



Roll No.....

Membership No.....

**The Institute of Chartered Accountants of India
Forex & Treasury Management Certificate Course
Evaluation Test Booklet**

**Paper 1
18th May, 2014**

Duration- 3 Hours

Total Marks- 100

INSTRUCTIONS:

1. Please read the instructions carefully given in the question paper and solve it in the space provided.
2. The candidates are not allowed to carry the evaluation test booklet with them. This should be tied up with sheets provided to answer the question Paper.
3. Use Blue/Black pen only.
4. Do not write your Roll No. or Name or other identification other than in the space (perforated) provided on this sheet.
5. Please show Identity Card to the invigilator for verification of your identity, when asked.
6. The candidates may use the simple calculator.
7. The candidates should allocate their time wisely. Use the number of marks assigned to each problem as your guide.
8. In order to get full credit on the problems, the candidates must show all their rough work/ other workings.

(Participant Signature)

(Invigilator Signature)

PLEASE RETURN THIS BOOKLET BEFORE LEAVING THE EXAMINATION HALL

Date : 18th May, 2014

Centre : New Delhi/ Mumbai /Chennai/Kolkata/Bangalore/Ahmedabad/Baroda

(Do not write your Roll No. and Membership number anywhere in the answer sheet except as mentioned above)

Checked by

Verified by

CERTIFICATION COURSE ON FOREX AND TREASURY MANAGEMENT

S. No.	Total Number of Questions	Questions to be answered	Total Marks	Marks Obtained
Multiple Choice - Section A	100	100	50	
Multiple Choice – Section B	50	50	50	
Total	150	150	100	

Section A

Number of questions: 100

Marks: 50

Multiple choices: There may be more than one correct answer, but there is at least one. Please [✓] mark for the answer.

1. While auditing the reconciliation related work of the treasury of a bank as on 31.3.2014, you came across the following outstanding entries [all in sterling]:

Mirror account of Barclays Bank London

1.5.2011 FDD 2456 issued	15 Cr
18.3.2013 FDD 7886 issued	17,854 Cr
3.8.2013 Exp Bill 9898 claimed under confirmed LC	1,456 Dr
30.3.2014 Exp bill 12322 realized	98,477 Dr

As an auditor, which entry you consider as requiring immediate investigation and escalating?

- a) 15
 - b) 17,854
 - c) 1,456**
 - d) 98,477
2. With reference to the nostro account maintained with SBI New York by SBI Mumbai, as on date of reconciliation, there were following entries pending, all carrying the same export bill reference number:
Nostro credit of USD 1200, nostro debit of USD 60 and Mirror debit of USD 1200
As an experienced staff of the bank, you infer that
- a) **SBI NY has levied a charge of USD 60 for this transaction**
 - b) All the three entries are to be set off and the difference absorbed as charges
 - c) The debit and credit of USD 1200 to be set off mutually, leaving USD 60 pending
 - d) As both are branches of the same bank, it does not matter whether USD 60 is debit or credit
3. Indian Overseas Bank Chennai maintains an account with Indian Overseas Bank Colombo branch. The account is likely to be in
- a) Indian rupee
 - b) Sri Lankan rupee**
 - c) US dollar
 - d) A currency depending on whether it is a nostro account or Vostro account
4. On 31.3.2014, HSBC London issued a rupee draft for Rs 250,000 on HSBC Mumbai and simultaneously credited its account as cover funds. The draft was paid only on 3rd April 2014 through

clearing. During the year end reconciliation of HSBC Mumbai books, the following is likely to remain as an outstanding entry for that amount

- a) Mirror debit
- b) Mirror credit
- c) Vostro credit**
- d) Vostro debit

5. Syndicate Bank Mumbai maintains a nostro account in Euro with BNP Paris and BNP Paris maintains a rupee account with Syndicate Bank Mumbai. While auditing the books of the treasury of Syndicate Bank, you observed that on 30.12.2013, there were following entries

- A Vostro debit of Rs 10,000 with the narration 'payment of DD # 1234' and
- A mirror debit of equivalent of Rs 10,000 with the narration 'payment of DD # 6789'

Which of the following statement is true as can be inferred from the above?

- a) DD # 1234 is issued by Syndicate Bank
- b) DD # 6789 is paid by Syndicate Bank**
- c) DD # 6789 is in INR
- d) DD # 1234 represents outward remittance

6. PNB maintains USD account with Citi Bank NY and Euro account with Citi Bank Frankfurt. While giving credit to an exporter of a realized USD bill, instead of debiting Citi NY account, PNB debited Citi Frankfurt account in its books. When it was pointed out by you during concurrent audit next day, the bank immediately reversed the entries. This

- a) Results in exchange loss /gain to the bank
- b) Is a violation of exchange control regulation
- c) Is an accounting fraud
- d) Is a minor error rectified**

7. Dubai Bank Ltd Dubai [which also has a branch in Mumbai] maintains Indian rupee account with Bank of India Mumbai. The account has a balance of Rs one crore on 31.3.2013 and has been inoperative thereafter till 31.3.2014. While auditing the books, you remarked that there is an idle balance and that it should be brought to the notice of top management to highlight the ineffectiveness of the treasury. You are likely to be the auditor of

- a) Dubai Bank Ltd Mumbai
- b) Dubai Bank Ltd Dubai**
- c) Bank of India Mumbai
- d) RBI

8. A utility service provider has decided to avail the lock box service provided by ADPC bank Ltd. In general, it receives 10,000 credit items with average amount of Rs 200 each. The prevailing interest rate is 10% pa and float saved is 3 days. What is the float savings on availing the lock box service?

- a) Rs 1643**
- b) Rs 4931
- c) Rs 548
- d) Rs 1667

9. Maxlight Ltd has its registered office in Mumbai and an active trading office in London. It maintains its main account with HSBC Mumbai. Its London office maintains its account with Barclays London. While the London office always has surplus funds, the Indian office and manufacturing facility has

large credit facilities in India. It has decided to shift its London account to HSBC London. Which of the following inference is correct?

