4 As an insurer, what are the basic factors you will consider in determining the premium payable by a prospective insured.**

- (a) Expected Claims (b) Administrative cost (c) Fair profit
- (d) Investment income (e) All of the above

**5 The practice of evaluating and controlling insurable risk is known as**

- (a) Insurance risk (b) Risk classification (c) Risk management
- (d) Risk identification (e) Risk determination.

**6 Bank lending entails that the lending institution (the bank) parts with**

(a) only legal ownership of the item lent (money) but not physical possession. (b) physical possession but not legal ownership. (c) both legal ownership and physical ownership (d) none of the above. (e) all of the above

**7 The following are important determinants of a bank's lending policy except**

(a) monetary policy guideline (b) deposit base (c) collateral or security  
(d) equity capital or shareholders' fund. (e) none of the above

**8 Basic principles guiding the lending activity of banks include**

(a) liquidity (b) safety (c) profitability (d) diversity or spread. (e) all of the above

**9 Bank lending should be regulated in order to ensure:**

(a) orderly conduct of lending activity as well as stability of the lending institutions.  
(b) that inflation rate is kept low. (c) that interest rates are kept high.  
(d) that corporate tax is minimized. (e) that profits are kept quite high

**10 Which of the following is not a constraint to bank lending:**

(a) deposit base. (b) economic, political and social factors  
(c) corporate policy. (d) equity capital or shareholders' fund  
(e) customer preference.

11. There are three major segments of the banks accounting system that calls for attention and they include all the following except.....? (A) Deposit account (B) Funds flow (Sources and Uses of funds) (C) Balance sheet (D) Trading Profit and Loss Account

12. Which of the following is an item on the liability side of the balance sheet.....? (A) Investment (B) Loans and advances (C) Deposit account (D) Equipment on lease

13. Which of the following is an item on the asset side of the balance sheet.....? (A) Fixed Asset (B) Debenture Stocks (C) Taxation (D) Capital and Reserves

14. Which of the following incorporates long-term funds?..... (A) Balances held with the CBN (B) balances held with banks (C) balances held with other financial institutions (D) all of the above

15. One of the following depicts short term investment.....? (A) Nigerian Treasury Bills (B) Investment in Discount Houses (C) Equities in subsidiaries (D) Debenture Stock

16. Fixed asset includes all the following except.....? (A) Land and buildings (B) treasury certificates (C) machinery (D) motor vehicles
17. All of the following are examples of reserves held by banks except.....? (A) Bonus Share Reserve (B) Capital Reserve (C) General Reserve (D) Legal reserve
18. One major source of income for banks is.....? (A) Leasing (B) Hire purchase (C) Loans and overdraft (D) sales of fixed asset
19. An instruction given by a customer to his bank to effect regular payments at various intervals to a third party from the customers' account is called.....? (A) Standing order (B) Mail and telegraphic transfers (C) Banks draft (D) Bank cheque
20. The expression "a sum certain in money" as a main essential part of a cheque means that?  
(A) The cheque must be drawn for money (B) The cheque must be drawn for non-money (C) The cheque book must be made of money (D) None of the above
21. A form of international payment whereby a letter is written instructing the bank to transfer funds from a savings account to a current account to enable a cheque already issued on the current account to be paid is called.....? (A) Open account (B) Direct Debit (C) Bankers' payment (D) Intra-bank transfer payment
22. All but one are examples of international/overseas methods of payment.....? (A) Documentary credit (B) Bank cheque (C) Bankers payment (D) Open account payment
23. The method of international payment that is the surest and most advised to bank customers by banks is called.....? (A) Documentary Credit (B) Bill for collection (C) Bills and Negotiation (D) Open account
24. A method of international payment where if an exporter customer is in need of funds and cannot wait for the sales proceeds of the goods exported to be remitted from the importer abroad, he may request his banker to take over the bill through negotiation is called.....? (A) Documentary Credit (B) Bills and Negotiation (C) Bill for collection (D) Open account
25. The method of payment used by banks to pay each other either for services carried out between them is called.....? (A) Bankers' payment (B) Intra-bank transfer payment (C) Direct Debit (D) Documentary Credit
26. The types of crossing on a cheque are all but one of the following.....? (A) General crossing (B) Zebra crossing (C) Special crossing (D) a/c payee only
27. A bank draft is.....? (A) a document showing the vision and mission statements of the bank (B) the draft of the bank's financial statement (C) a cheque drawn by a branch of the same

