

ARBA MINCH UNIVERSITY  
CONTINUING AND DISTANCE EDUCATION  
DEPARTMENT OF ACCOUNTING AND FINANCE  
ASSIGNMENT OF BANKING PRINCIPLES AND PRACTICES (70%)

**TRUE OR FALSE QUESTIONS**

1. The agriculture bank provides Short-term credit to purchase land, to make permanent improvements on land.
2. The main documentary instrument in foreign trade is the letter of credit (LC).
3. Islamic Sharia law permits the collection and payment of interest.
4. Money cannot be transferred from one place to another through bank transfers.
5. Clearing house keeps the central bank fully informed about the liquidity position of the commercial banks.
6. Safe deposit box vault are made available by the bank only to fixed deposit holder.
7. Liabilities are those items on account of which the bank is claim on others.
8. Profit and Loss Account reported under balance sheet represents liability on the bank.
9. Current deposits cannot be withdrawn before the expiry of the period for which they are deposited or without giving a prior notice.
10. Term Loans are loans granted for a fixed period of time
11. A bank has the right to retain the property belonging to the customer until the debt due from him has been paid.
12. Co-operative banks are often created by persons belonging to the different local
13. co-operative banks are owned and controlled by their members, who democratically elect the board of directors
14. Fixed deposit can be withdrawn before the expiry of the period for which they are Deposited or without giving a prior notice.
15. In letter of credit The customer may be the debtor or the one who buy on credit

**DISCUSSION QUESTIONS**

1. Describe briefly the various ways of acceptance of deposits by Banks.
2. List the main functions of bank
3. List the main functions of a central bank
4. What is the difference between Bank and Banking?
5. Classify of bank based on different criteria

6. Explain the difference between central bank and commercial bank
7. What is the difference between commercial bank and commercial bank?
8. What do you mean by discounting of bills by bank?
9. Historical background: – Banking History in the World
10. Development of Banking and Financial Institutions in Ethiopia

**Based on the questions given prepare report about the titles below from No 1 to No 6**

### **1. Central bank**

- What is central bank?
- what is the main Objective
- What are the main functions of central Bank of Ethiopia?
- Who are the owners and customers?

### **2. Commercial bank**

- What is Commercial Banks?
- What is main objective
- Who are the owners and customers of the bank?
- What are the main functions of Commercial Banks of Ethiopia?

### **3. Development bank**

- What is Development bank?
- What is the main objective?
- Who are the owners and customers?
- What are the main functions of Development bank of Ethiopia?

### **4. Cooperative bank**

- What is cooperative bank?
- What is the mail objective of cooperative bank?
- What are the functions of cooperative and its practice in Ethiopia? ♦
- Who are the owners and customers?

### **5. Investment bank**

- ❖ What is investment bank
- ❖ What are the main objectives of investment bank?
- ❖ What is function of investment bank and its practice in Ethiopia
- ❖ Who are the owners and customers?

## 6. Foreign bank

- ❖ What is foreign bank?
  - ❖ What is its function?
  - ❖ What is its main objective?
  - ❖ Is there foreign bank in Ethiopia? If so explain it
1. which of the following Account permits the collection and payment of interest
    - A. current account
    - B. Islamic Sharia law
    - C. saving account
    - D. all of the above
  2. \_\_\_\_ is an agreement with the bank by which a current account holder is allowed to withdraw over and above the amount in his account.
    1. Term loan
    2. Cash credit
    3. Overdraft
    4. none of the above
  3. Commercial bank is a financial institution dealing in money means
    - A. it accepts deposits of money from the public to keep them in its custody
    - B. it accept valuable for safety custody
    - C. it create credit by making advance out of the fund received as deposit
    - D. all
  4. Which one of the following is not the primary function of commercial banks?
    - A. Acceptance of deposits
    - B. Advancing loans
    - C. Remittance of funds
    - D. None
  5. What kind of deposit that commercial bank accepts
    - A. current deposit
    - B. fixed deposit
    - C. saving deposit
    - D. All
  6. Which one of the following is/are the way of advancing loan?
    - A. Overdraft Facilities
    - B. Cash Credit
    - C. Discounting Bills of Exchange
    - D. Term Loans
  7. Which one of the following is/ are not part of banks asset account
    - A. cash
    - B. loan and advance
    - C. fixed asset
    - D. deposit
    - E. capital stock
    - F. D&E
  8. A banks liability account excludes
    - A. Deposits
    - B. Bills Discounted
    - C. Bills Payable
    - D. Bills for Collection
    - E. B&C