- a) Since HSBC has global CBS connectivity, this will automatically reduce the interest burden of Maxlight due to sweep facility
 - b) Maxlight can ask HSBC London to transfer the surplus from London to Mumbai everyday and move it back to London as and when needed without any loss
 - c) Accounts maintained in the two offices of the same bank HSBC will be treated as two separate accounts without any automatic fungibility**
 - d) Maxlight cannot maintain accounts with HSBC at two centres
10. X Bank Ltd has its dealing room in the ground floor, back office in the first floor and the mid office is situated in second floor. For auditing the reconciliation of nostro accounts, you are likely to visit
- a) Ground floor
 - b) First floor**
 - c) Second floor
 - d) All the floors
11. ICICI Bank Toronto office is maintaining INR account with ICICI Bank Mumbai office. Between 14th and 15th March 2014, there is an increase in the balance by Rs one crore. This means for our country,
- a) There is a net inward remittance of Rs one crore on 15th March**
 - b) There is a net outward remittance of Rs one crore on 15th March
 - c) There is a net inward remittance of Rs one crore on 14th March
 - d) There is a net outward remittance of Rs one crore on 14th March
12. L & T Ltd Mumbai availed an ECB loan of USD one million from Bank of Baroda New York on 30.3.2014 and the proceeds were credited to the company's account in rupee through BOB nostro account. Immediately, this transaction
- a) Has increased the foreign exchange reserves of the country by that amount**
 - b) Has decreased the foreign exchange reserves of the country by that amount
 - c) Has not affected the foreign exchange reserves of the country
 - d) Increases the forex balance of Bank of Baroda by that amount
13. As an auditor, you will consider auditing the reconciliation of the following most important and serious
- a) Mirror account
 - b) Nostro account**
 - c) Vostro account
 - d) Current account
14. The nostro account is maintained in foreign currency. Purely for reconciling the nostro accounts, you as a staff member will be concerned with
- a) The foreign currency entry**
 - b) The rupee equivalent mentioned
 - c) Both the FC & rupee entries
 - d) What is mentioned in the nostro statement
15. The maximum value of the documents that could be presented for clearing by the member banks in a clearing house is
- a) Advised by RBI

- b) Decided by each bank
 - c) Defined by each Clearing House in its Rules**
 - d) Not an existing concept
16. In MICR Code used in cheques, MICR is an acronym in which the letter C stands for
- a) Cheque
 - b) Character**
 - c) Chemical
 - d) Centre
17. The MICR code that is used to identify a bank branch uniquely has the following number of characters
- a) 6
 - b) 8
 - c) 9**
 - d) 10
18. What is the limit on the value of individual transactions in ECS Credit?
- a) Rs 10,000
 - b) Rs 1,00,000
 - c) Rs 1,00,00,000
 - d) No limit**
19. A customer can stipulate under the ECS Debit Scheme
- a) A ceiling on the amount of debit
 - b) Purpose
 - c) Validity period of the mandate
 - d) Anyone or all of the above**
20. You open an Auto-Sweep Savings Bank account in XYZ Bank Ltd with minimum balance of Rs.5,000, initial deposit of Rs.30,000 & threshold limit defined is Rs.10,000. Then the excess transferred to FD account automatically is
- a) Rs 25,000
 - b) Rs 10,000
 - c) Rs 20,000**
 - d) Rs30,000
21. A corporate has a sanctioned overdraft limit of Rs 50 lacs with ABC Bank Ltd. The liability as on date is Rs 35 lacs. There is an inward remittance expected of Rs 15 lacs which is not yet received. The company has deposited a local cheque for Rs 10 lacs, the fate of which will be known by evening. What is the available balance, the company can draw by issuing a cheque?
- a) Rs 10 lacs
 - b) Rs 15 lacs**
 - c) Rs 25 lacs
 - d) Rs 35 lacs
22. Lakshmi Commercial Bank has a system of levying a commitment charge of 0.5% on unavailed term loan beyond six months from sanction. Sunrise Ltd applied for a term loan of Rs one crore on 1.1.2013 which was sanctioned on 1.4.2013. While Sunrise availed term loan of Rs 60 lacs, it could not avail the rest due to non-availability of suitable machinery and has requested for cancellation at the year end. As an auditor, you expect the commitment charge to be levied as on 31.3.2014 as

- a) **Rs 20,000**
 - b) Rs 22,500
 - c) Rs 50,000
 - d) Rs 1,00,000
23. With the gradual completion of CBS connectivity among branches of banks, the following service of the bank will have lesser appeal to customers
- a) Clearing service
 - b) **Cash management service**
 - c) Issuing DD
 - d) Cheque truncation system
24. If there is delay in collection of cheques, interest is to be paid to the customers at the rate
- a) **Mentioned in the Cheque Collection Policy of the bank**
 - b) Mutually agreed between the bank and customer
 - c) Of interest applicable to SB account
 - d) Advised by RBI
25. A dishonoured cheque is to be returned to the customer within a maximum period of
- a) One week
 - b) Three days
 - c) Two days
 - d) **24 hours**
26. As per RBI advice, banks should introduce a condition for operation of accounts with cheque facility that in the event of dishonour of a cheque valuing rupees XXX crore and above drawn on a particular account of the drawer on YYY occasions during the financial year for want of sufficient funds in the account, no fresh cheque book would be issued. The value of XXX & YYY are
- a) Two and two
 - b) Three and three
 - c) **One and four**
 - d) Not applicable, as there is no such RBI advice
27. You want to buy an ordinary annuity that will pay you Rs 4,000 a year for the next 20 years. You expect annual interest rates will be 8 percent over that time period. The maximum price you would be willing to pay for the annuity is closest to
- a) Rs 32,000
 - b) **Rs 39,272**
 - c) Rs 40,000
 - d) Rs 80,000
28. To increase a given present value, the discount rate should be adjusted
- a) upward
 - b) **downward**
 - c) kept constant
 - d) freed
29. You can use the following rule to roughly estimate how many years a given sum of money must earn at a given compound annual interest rate in order to double that initial amount:
- a) Rule 415
 - b) **the Rule of 72**