bank on another branch or Head Office of the same bank (D) a document used to apply for bank's atm card

28. A cheque drawn by a branch of Zenith bank PLC in Ota on another Zenith bank's branch in Ikeja is called.....? (A) Cheque (B) Personal cheque (C) Bank draft (D) certified cheque

29. One of the following is not a function of commercial bank.....?

(A) acceptance of deposits (B) granting of loans and advances (C) controlling the central bank (D) acting as referee for their customers when the need arise.

30. The three parties to a cheque are.....? (A) Drawer, Drawee, Payer (B) Payer, Payee, Drawer (C) Drawer, Drawee, Pay (D) Drawer, Drawee, Payee

31. The rival bank formed in 1899 due to the high demand for West Africa products and increase in commercial transactions was the (a) Bank of British West Africa (BBWA) (b) London Westminster Bank (c) Anglo African Bank (d) None of the above

32. May 1893 witnessed the transformation of the old ABC to (a) Bank of British West Africa (BBWA) (b) London Westminster Bank (c) Anglo African Bank (d) None of the above

33. In the light of early competition of bank services, the Colonial bank entered the West Africa Banking scene in (a) 1917 (b) 1919 (c) 1920 (d) 1949

34. The first indigenous bank to be established in Nigeria was the (a) Pan-African Bank (b) Industrial and Commercial Bank (c) Nigerian Mercantile Bank (d) None of the above

35. The expatriate banks resolved to merge and affiliate with larger banks in order to (a) stem down the adverse effect of such inevitable developments (b) take a smaller market share (c) to be acquired by indigenous banks (d) return back to home country

36. Development banks include all but one of the following? (a) Bank of Industry (b) Bank of Agriculture (c) Finance Houses (d) FMBN

37. The category of other financial institution operating in the financial system other than banks include all but one of the following (a) Micro finance institutions (b) Primary mortgage institutions (c) Deposit money banks (d) Discount houses

38. The financial institutions that trade in and hold treasury bills, commercial bills and other commercial securities are (a) Bank of Industry (b) Bank of Agriculture (c) Finance Houses (d) Discount Houses

39. All but one of the following are challenges of Insurance companies in Nigeria (a) Low efficiency (b) Under capitalization (c) Low overhead expenses (d) Malpractice of insurance brokered and agents

40. All but one of the following are challenges of Micro finance institutions in Nigeria (a) Lack of skilled manpower (b) Poor rendition of financial returns (c) Ineffective cheque clearing (d) High patronage

41. Which of these is true? The published accounts of banks are expected to (a) guide would-be-investors, (b) encourage existing investors, (c) assist monetary authorities to assess banks' performance accurately, (d) all of the above.

42. The most liquid asset of a commercial bank is (a) fixed asset, (b) Loans and advances, (c) Cash and short funds, (d) Equipment on lease.

43. Which of these is not true about Debenture stocks (a) They are medium and long-term loans to the bank, (b) Debenture stocks are listed on the asset side of a bank's balance sheet, (c) Interest is payable before eventual redemption, (d) Holders of this instrument are not part owners of the bank

44. Banks must compulsorily render returns to the Central Bank of Nigeria (a) weekly, (b) monthly, (c) annually, (d) all of the above.

