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PUBLICATIONS

PART V

20 CAIIB
Recollected Questions in
ADVANCED BANK MANAGEMENT (ABM)
For CAIIB 2022 Examination

KEY HIGHLIGHTS

- **Most likely to be asked questions**
- **Recollected from the previous 5 years**
- **Thoroughly curated by Industry Experts**
- **20 Questions with Solutions**
- **Based on the Latest Pattern for 2022 Exam**

Advanced Bank Management (ABM)

Q1. XYZ's Furniture Company sells industrial furniture for office buildings. During the current year, it reported cost of goods sold on its income statement of 25,00,000. Its beginning inventory was 40,00,000 and its ending inventory was 60,00,000. Calculate Its Furniture Company's Inventory Turnover Ratio.
(a) 0.25
(b) 0.33
(c) 0.5
(d) 0.67
Ans.(c)
Explanations:
Inventory Turnover Ratio = Cost of goods sold / Average inventory for that period
= 2500000 / ((4000000 + 6000000)/2)
= 2500000 / 5000000
= 0.5

Q2. Keynes explained Interest in terms of ...... in his Liquidity Preference Theory
(a) Purely Economic Force
(b) Purely Monetary Force
(c) Purely Real Force
(d) Purely Social Force
Ans.(b)

Directions: Given,

Recoveries of loan and advance	Rs. 2000 Crores
Misc capital receipt	Rs. 500 Crores
Market loans	Rs. 500 Crores
Short term borrowings	Rs. 1000 Crores
External assistance (Net)	Rs. 300 Crores
State provident fund	Rs. 400 Crores
Other receipts (Net)	Rs. 1000 Crores
Securities issued against small savings	Rs. 500 Crores
Recoveries of short term loans and advances from states and loans to govt servants	Rs. 800 Crores
Total Non Tax Revenue	Rs. 4000 Crores
Net Tax Revenue	Rs. 1500 Crores
Draw down cash balance	Rs. 3000 Crores

Q3. Calculate Debt Receipt ...
(a) Rs 3700 Crores
(b) Rs 4200 Crores
(c) Rs 4700 Crores
(d) Rs 5400 Crores

Ans.(a)
Explanations:
Debt Receipt = Market Loans + Short Term Borrowings + External assistance(NET) + Securities issued against Small savings + State provident fund + other Receipts(Net)
= 500 + 1000 + 300 + 500 + 400 + 1000
= 3700 Crores

Q4. Calculate Non-Debt Receipt ...
(a) Rs 1700 Crores
(b) Rs 3200 Crores
(c) Rs 3700 Crores
(d) Rs 5400 Crores
Ans.(a)
Explanations:
Non Debt Receipt = Recoveries of loan & advances (duduct recoveries of short term loans & advance from state and loans to govt servants) + MISC Capital receipts
= 2000-800+500
= 1700 Crores

Q5. Calculate Capital Receipt ...
(a) Rs 3700 Crores
(b) Rs 4200 Crores
(c) Rs 4700 Crores
(d) Rs 5400 Crores
Ans.(d)
Explanations:
Capital Receipt = Non Debt Receipt + Debt Receipt
= 1700 + 3700
= 5400 Crores

Q6. Mr.Y purchased 8%, 3 years bond of Rs. 10 lac, with annual interest payment and face value payable on maturity. The YTM is assumed@ 6%. Calculate the duration and modified duration.
(a) 2.36
(b) 2.79
(c) 2.63
(d) 2.97
Ans.(c)
Explanations:
Bond's Duration = $\Sigma PV \times T \div \Sigma P$
ΣP = 1053421
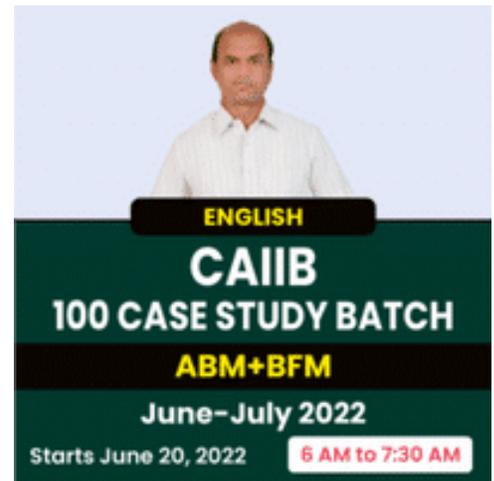Now, a = 0.943396 and a^t = 0.839619
So, $\Sigma PV \times T$ = 80000 × 16.666 × (0.160381÷0.056604 – 2.518857) + 2518857
= 419370.767 + 25188579 = 2938227.77
So, Duration of the Bond
= 2938227.77 / 1053421
= 2.79 years
& Modified Duration
= Mckauley Duration $\div$ (1 + R)
= 2.79 $\div$ 1.06 = 2.63

Directions: Given,

Currency with public - Rs. 230000 Crores

Demand deposit with banking system - Rs. 320000 Crores

Time deposits with banking system - Rs. 360000 Crores

Other deposit with RBI - Rs. 420000 Crores

Savings deposit of post office savings banks - Rs. 140000 Crores

All deposit with post office savings bank excluding NSCs - Rs. 80000 Crores

Q7. Calculate M1.
(a) Rs. 670000 Crores
(b) Rs. 830000 Crores
(c) Rs. 970000 Crores
(d) Rs. 1020000 Crores
Ans.(c)
Explanations:
M1 = currency with public + demand deposit with the banking system + other deposits with RBI
M1 = 230000+320000+420000
M1 = 970000