- c) the Rule of 78
 - d) Rule 144
30. A statistical measure of the degree to which two variables (e.g., securities' returns) move together:
- a) coefficient of variation
 - b) variance
 - c) covariance**
 - d) certainty equivalent
31. Determine a firm's total asset turnover if its net profit margin is 5 percent, total assets are Rs 8 million, and ROI is 8 percent.
- a) 1.60**
 - b) 2.05
 - c) 2.50
 - d) 4.00
32. Which of the following would NOT improve the current ratio?
- a) Borrow short term to finance additional fixed assets**
 - b) Issue long-term debt to buy inventory
 - c) Sell common stock to reduce current liabilities
 - d) Sell fixed assets to reduce accounts payable
33. Time consumed in clearing a check through the banking system is
- a) Processing float
 - b) Deposit float
 - c) Collection float
 - d) Availability float**
34. A firm's inventory turnover (IT) is 5 times on a cost of goods sold (COGS) of Rs 800,000. If the IT is improved to 8 times while the COGS remains the same, a substantial amount of funds is released from or additionally invested in inventory. In fact,
- a) Rs 160,000 is released
 - b) Rs 100,000 is additionally invested
 - c) Rs 60,000 is additionally invested
 - d) Rs 60,000 is released**
35. Ninety-percent of Perfect Tool's total sales of Rs 600,000 is on credit. If its year-end receivables turnover is 5, the average collection period (based on a 365-day year) and the year-end receivables are, respectively:
- a) 365 days and Rs 108,000
 - b) 73 days and Rs 120,000
 - c) 73 days and Rs 108,000**
 - d) 81 days and Rs 108,000
36. The Housing development Company has negotiated a Rs 500,000 revolving credit agreement with Indian National Bank. The agreement calls for an interest rate of 10% on fund used, a 15% compensating balance, and a commitment fee of 1% on the unused amount of the credit line. Assuming that the compensating balance would not otherwise be maintained, the effective annual interest cost if the firm borrows Rs 200,000 for one year is closest to
- a) 11.5 percent
 - b) 15 percent

- c) 26.5 percent
 - d) 13.53 percent**
37. If you believe in the basic principle of a risk-reward relationship, your conclusion regarding security ratings and yields between an Aaa bond and a Baa bond would be that:
- a) the Aaa bond would have the lower yield**
 - b) the Aaa bond would have the higher yield
 - c) the Baa bond would have lower default risk
 - d) default risks would differ but yields would be equal
38. Suppose that the Japanese yen is selling at a forward discount in the forward-exchange market. This implies that most likely
- a) This currency has low exchange-rate risk
 - b) This currency is gaining strength in relation to the dollar
 - c) Interest rates are higher in Japan than in the United States**
 - d) Interest rates are declining in Japan
39. Assume that a Big Mac hamburger is selling for £1.99 in the United Kingdom, the same hamburger is selling for \$2.71 in the United States, and the actual exchange rate (to buy \$1.00 with British pounds) is 0.63. According to xxx, the British pound is yyy w.r.t. the US dollar. xxx & yyy respectively are:
- a) purchasing-power parity; undervalued
 - b) interest-rate parity; undervalued
 - c) purchasing-power parity; overvalued**
 - d) interest-rate parity; overvalued
40. An auditor can verify the accounts of fixed assets, TDS remittance pending, service tax payable etc in the following menu option of Finacle software used by banks
- a) FTI
 - b) CUMI
 - c) ALCI**
 - d) BCREPORT
41. Flexcube banking solutions including treasury software is offered by
- a) Infosys
 - b) Oracle**
 - c) SAP
 - d) TCS
42. The procedure for configuring manual bank statement in SAP treasury :
- a) Involves creating accounting symbols, creating posting keys etc
 - b) There is no configuring of manual bank statement in SAP treasury**
 - c) Is automatically done by SAP treasury
 - d) The sequence of configuration to be done
43. An NDF contract is similar to a regular forward foreign exchange contract but
- a) Does not need physical delivery of currencies at the time of maturity**
 - b) Is illegal
 - c) Requires permission from RBI before signing the contract
 - d) The amounts involved are much larger
44. In NDF market studies, it is observed that

- a) Carry trades for currencies with NDF contracts perform worse compared to carry trades for currencies with deliverable forward contracts
 - b) Carry trades for currencies with NDF contracts perform similar to carry trades for currencies with deliverable forward contracts
 - c) Carry trades for currencies with NDF contracts perform better compared to carry trades for currencies with deliverable forward contracts**
 - d) Carry trades for currencies with NDF contracts perform along with carry trades for currencies with deliverable forward contracts
45. As per BIS survey, the growth in NDF market compared to foreign exchange market during the last five years is
- a) Higher**
 - b) Lower
 - c) At the same rate
 - d) Not of comparable data
46. If non-residents are allowed to buy and sell forwards domestically, then technically speaking,
- a) NDF market will thrive
 - b) NDF market gets integrated with onshore market
 - c) NDF market is legalized
 - d) NDF market is unnecessary**
47. In case of early delivery of forward contracts, as per FEDAI rules,
- a) The bank shall recover/pay swap difference, if any**
 - b) The bank shall recover swap difference, if any
 - c) The bank shall pay swap difference, if any
 - d) The bank shall absorb the swap difference, if any
48. If a forward contract booked with the customer is required to be extended, as per FEDAI rules,
- a) It has to be done after the expiry date
 - b) The differential arising is not to be recovered from or paid to customer
 - c) The original contract is to be cancelled and a fresh contract is to be booked simultaneously**
 - d) Such request cannot be entertained since forward contract is a binding contract
49. In a forward contract, if the delivery date is not fixed,
- a) The option period may be specified at the discretion of the bank subject to the condition that such option period of delivery shall not extend beyond one month
 - b) The option period may be specified at the discretion of the customer subject to the condition that such option period of delivery shall not extend beyond one month**
 - c) The option period may be specified at the discretion of the customer subject to the condition that such option period of delivery shall not extend beyond 15 days
 - d) The option period may be specified at the discretion of the bank subject to the condition that such option period of delivery shall not extend beyond 15 days
50. Canara Bank has entered into a forward contract on 5.5.2014 on spot basis for USD 150,000 with ICICI Bank Ltd. The US dollar funds are payable on
- a) 5.5.2014
 - b) 6.5.2014
 - c) 7.5.2014**
 - d) 8.5.2014