45. The largest and most important items on the liability side of a commercial banks balance sheet are (a) Current, Savings and Deposit accounts, (b) Capital and Reserves, (c) Proposed Dividend and Other Liabilities, (d) Debenture stocks and Loan capitals.

46. The following are covered under Non-life insurance policy, (a) Endowment (a) Motor vehicle, (c) fire, (d) flood,

47. One of the following is not a non-bank financial institution, (a) AIICO Insurance PLC, (b) Kakawa Discount House, (c) Zenith Bank Plc, (d) Sulah Bureau-de-change

48. Which of these is not true about Finance Companies (a) They are non-bank financial institutions, (b) They deal in foreign currencies, (c) They are regulated by the Central Bank of Nigeria, (d) They assist individuals and companies to finance their business projects.

49. The Nigerian Social Insurance Trust Fund (NSITF) was established in 1993 to replace the defunct National Provident Fund (NPF) which was established in 1961, so as to provide better services to its clients. How?

(a) Nigerian private sector employees are expected to contribute 2.5 percent of their respective gross monthly incomes to NSITF as against the flat rate of N4.00 monthly under the old NPF scheme. In addition, each employer of the private sector is expected to contribute 5 percent of the gross monthly emolument as a supplement to the employees' contribution.

(b) Nigerian private sector employees are expected to contribute 3.5 percent of their respective gross monthly incomes to NSITF as against the flat rate of N4.00 monthly under the old NPF scheme. In addition, each employer of the private sector is expected to contribute 10 percent of the gross monthly emolument as a supplement to the employees' contribution.

(c) Nigerian private sector employees are expected to contribute 5 percent of their respective gross monthly incomes to NSITF as against the flat rate of N4.00 monthly under the old NPF scheme. In addition, each employer of the private sector is expected to contribute 5 percent of the gross monthly emolument as a supplement to the employees' contribution.

(d) Nigerian private sector employees are expected to contribute 2.5 percent of their respective gross monthly incomes to NSITF as against the flat rate of N6.00 monthly under the old NPF scheme. In addition, each employer of the private sector is expected to contribute 5 percent of the gross monthly emolument as a supplement to the employees' contribution.

50. One of the following is not true (a) Co-operatives are popular among small savers because they offer soft loans.

(b) Unit trusts are investment organizations, which provide opportunity for small investors to purchase securities from the stock exchange.

(c) Discount Houses provide liquidity for investors through discounting or re-discounting facilities for government short-term securities like treasury bills.

(d) Co-operatives, Unit trusts and Discount Houses are classified as conventional banks.

**COVENANT UNIVERSITY**  
**CANAANLAND, KM 10, IDIROKO ROAD**  
**P.M.B 1023, OTA, OGUN STATE, NIGERIA.**

**TITLE OF EXAMINATION:** B.Sc. EXAMINATION

**COLLEGE:** BUSINESS AND SOCIAL SCIENCES

**SCHOOL:** BUSINESS

**DEPARTMENT:** BANKING AND FINANCE

**SESSION:** 2014/2015

**SEMESTER:** OMEGA

**COURSE CODE:** BFN 121 **CREDIT UNIT:** 2

**MAY, 2015**

**COURSE TITLE:** INTRODUCTION TO BANKING AND FINANCE II

BFN 121 OMEGA SEMESTER EXAM 2015

**SECTION 2 THEORY    TIME ALLOWED: 1 HOUR**

**Answer Question 1 and any other one**

**Question 1 (COMPULSORY)**

(a) Define money in functional terms (2 marks)

(b) Show the role of money in economic activity, i.e. in the production process in an economy (3 marks)

(c) You were taught the process of Demand Deposit Creation, employing some simplifying assumptions which were later relaxed in a constrained model, which will tend to limit or reduce the process of deposit creation by the commercial banking system.

Assume an initial deposit of N100,000 into the banking system, given a minimum legal reserve ratio for demand deposit of 20%, minimum legal reserve ratio for time deposit of 10%, currency drain, precautionary vault cash holdings with excess lending capacity each 5% of any change in demand deposit and general public liquid asset preference of time deposit to demand deposit is 1 to 2.