Q8. Calculate M2.
(a) Rs. 830000 Crores
(b) Rs. 970000 Crores
(c) Rs. 1110000 Crores
(d) Rs. 1330000 Crores
Ans.(c)
Explanations:
M2 = M1+Savings deposit of post office savings banks
M2 = 970000+140000
M2 = 1110000 Crores

Q9. Calculate broad money M3.
(a) Rs. 830000 Crores
(b) Rs. 970000 Crores
(c) Rs. 1110000 Crores
(d) Rs. 1330000 Crores
Ans.(d)
Explanations:
M3 = M1+Time deposit with banking system
M3 = 970000+360000
M3 = 1330000 Crores

Directions: The top management of ABc. Bank was in a triumphant mood after engaging XYZ Ltd, one of the top IT Companies as a consultant for a massive technology upgradation in the Bank. Their enthusiasm was short lived, as the project did not progress well and the consultants were not able to deliver the desired results even after several months. In fact the Consultants were of the view that it may never be possible to implement the project with 100% success as they seemed to be facing resistance from the employees at multi-levels. The employees at all levels seemed reluctant to cooperate. Their fear of Role erosion seemed palpable.

Q10. What does "Role erosion" mean in this context?
(a) The fear of the employee that he will be sent out
(b) Fear that the responsibility and the power will reduce
(c) Fear that he will no more be an indispensable
(d) a & b
Ans.(d)

Q11. The critical issue in this case is:
(a) Attitudes of individuals
(b) Training of people
(c) Group behavior due to a sense of the unknown
(d) All the above
Ans.(c)

Q12. How could this situation have been managed better?
(a) By issuing project details and time frame mentioning punishments in case of delay
(b) By roping in the HR professionals to act as coordinator
(c) By recognizing that any change brings its own reactions and co-opting the managers even before Consultants moved in
(d) b & c
Ans.(d)

Q13. The Bank should deal with the employee resistance by:
(a) Co-opting the employees
(b) Communicating strategically about the potential benefits
(c) Conducting simultaneous training to familiarize the staff with the new software
(d) All of the above
Ans.(d)

Directions: The debt equity ratio of X Ltd. is 0.5 : 1. Which of the following would increase/decrease or not change the debt equity ratio?

Q14. Further issue of equity shares
(a) Increase
(b) Decrease
(c) No change
(d) None of the above

Ans.(b)
Explanations:
The change in the ratio depends upon the original ratio. Let us assume that external funds are Rs. 5,00,000 and internal funds are Rs. 10,00,000. Now we will analyse the effect of given transactions on debt equity ratio.
Assume that Rs. 1,00,000 worth of equity shares are issued.
This will increase the internal funds to Rs. 11,00,000.
The new ratio will be 0.45 : 1 (5,00,000/11,00,000).
Thus, it is clear that further issue of equity shares decreases the debt-equity ratio.

Q15. Cash received from debtors
(a) Increase
(b) Decrease
(c) No change
(d) None of the above
Ans.(c)
Explanations:
The change in the ratio depends upon the original ratio. Let us assume that external funds are Rs. 5,00,000 and internal funds are Rs. 10,00,000. Now we will analyse the effect of given transactions on debt equity ratio.
Cash received from debtors will leave the internal and external funds unchanged as this will only affect the composition of current assets.
Hence, the debt-equity ratio will remain unchanged.

Q16. Sale of goods on cash basis
(a) Increase
(b) Decrease
(c) No change
(d) None of the above
Ans.(c)
Explanations:
The change in the ratio depends upon the original ratio. Let us assume that external funds are Rs. 5,00,000 and internal funds are Rs. 10,00,000. Now we will analyse the effect of given transactions on debt equity ratio.
This will also leave the ratio unchanged as sale of goods on cash basis neither affect Debt nor equity.

Q17. Redemption of debentures
(a) Increase
(b) Decrease
(c) No change
(d) None of the above
Ans.(b)
Explanations:
The change in the ratio depends upon the original ratio. Let us assume that external funds are Rs. 5,00,000 and internal funds are Rs. 10,00,000. Now we will analyse the effect of given transactions on debt equity ratio.
Assume that Rs. 1,00,000 debentures are redeemed.
This will decrease the long-term debt to Rs. 4,00,000.
The new ratio will be 0.4 : 1 (4,00,000/10,00,000).
Redemption of debentures will decrease the debit-equity ratio.

Q18. Purchase of goods on credit

(a) Increase

(b) Decrease

(c) No change

(d) None of the above

Ans.(c)

Explanations:

The change in the ratio depends upon the original ratio. Let us assume that external funds are Rs. 5,00,000 and internal funds are Rs. 10,00,000. Now we will analyse the effect of given transactions on debt equity ratio.

This will also leave the ratio unchanged as purchase of goods on credit neither affect Debt nor equity.

Q19. Which of the following is also known as Gearing Ratio?

(a) Current ratio

(b) Debt Equity Ratio

(c) Debt Service Coverage Ratio

(d) Turnover Ratio

Ans.(b)

Directions: As on end of previous financial year 2020-21, XYZ Bank has :

Total Advances	Rs. 160000 Cr
ANBC (Adjusted Net Bank Credit)	Rs. 150000 Cr
Agriculture Advances	Rs. 27000 Cr
MSE Advances	Rs. 10000 Cr
Weaker Section Advances	Rs. 17000 Cr
Total Priority Sector Advances	Rs. 58000 Cr

Answer the following based of the above information

Q20. Whether the Bank has achieved the target for Agriculture Advances?

(a) Yes. The Bank has just achieved the target

(b) Yes. the Bank has exceeded the target

(c) No. The Bank has defaulted in achieving the target

(d) No such target for Agriculture Advances

Ans.(a)