51. Fine Chemicals Ltd had booked a forward contract covering its imports due on 12.5.2014. However, due to reasons beyond its control, the import did not materialize and hence approached its bank viz.: Dena Bank Mumbai for cancellation of the contract on 14.5.2014. The contract will be cancelled
- At Dena bank's TT selling rate on 14.5.2014
 - At Dena bank's TT buying rate on 14.5.2014**
 - At Dena bank's TT selling rate on 12.5.2014
 - At RBI TT buying rate on 14.5.2014
52. All overdue forward contracts will be cancelled by the bank, if the customer does not request for it,
- On the 30th date after maturity date
 - On the maturity date
 - And will be reported to RBI
 - On the 15th date after maturity date**
53. All kinds of defaults in the delivery of counter-value currencies in cross currency deals i.e. dealing in a foreign currency against another foreign currency between Authorised Dealers in India
- Are outside the purview of FEDAI rules
 - Are governed by FEDAI rules**
 - Need reporting to RBI due to exchange loss to the country
 - Are settled through ombudsman
54. Quality Traders had sent an export bill on collection basis through Syndicate Bank for USD 5000 on 1.1.2014 which was realized on 31.1.2014. The bank had quoted the following rates on the two days
- | | As on 1.1.2014 | As on 31.1.2014 |
|--------------|----------------|-----------------|
| TT buying | 61 | 61.10 |
| TT selling | 62 | 62.10 |
| Bill buying | 60 | 60.10 |
| Bill selling | 62.50 | 62.60 |
- What is the rate at which the customer is likely to get the export bill proceeds into its account?
- Rs 60
 - Rs 60.10
 - Rs 61
 - Rs 61.10**
55. The bank is quoting exchange rates as under to its customer for outward remittance in US dollar:
Spot rate Rs 60; 3 months forward rate Rs 62.
What is the annualized forward premium in percentage terms?
- 2
 - 3.33
 - 8
 - 13.33**
56. An export bill of a customer for USD 4322.13 was realized in full and the exchange rate applied was Rs 60.25. The rupee amount that will be credited to customer's account, ignoring bank charges is Rs
- Rs 260408.30
 - Rs 260408**
 - Rs 260409
 - Rs 260400
57. A bank has quoted the following INR rates on the two days for US dollar

	As on 1.1.2014	As on 2.1.2014
TT buying	61	61.10
TT selling	62	62.10
Bill buying	60	60.10
Bill selling	62.50	62.60

Ajay went to the bank on 1.1.2014 to buy a US dollar draft which he said will be sent to his friend abroad on 2.1.2014. What is the INR exchange rate bank will apply for his DD?

- a) 61
- b) 62**
- c) 61.10
- d) 62.10

58. A bank has quoted the following INR rates on the two days for US dollar

	As on 1.1.2014	As on 31.1.2014
TT buying	61	61.10
TT selling	62	62.10
Bill buying	60	60.10
Bill selling	62.50	62.60

A customer had purchased a DD for US dollar 100 on 1st and gave it for cancellation on 31.1.2014. What is the amount the customer has gained or lost purely on exchange rates, ignoring bank cancellation charges, if any.

- a) Loss of Rs 90**
- b) Gain of Rs 90
- c) Loss of Rs 100
- d) Gain of Rs 100

59. Vedanta Inc is the parent company based in USA of the Indian wholly owned subsidiary Vedanta Pvt Ltd. There is regular import and export between the parent and subsidiary. Instead of making & receiving payment for each invoice, the two companies can set off the payment and receipts and settle the net differential say at the end of the year. This procedure

- a) Will result in exchange loss to the group
- b) Is prohibited under Indian exchange control regulations
- c) Is permitted subject to taking permission from RBI
- d) Is permitted subject to taking permission from the bank concerned**

60. In the Microsoft Excel PMT function which returns the payment amount for a loan based on an interest rate and a constant payment schedule, the syntax requires the following order in which the inputs should appear

- a) PMT(Interest_Rate, number_payment, fv, pv, type)
- b) PMT(Interest_Rate, number_payment, pv, fv, type)**
- c) PMT(number_payment, Interest_Rate, pv, fv, type)
- d) PMT(Interest_Rate, number_payment, type, pv, fv)

61. In MS Excel formulae, which of the following statements relating to the formula is true

- a) IRR is the return at which NPV is zero or actual return of an investment.
- b) MIRR is the actual IRR when the reinvestment rate is equal to IRR
- c) XIRR is the IRR when the periodicity between cash flows is not equal**
- d) XMIRR is the XIRR when periodicity between cash flows is not equal