You are required to compute the maximum change in demand deposits in the banking system in the modified model, employing the following formula:

$$\text{Maximum change in Demand Deposits} = \frac{\text{Absolute Change in Total Legal Reserves for the Banking System}}{\text{Rd} + \text{C} + \text{P} + \text{X} + (\text{R}_t \times \text{T})} \times 1$$

Where:

$R_d$  = Minimum legal reserves ratio for demand deposits

$C$  = Currency drain factor expressed as % of change in demand deposits

$P$  = Precautionary vault cash holdings expressed as % of change in demand deposits

$X$  = Idle lending capacity expressed as % of change in demand deposits

$R_t$  = Minimum legal reserve ratio for time deposits

$T$  = General public's liquid assets preference ratio ----- (5 marks)

### **Question 2**

Banks do make payments on behalf of their customers to specified, named, third parties, both locally and internationally.

- (a) List five methods of domestic payment by banks (2.5 marks)
- (b) Explain three of them fully (7.5 marks).

### **Question 3**

One of the traditional functions of insurance is to transfer risks at a price to a willing party who is ready to bear such risks.

- (a) Define Risk (2 marks)
- (b) Differentiate between direct and indirect losses giving examples (4 marks)
- (c) Explain the four types of indirect losses (4 marks)

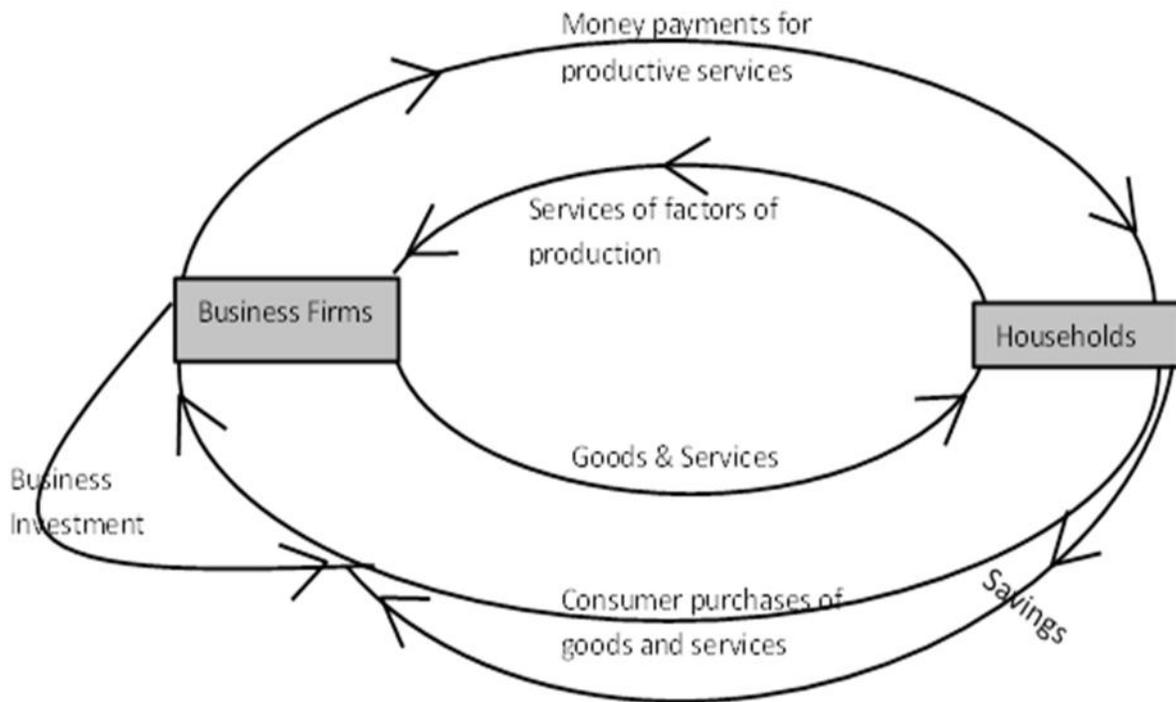
**BFN 121 2014 2015 Answer to Theory Question 1**