F. C&D

9. The main rights and duties of a banker towards the customer include
- A. To honor a customer's check
  - B. Standing orders
  - C. To charge interest and commission
  - D. Secrecy of the customer's account
  - E. All except 'C'
  - F. All
- 10 True statement about the Feature of the current account is
- A. The amount deposited in these accounts is repayable on demand without any restriction
  - B. Most of the banks charge incidental charges on such account
  - C. It is non-interest bearing account to the public
  - D. all
- 11 an advantage customer derives from Savings deposit accounts is
- A. Money can be withdrawn concurrently
  - B. Enhances business transaction
  - C. Enables to depositors to get loans
  - D. Strengthens the credit system
12. Which of the following are(is) not role of banking
- A. Create goods and services
  - B. Lending money for consumers only
  - C. facilitates business transactions
  - D. All of the above
13. How many parties may have participate in Letter of credit
- A. 4 parties
  - B. 3 parties
  - C. 5 parties
  - D. 2 parties
14. \_\_\_\_\_ is a financial entity which belongs to its members, who are at the same time the owners and the customers of their bank
- A. Cooperative bank.
  - B. Central bank.
  - C. Commercial bank.
15. Primary banking functions of the commercial banks exclude
- A. Remittance of funds
  - B. Agency Services
  - C. Creation of credit
  - D. Promote cheques facilities

E. All

16. When customer pledges certain assets or security with the bank in order to get loan what type of relationship exist between the customer and bank respectively.

A. Pledger and Pledgee

C. All

B. Pledgee and Pledger

D. None

17. \_\_\_\_\_ is the delivery of goods in trust.

A. A bailment

C. Bailee

B. Bailer

D. B and C

18. Which one of the following is /are the commonfeature co-operative banks.

A. Profit allocation

C. Customer's owned entities

B. Democratic member control

D. All

Ato Abebe wants to import goods on credit from an Italian exporter known as Malana. Now Mr. Malana prefers the credit to be guaranteed by a known bank in Ethiopia. Here Commercial Bank of Ethiopia, who is the banker to Ato Abebe, writes a letter to another banker in Italy, may be Bank of Italy, to pay the agreed sum of money in the transaction, when the goods are arrived to the buyer, which might be communicated as it is realized. Then, the Italian bank will advise Mr. Malana to deliver goods according to the agreement with Ato Abebe. As the arrival of the goods is reported to Bank of Italy through Commercial Bank of Ethiopia, Bank of Italy will pay the amount or credit Mr. Malana s account, if he has an account in the same bank, or may transfer to another bank where he has an account, if it is instructed to do so. Based on the above paragraph Answer questions 19 &20

19. Commercial bank of Ethiopia is \_\_\_\_\_

A. Issuing bank

C. Customer

B. Advisory bank

D. Payee bank

20. Mr. Malana and Abebe \_\_\_\_\_ and \_\_\_\_\_ respectively

A. Seller or beneficiary and Buyer or customer

B. Buyer or customer and Seller or beneficiary

C. Both are seller

D. None of the above

- 21.** Which one of the following is/are the way of advancing loan?
- A. OVERDRAFT Facilities
  - B. Cash Credit
  - C. Discounting Bills of Exchange
  - B. Term Loan
- 22.** Which one of the following is/are not the main right of customers on bank?
- A. Customer who has deposited money can draw check on his account up to the extent of his credit balance or according to overdrawing limit sanctioned by the bank.
  - B. .A customer has the right to receive statement of accounts from the bank.
  - C. A customer has a right to sue and demand compensation if the bank fails to maintain the secrecy of his account.
  - D. The instruments of credit should be presented by the customer with in due time from their dates of issue.
- 23.** Which one of the following is not true about the advantages of the note issue by central bank.
- A. People have more confidence in the currency issued by the central bank.
  - B. It brings uniformity in the currency system of the country.
  - C. Monetary management of the paper currency becomes difficult.
  - D. None.