62. In MS Excel formulae, the formula YIELDDISC is used to calculate
- The yield for a discounted security such as treasury bill
 - The annual yield for a security such as treasury bill
 - The yield for any security
 - The annual yield for a discounted security such as treasury bill**
63. In yield calculations, the day convention does not include the following:
- 360 days basis
 - 365 days basis
 - 366 days basis**
 - Actual
64. For a semi-annual bond, principal Rs 10,000 at an interest rate of 7.5 % p.a., last coupon on 1 May, next coupon on 1 November (number of days: 184). On 31 May, the following interest is due if actual/365 days convention is followed
- Rs 60.42
 - Rs 61.14
 - Rs 61.64**
 - Rs 62.50
65. Bank A gives a 1-month deposit of Euro 5 Mio interest at 3 %. Start date of this credit is October 1st and end date is November 1st. What is the amount of interest with 360 days basis?
- Rs 12916.67**
 - Rs 12500
 - Rs 12328.77
 - Rs 12739.73
66. A EUR Commercial Paper with a time to maturity of 82 days has the following cash flows:
- present value = 987,627
 - future value = 1,000,000
- What is the yield?
- 5.5765%
 - 1.2528%
 - 5.5001%**
 - 5.4320%
67. The current yield on a bond which has a par value of \$100 and purchased at \$95.92 which is paying a coupon rate of 5%, is
- 5.21%**
 - 4.80%
 - 5.12%
 - 4.08%
68. If you want to purchase a Company's zero-coupon bond that has a Rs 1,000 face value and matures in three years, and you would like to earn 10% per year on the investment, in the formula to calculate the amount you are willing to pay $P = M / (1+r)^n$
- r is 0.1 & n is 6
 - r is 0.1 & n is 3
 - r is .05 & n is 6**
 - r is .05 & n is 3

69. Financial Accounting Standards Board (FASB) has proposed allowing the following as a benchmark interest rate for hedge accounting purposes instead of LIBOR in USA:
- a) **Federal Funds Effective Swap Rate**
 - b) Fed funds rate
 - c) Federal discount rate
 - d) MIBOR
70. In USA, the interest rates are understood as under; mark the correct one below
- a) The rate charged by Federal Reserve on the lending to banks is called fed funds rate
 - b) When one bank borrows money from other bank, the rate that is charged is discount rate
 - c) **When one bank borrows money from other bank, the rate that is charged is the federal funds rate**
 - d) Fed funds rate and discount rate are synonymously used
71. Which of the following statements is correct in respect of duration of bonds
- a) For Zero-Coupon Bond, duration is equal to its time to maturity and for Vanilla Bond, duration will always be more than its time to maturity
 - b) **For Zero-Coupon Bond, duration is equal to its time to maturity and for Vanilla Bond, duration will always be less than its time to maturity**
 - c) For Zero-Coupon Bond, duration is more than its time to maturity and for Vanilla Bond, duration will always be less than its time to maturity
 - d) Both for Zero-Coupon Bond and Vanilla Bond, duration will always be less than its time to maturity
72. Which of the following statements is correct in respect of duration of bonds
- a) **Generally, bonds with a high duration will have a higher price fluctuation than bonds with a low duration**
 - b) Generally, bonds with a high duration will have a lower price fluctuation than bonds with a low duration
 - c) Generally, bonds with a low duration will have a higher price fluctuation than bonds with a low duration
 - d) Bonds' duration cannot be correlated with price fluctuation
73. If a daily Value at Risk (VaR) on a portfolio is stated as Rs100,000 to a 95% level of confidence, this means that during the day there is a only
- a) A 5% chance that the loss or gain the next day will be greater than Rs 100,000
 - b) A 5% chance that the loss the next day will be Rs 100,000
 - c) A 5% certainty that the loss the next day will be Rs 100,000
 - d) **A 5% chance that the loss the next day will be greater than Rs 100,000**
74. A Value at Risk statistic has three components viz.: [mark the wrong one]
- a) **Portfolio value**
 - b) Time period
 - c) Confidence level
 - d) Loss amount
75. The three methods of calculating VAR does not include the following:
- a) The historical method
 - b) The variance-covariance method
 - c) The Monte Carlo simulation

d) The risk Metric method

76. Using VaR, the portfolio can be subjected to different tests; mark the right one.
- a) **Stress testing involves testing behavior under extreme market moves seen in the past; Back testing tests how well VaR estimates would have performed in the past**
 - b) Stress testing and back testing both involve testing using historical data
 - c) But a portfolio can be tested either under stress testing or back testing
 - d) Stress testing involves testing behavior in the past; Back testing tests how well VaR estimates would have performed in the past under extreme market moves
77. Working capital ratio [also called current ratio], in financial statements analysis is an example of
- a) Solvency ratio
 - b) Efficiency ratio
 - c) Profitability ratio
 - d) Liquidity ratio**
78. Which is not true in respect of Return on Equity [ratio]
- a) It measures how efficiently a firm can use the money from shareholders to generate profits and grow the company
 - b) It is a profitability ratio from the investor's point of view
 - c) It is a profitability ratio from the company's point of view**
 - d) It can't be used to compare companies outside of their industries very effectively
79. Which is not true in respect of profit margin [ratio]
- a) The profit margin ratio directly measures what percentage of sales is made up of net income.
 - b) The profit margin ratio measures how much profits are produced at a certain level of sales.
 - c) The return on sales ratio is often used by internal management to set performance goals for the future.
 - d) Investors want to make sure profits are high enough to pay back its loans while creditors want to make sure the company has enough profits to distribute dividends.**
80. A company has the following ratios as on / for the year ended 31.3.2014.
- ROE = 15%
- T/A turnover = 1.2
- ROS = 10%
- What percentage of its assets are financed by equity?
- a) 80%**
 - b) 8%
 - c) 60%
 - d) 100%
81. Which of the following is considered a profitability measure?
- a) Fixed asset turnover
 - b) Price-earnings ratio
 - c) Cash coverage ratio
 - d) Return on Assets**
82. If a firm has Rs 100 in inventories, a current ratio equal to 1.2, and a quick ratio equal to 1.1, what is the firm's Net Working Capital?
- a) Rs 100