(a) Define Money in Functional terms (2 marks)

In functional terms, money is defined as anything that exhibits simultaneously the following two properties: (1) **fixity of price** stated in terms of a basic measuring unit, and (2) **general acceptability** in payment for goods and services or in payment of debts.

(b) Show the role of money in economic activity, i.e. in the production process in an economy (3 marks)

**Monetary Process & Economic Activity**



(c) Maximum change in Demand Deposits = Absolute Change in Total Legal Reserves for the Banking System  $\times \frac{1}{R_d + C + P + X + (R_t \times T)}$

$$= \text{N}100,000 \quad \times \quad \frac{1}{R_d + C + P + X + (R_t \times T)}$$

$$= \text{N}100,000 \quad \times \quad \frac{1}{0.20 + 0.05 + 0.05 + 0.05 + (0.10 \times 1/2)}$$

$$= \text{N}100,000 \quad \times \quad \frac{1}{0.35 + 0.05}$$

$$= \text{N}100,000 \quad \times \quad \frac{1}{0.40}$$

$$= \text{N}100,000 \quad \times \quad 2.5$$

$$= \underline{\text{N}250,000}$$

## Answer to Question 2

### Domestic methods of payment

#### 1. Standing order

This is an instruction given by a customer to his bank to effect regular payments at weekly, monthly, or quarterly intervals to a third party from the customer's account (current or savings). The payments could be in respect of rent due, subscription for newspapers, insurance premiums, or other commitments.

The particulars of the payments, like amounts, name, banker of the beneficiary, date of payment and the beneficiary's account number are given to the bank by the customer in a standing order instruction form. The bank then completes a standing order card that it uses to debit the customer's

account on a regular basis. Of course, the customer is expected to provide adequate funds in his account for the standing order payment, as the bank is not obliged to honour the payment instruction if there are no funds in the customer's account.

## **2. Mail and telegraphic transfers.**

A customer who wishes to make payments to another person in a different part of the country or outside the country may direct his banker to move the funds by mail or telegraph. The customer then gives instruction in writing to his bank to that effect with name, bank, and account number of the beneficiary and amount to be transferred clearly stated.

The bank then debits the customer's account, and effects the payment to the beneficiary. Payments by telex are fast and it formed the basis for the use of ICT in financial dealings presently particularly the current online real

## **3. Banks draft**

A bank draft is a cheque drawn by a branch of the same bank on another branch or Head Office of the same bank.

To make payment with a bank draft, a customer completes a standard request form at his branch, giving instructions to the bank who issues the draft with its own authorized signatories signing the draft. The issuing branch sends an advice to the paying branch giving particulars of the draft. The advice is also signed by the signatories to the draft.

Because drafts are bank instruments, they are not normally dishonoured on presentation. Many suppliers and creditors always insist to be paid by bank drafts rather than personal cheques. Drafts are used to make large payments both locally and internationally.

## **4. Bank cheque**

A bank cheque, also known as certified cheque is a money instrument used by banks on the instruction of their customers to make payments of certain sums of money to third parties. The bank cheque is used within the same clearing locality only while bank drafts are to be used where other clearing areas are (special clearing). The need for it arises when for example bank A requests

bank B to supply it with cash to enable it meet urgent cash requirements, as a result of heavy cash withdrawals by customers.

In such case, bank A would issue a bankers payment in favour of bank B in exchange for cash supplied. Bank A will thus be debited and bank B credited through the clearing system for the amount on the bankers payment. The other use for banker's payment arises when a bank presents customers cheque for special clearing. If the payment bank obliges the presentation and pays specially, it issues a bankers payment to the presenting bank for the credit of the customers account as proceeds of the cheque sent for special clearing. The customer's account is thus credited.