- b) **Rs 200**
 - c) Rs 1,000
 - d) Rs 1,200
83. The gross profit margin of a company has remained unchanged, but the net profit margin declined over the same period. This could have happened if
- a) Cost of goods sold increased relative to sales.
 - b) Sales increased relative to expenses.
 - c) **The government has increased the tax rate.**
 - d) Dividends were decreased
84. MGR Infra Ltd has a debt-to-equity ratio of 2.6 compared with the industry average of 1.4. This means that the company
- a) Will not experience any difficulty with its creditors
 - b) Has less liquidity than other firms in the industry
 - c) Will be viewed as having high creditworthiness
 - d) **Has greater than average financial risk when compared to other firms in its industry**
85. Kanjivaram Silks Co had sales last year of Rs 265 million, including cash sales of Rs 25 million. If its average collection period was 36 days, its ending accounts receivable balance is closest to .
(Assume a 365 day year)
- a) Rs 26.1 million
 - b) **Rs 23.7 million**
 - c) Rs 7.4 million
 - d) Rs 18.7 million
86. Which of the following, a high debt company like Eswar Ltd should do to improve its debt-to-total assets ratio?
- a) Borrow more
 - b) Shift short-term to long-term debt
 - c) Shift long-term to short-term debt
 - d) **Making an IPO**
87. What is a firm's total asset turnover if its net profit margin is 5 percent, total assets are \$8 million, and ROI is 8%.
- a) **1.60**
 - b) 2.05
 - c) 2.50
 - d) 4.00
88. What is an example of a currency which is the legal tender in more than one Country?
- a) Rupee
 - b) Dollar
 - c) **Euro**
 - d) Yen
89. If Indian rupee is weakening against US dollar
- a) It automatically means that it is weakening against Euro
 - b) **We cannot infer about rupee movement against other currencies**
 - c) It means that Euro is also weakening against US dollar since rupee and Euro move in tandem
 - d) US dollar is strengthening against currencies

90. Which of the following statement is a correct statement?
- a) Interest rate in Japan is low
 - b) In Japan, there is no interest earned or paid
 - c) Due to low interest rate, Japan is economically stable
 - d) Interest rate in Japanese yen is low**
91. Which of the following statements is true while comparing forward premium and interest rate differential?
- a) A currency having lower rate of interest is at discount
 - b) A currency having higher rate of interest will be either at premium or at discount
 - c) There is no known correlation between interest rate differential and forward premium
 - d) A currency having higher rate of interest is at discount**
92. Which of the following statements is true in respect of treasuries of banks in India
- a) Banks have domestic and international treasury separately to ensure compliance of RBI guidelines
 - b) Both Indian and foreign banks have domestic and international treasury**
 - c) Salary of treasurers in international treasury is paid in foreign currency
 - d) The earnings in international treasury are always higher than that in domestic currency
93. In the customer facing treasury segment of a bank in India, the following is not a product that is offered for sale
- a) Letter of credit**
 - b) Forward contract
 - c) G Sec
 - d) Interest rate swaps
94. International treasury market exists
- a) Only outside India
 - b) In India and abroad**
 - c) Where corporates can trade
 - d) Only in theory
95. The treasury of a bank in India is
- a) Subject to annual audit
 - b) Audited on concurrent basis as per RBI guidelines**
 - c) The sole profit centre of any bank
 - d) Invariably situated in Mumbai
96. While measuring interest rate risk, it can be viewed from two perspectives and which is not a correct statement in this context?
- a) Earnings perspective means changes in interest rates impacting a bank's reported profits
 - b) Economic value perspective means changes in interest rates impacting bank's Net Worth through changes in the economic value of its rate sensitive assets, liabilities and off-balance sheet positions
 - c) Economic value perspective means changes in interest rates impacting bank's reported profits**
 - d) Earning perspective is generally measured by traditional gap analysis
97. As per RBI guidelines on ALM in banks, there should be a nodal officer and
- a) The GM in charge of treasury is the nodal officer**

- b) The Chairman of the bank is the nodal officer
 - c) The GM in charge of the credit is the nodal officer
 - d) There is no concept of nodal officer for ALM
98. As per ALM guidelines to banks, fixing interest rate on deposits and advances is the responsibility of
- a) Chairman
 - b) ALCO**
 - c) Head of treasury
 - d) Board of directors
99. As an auditor, which you will consider more serious
- a) Mismatch in near buckets of cash flows**
 - b) Mismatch in farther buckets of cash flows
 - c) Mismatch in near buckets of interest rate wise assets & liabilities
 - d) Mismatch in farther buckets of interest rate wise assets & liabilities
100. Non sensitive asset in ALM classification of a bank means
- a) The relative customer has not bargained for any better interest rate
 - b) The relative borrower can afford to pay higher interest rate
 - c) The asset does not carry any interest**
 - d) The asset is an NPA

Section B

Number of questions: 50

Marks: 50

Multiple choices: There may be more than one correct answer, but there is at least one. Please [✓] mark for the answer.

1. If there is a negative gap on interest rate sensitive assets & liabilities, the bank benefits
 - a) **If the interest rates are declining**
 - b) If the interest rates are increasing
 - c) If the interest rates are constant
 - d) Always, whether interest are increasing or decreasing
2. For issuing preference shares, one of the conditions is that the issuer shall place a copy of the certificate issued by the following before the general meeting of the shareholders, considering the proposed preferential issue, certifying that the issue is being made in accordance with the requirements of these regulations
 - a) Auditor
 - b) Any chartered accountant
 - c) **Its statutory auditor**
 - d) SEBI nominated official
3. As per SEBI (ICDR) guidelines, "Self Certified Syndicate Bank" means
 - a) A banker to an issue which certifies the IPO
 - b) One of the public sector banks and is a banker to issue
 - c) **A banker to an issue registered with SEBI, which offers the facility of ASBA**
 - d) A banker to issue which vets the prospectus and certifies
4. In case of IPO, as per SEBI guidelines, "stabilising agent" means
 - a) The underwriter on whom the issue devolves if there is under subscription
 - b) The brokers who ensure that the offer is fully subscribed
 - c) The merchant banker who ensures that the entire IPO process is smoothly conducted
 - d) **A merchant banker who is responsible for stabilising the price of equity shares under a green shoe option**
5. For ensuring enough publicity, SEBI guidelines stipulate that the draft offer document filed with it shall be made public by hosting it on the website of SEBI for the following period of from the date of such filing
 - a) **At least twenty one days**
 - b) Twenty one days
 - c) A month
 - d) At least a month
6. A depository receipt [DR] in an ADR issue is
 - a) Negotiable instrument
 - b) Denominated in US dollar
 - c) Usually listed in a US stock exchange
 - d) **Satisfying all the above features**

7. In a GDR issue, the actual GDR is issued by
- a) The depository**
 - b) The custodian
 - c) The issuing company
 - d) The stock exchange where it is traded
8. In an ADR/GDR issue, which is true?
- a) The issuing company is in India**
 - b) The depository is in India
 - c) The custodian is outside India
 - d) They are listed on NSE
9. If you are the treasurer of a bank in India, you cannot invest in the following type of Japanese bonds because it is restricted to residents
- a) Samurai bonds
 - b) Sushi bonds**
 - c) Euro yen bonds
 - d) Shogun bonds
10. In commodities market, an amount kept to ensure that the balance in the margin account never goes below a pre-specified level is called
- a) Initial margin
 - b) Maintenance Margin**
 - c) Additional margin
 - d) Contingency margin
11. The lot size in case of commodities market satisfies the following remarks
- a) It is the quantity of a commodity specified in the contract as tradable units
 - b) The lot size is different for each commodity
 - c) Each contract has a lot size and a delivery size, which are not necessarily the same
 - d) All the above are true**
12. Which one of the following statements is not correct about commodities?
- a) Commodities which can be standardised are usually traded on exchanges
 - b) Commodities traded on regulated exchanges generally need to be fungible
 - c) Hard commodities include all types of grain before it is processed**
 - d) The price for all types of commodity is generally set by market forces
13. Which one of the following was the first formal soft commodity exchange?
- a) Australian Securities Exchange
 - b) New York Board of Trade
 - c) Chicago Board of Trade**
 - d) London Metal Exchange
14. What is the name of the price pattern, if futures prices are increasing in time to maturity?
- a) Backwardation
 - b) Fair value
 - c) Contango**
 - d) Futures are only traded for specific maturity date, so that it is impossible to draw a curve of futures prices against time to maturity

15. Consider the fair value equation for a commodities future, relating the futures price to the risk-free interest rate, a positive storage cost, and the spot price. This fair value equation implies that futures prices should be increasing in the time to maturity. Does this necessarily imply that any backwardated price pattern represents an exploitable profit opportunity?
- a) Actually, the described fair value equation implies a backwardated price pattern, not a contango price pattern
 - b) No, the underlying commodity might involve a convenience yield, which may cause a backwardated price pattern**
 - c) Yes, backwardated prices always represent an exploitable profit opportunity
 - d) The stated fair value equation does not apply to commodity futures
16. When the United States and Mexico trade in a commodity say wheat:
- a) The United States will be worse off because wages in Mexico are so low
 - b) Mexico will be worse off because the United States is a stronger economic power
 - c) Both Mexico and the United States will be better off**
 - d) Both Mexico and the United States will be worse off
17. Suppose that you purchase a 91-day Treasury bill for Rs 9,850 that is worth Rs 10,000 when it matures. The security's annualized yield if held to maturity is about
- a) 4.5 percent
 - b) 5 percent
 - c) 6 percent**
 - d) 7 percent
18. 3-month CDs are trading at a discount rate of $5 \frac{3}{8}$, while 1-month CDs are trading at a rate of $5 \frac{5}{8}$. The difference in rates is:
- a) 0.5 percent
 - b) 0.25 basis points
 - c) 25 basis points**
 - d) 0.025 percent
19. When RBI wishes to reduce the rate of credit expansion, it would typically:
- a) Sell treasury bills to the general public
 - b) Raise the price of repurchase agreements with the banking system**
 - c) Lower the price of repurchase agreements with the banking system
 - d) Buy treasury bills from the banking system at their current price
20. A mutual fund manager shifts part of his portfolio from long-dated bonds to money market instruments even though yields are unchanged. Most likely he is expecting:
- a) A fall in short-term interest rates
 - b) A reduction in the riskiness of bonds
 - c) A rise in long-term interest rates**
 - d) A fall in the rate of inflation
21. The price which the owner of a put option receives from selling the stock named in the option contract is called the
- a) Cut-off price
 - b) Expiration price
 - c) Exercise price**
 - d) Market price

22. What are the characteristics of money market securities?
- a) Short maturity, low liquidity and high credit risk
 - b) Short maturity, low liquidity and low credit risk
 - c) Short maturity, high liquidity and high credit risk
 - d) Short maturity, high liquidity and low credit risk**
23. bond denominated in a currency other than that of the country in which it is issued is known as
- a) Swap
 - b) Yankee bond
 - c) Eurobond**
 - d) Debenture
24. Investors purchase Treasury bills at a _____ from the stated maturity value and receives a payment equal to the _____ of the bill at maturity.
- a) Discount; face value**
 - b) Premium; face value plus interest
 - c) Discount; face value plus interest
 - d) Premium; face value
25. Which of the following tells us how much stock purchasers must pay per dollar of earnings the firm generates for each share?
- a) EBITDA
 - b) Dividend yield
 - c) Earnings per share
 - d) P/E ratio**
26. Other things being equal, which of the following will result in increase in the value of a bond?
- a) Increase in the required rate of return on maturity
 - b) Decrease in the discount on the bond on issue
 - c) Increase in the premium on maturity of the bond**
 - d) Decrease in the term to maturity
27. Assume the nominal interest rates (annual) in a country called Freedom and USA are 6% and 12% respectively. What is the implied 90-day forward rate if the current spot rate is 5 Freedom unit per U.S. dollar?
- a) 4.732
 - b) 4.927**
 - c) 5.074
 - d) 5.283
28. A written statement by the exporter ordering the importer to pay a specific amount of money at a specified future date is known as a
- a) Bill of lading
 - b) sight draft
 - c) Usance draft**
 - d) letter of credit
29. Which of the following involves a financing institution absorbing the risk of collecting payment from a buyer, independent of the seller, by discounting the negotiated bills of exchange or promissory notes.
- a) Barter