## **5. Personal cheques**

The simplest method of payment within the economy is the issuance of personal cheques in payment for debt obligations be it for goods received or services from other parties. Cheques could also be used to pay school fees, subscriptions, insurance premiums and other liabilities.

However, because of the prevalence of frauds and dishonesty, most creditors would prefer to receive payments for debt owned them by other means of payment such as drafts and standing orders.

## **6. Direct Debit**

In this form of payment, it is the beneficiary who initiates the process. The beneficiary who may be a creditor prepares document, which the debtor customer consents to. The document is forwarded to the bank for action, once the customer has endorsed the document. That endorsement gives the bank the authority to debit his account for payment to the creditor/beneficiary. Usually, the creditor sends endorsed debit notes to the bank from time to time for the debit of the customer's account and payment to the creditor. Insurance companies and Finance Houses employ this method of payment.

## **7. Intra-bank transfer payment**

Usually, this method of payment is used by a: customer who has multiple accounts with a bank to effect movement of funds from one of his accounts to the other. This may be in the form of a letter

instructing the bank to transfer funds from a savings account to a current account to enable a cheque already issued on the current account to be paid. A customer may also ask funds to be transferred from current account A to current account B or C where several current or other accounts for different businesses or purposes exist for the same customer.

### **8. Bankers' payment**

This method of payment is used by banks to pay each other; either for services carried out between themselves, such as cash exchange or for payment of the proceeds of their customers cleared

## **Answer to Question 3**

### **(a) Meaning of Risk**

**Risk is used to describe any situation where there is uncertainty about what outcome will occur especially if of a number of options can occur.**

**Risk is usually used to indicate possible variability in outcome around some expected value. Here this means that there are a number of possibilities that can occur. The risk here is that any of the possibilities may occur rather than the expected. In this case the expected value is the mean value of all the probabilities**

**Often taken to mean the expected losses associated with a situation. Irrespective of the definition used, risk is costly.**

### **(b) Expected Losses**

Two types of losses are common and accepted which can be insured against. These are direct and indirect losses. Direct losses are losses that impact against the property or object of insurance. The losses occasioned here involve the damage or some other catastrophe against the property or object insured against. When losses occur against this kind of asset or property there is the need to repair it or the least put the owner back to the former position by compensation (this is known as indemnifying).

When losses occur to property there are losses that occur from the unavailability of such property for use from the period of damage until it is restored. During the period of unavailability of the property, the owner incurs losses for having to look for alternative. This is indirect loss. In considering the potential losses from a risky situation, we have to think about the indirect expected losses. While direct losses impact against the property, indirect losses are as result of direct loss. An example is the time and costs involved in repairing a car.

### (c) Types of Indirect Losses

Loss of normal profit (net cash flow). This happens as, a result of the reduction that will happen in incoming or increase in outflow of out going cash flow.

Extra operating expenses that may be incurred in production process and time wasted in extra effort to keep business going

Higher lost of funds and forgone investment which often occurs as a result of reduced cash flow and the attendant pressure that put the business in more risky situation to achieve its objectives.

Bankruptcy costs involve the legal fees that are often payable when the above losses occur and the company goes into liquidation.

## MARKING GUIDE FOR BFN 121 objectives

1. a

2. d

3. e

4. e

5. c

6. b

7. e

8. e

9. a

10. e

11. a

12. c

13. a

14. d

15. a

16. b

17. d

18. c

19. a

20. a

21. d

22. b

23. a

24. b

25. a

26. b

27. c

28. c

29. c

30. d

31. c

32. a

33. a

34. b

35. a

36. c

37. c

38. d

39. c

40. d

41. d

42. c

43. b

44. d

45. a

46. a

47. c

48. b

49. a

50. d