- b) Buyback
 - c) Factoring
 - d) Forfaiting**
30. Factoring refers to:
- a) Determining the aging schedule of the firm's accounts receivable
 - b) The sale of a firm's accounts receivable to another firm**
 - c) The determination of the average collection period
 - d) Scoring a customer based on rating by a reputed CRA
31. Which of the following is not a credit rating agency?
- a) Price Waterhouse**
 - b) ICRA
 - c) S & P
 - d) Moody's
32. In an international corporate restructuring proposal between X & Y Company, what is the ratio of exchange of market price if: market price of Company X is \$ 45 per share and that of Company Y is \$ 30 and X offers three-fourths a share for each share of Y
- a) .667
 - b) 1.0
 - c) 1.125**
 - d) 1.5
33. Following is an arrangement in which countries give each other preferential treatment by eliminating tariffs and other barriers on goods.
- a) Customs union
 - b) Common market
 - c) Free trade area**
 - d) Confederation
34. The most advanced form of a trade bloc is the
- a) Free trade area
 - b) Customs union
 - c) Common market**
 - d) Reciprocal trade agreement
35. Under a "TOM Value" transaction, the rate is agreed today but the settlement is to be done on:
- a) Next working day**
 - b) Same day
 - c) 3 Working days after the date of deal
 - d) 2 working days after the date of deal
36. Which one of the following is not a part of institutions under Bretton Woods System?
- a) IMF
 - b) IFC
 - c) IDA
 - d) BIS**
37. You as head of treasury of a large corporate have extremely satisfactory dealings with several banks including Indian PSBs, foreign banks and private sector banks. You have decided to borrow in foreign currency. Which of your banks is not likely to meet your requirement?

- a) **Bank having large NRE accounts**
 - b) Bank having large EEFC accounts
 - c) Bank having large FCNR Deposits
 - d) Bank having large RFC accounts
38. You as an individual are expecting an inward remittance of US dollar 100 from your brother for the next festival occasion, seven months from now. Since the present exchange rate is attractive to you, you wish to book a forward contract [FC] and fix the rate. Purely from exchange control angle,
- a) You cannot book FC for this non trade transaction
 - b) **You can book FC**
 - c) Bank requires RBI permission, if you insist for such FC
 - d) Can be booked only if the remittance is within next 6 months
39. Gilt funds are
- a) Money accumulated out of illegal/guilty activity
 - b) Money accumulated out of trading in government securities
 - c) **Mutual fund scheme for investment in government securities**
 - d) Any mutual fund scheme
40. X draws a bill of exchange on Y payable to Z. Z goes into liquidation. Which is true?
- a) The bill of exchange is invalid
 - b) **The liquidator of Z can claim the money**
 - c) X has to draw a new bill of exchange
 - d) Y's liability stands terminated
41. When an advance is made against a 90 days usance bill of exchange under the protection of an LC it is called as
- a) Bill discounting
 - b) **Bill negotiation**
 - c) Bill purchase
 - d) Overdraft against bill
42. In case of a bond selling at discount, the following is true.
- a) Coupon Rate > Current Yield < YTM
 - b) Coupon Rate > Current Yield > YTM
 - c) **Coupon Rate < Current Yield < YTM**
 - d) Coupon Rate < Current Yield > YTM
43. ECGC extends credit risk coverage covering the advances granted by banks for
- a) Exports and imports
 - b) Imports
 - c) Only project exports
 - d) **Exports**
44. Clearing Corporation of India Ltd undertakes the work of
- a) Clearing the import and export cargoes at the Indian ports
 - b) **Settlement of interbank payments in forex market**
 - c) Settlement in stock market
 - d) Settlement of Indian exports and imports

45. You are the treasurer of a large Corporate. You are examining the various means of raising funds and have finally preferred issuing CPs to meet this. Most probably, your decision is due to the following feature of CPs
- a) Absence of any regulations
 - b) High liquidity
 - c) Lower interest rates**
 - d) Free transferability
46. Following can be considered as the IRR of a government security:
- a) Coupon yield
 - b) Current yield
 - c) Yield to maturity (YTM)**
 - d) Interest rate on the security
47. If we consider a bank cheque as a bill of exchange, the drawee is
- a) Account holder
 - b) The bank**
 - c) The beneficiary
 - d) The bearer
48. Which is not a feature of Bill finance. It is
- a) Not self liquidating**
 - b) A short term finance
 - c) Safer than inventory finance
 - d) Part of working capital finance
49. Which of the following statement is true in respect of facilities offered by ECGC?
- a) It issues policies favouring banks and guarantees favouring exporters
 - b) It issues guarantees favouring banks and policies favouring exporters**
 - c) It issues guarantees favouring banks & exporters
 - d) It issues specific cover notes to importers and exporters
50. Export Import Bank of India extends
- a) Credit facilities to importers and exporters
 - b) Guarantees credit risk of exporters and importers
 - c) Credit facility to project exports**
 - d) Credit facilities only for overseas investments