

- 1) All of the following are terms for or examples of financial claims EXCEPT
 - a. bonds
 - b. accounts payable
 - c. loans
 - d. commodities
- 2) If total reserves \$80,000,000; reserve requirement is 5%; total deposits \$700,000,000, the level of excess reserves is
 - a. \$4,000,000
 - b. \$70,000,000
 - c. \$45,000,000
 - d. \$100,000,000
- 3) For what purposes do depository institutions keep deposits in the Federal Reserve banks?
 - a. for clearing checks
 - b. to satisfy reserve requirements
 - c. to earn interest
 - d. a and b
- 4) A bank holds investment in marketable bonds which were issued at a premium. When the bank receive the interest and amortize the premium,
 - a. the cash interest received will be above the interest revenue.
 - b. the cash interest received will be same as the interest revenue
 - c. the cash interest received will be below the interest revenue
 - d. has no risk
- 5) Banks are to recognize their income on.....basis in respect of income on performing asset.
 - a. cash basis
 - b. contract basis
 - c. credit basis
 - d. accrual basis
- 6) The overall bank profitability is measured in terms of return on equity and
 - a. return on assets
 - b. return on investments
 - c. return in revenue
 - d. return on liabilities
- 7) If a borrower does not make the obligated interest and principal payments at maturity, this refers to:
 - a. Interest Rate Risk
 - b. capital risk
 - c. credit risk
 - d. liquidity risk
- 8) Financial Statement Analysis can be used for assessment of past performance only.
 - a. True
 - b. False
- 9) The _____ of a bank is measured by its ability to satisfy its short-term obligations as they become due.
 - a. Activity
 - b. Debt
 - c. Profitability
 - d. Liquidity
- 10) Which of the following is *not* an example of capital market securities?
 - a. commercial paper
 - b. convertible bonds
 - c. common stocks
 - d. mortgages
- 11) Why are banks considered highly leveraged companies?
 - a. They have a high percentage of government-backed securities
 - b. They have a high percentage of cash reserves.
 - c. They have a high percentage of liabilities compared to shareholders' equity.
 - d. They have a high percentage of assets compared to liabilities.
- 12) Which of the following is NOT typically a feature of a current account?
 - a. High minimum balance requirement
 - b. Ability to make deposits and withdrawals
 - c. No limit on the number of transactions
 - d. No interest earned
- 13) Which of the following journal entries correctly records the transfer of funds from the checking account to the savings account?
 - a. Debit Savings Deposit Accounts, Credit Cash
 - b. Debit Cash, Credit Savings Deposit Accounts
 - c. Debit Savings Deposit Accounts, Credit Current Accounts
 - d. Debit Current Accounts, Credit Savings Deposit Accounts

- 14) A customer cashes the following checks: 3,800, a check drawn on another bank, at a teller window and 2,400, check drawn on the bank. Which of the following journal entries correctly records the cashing of the checks from customer point of view?
 - a. Debit Savings Deposit Accounts 6,200, Credit Cash 6,200
 - b. Debit Cash 6,200, Credit Due from Banks 3,800, Credit Savings Deposit Accounts 2,400
 - c. Debit Cash 6,200, Credit Savings Deposit Accounts 6,200
 - d. Debit Due from Banks 3,800, Credit Cash 3,800
 - 15) Which of the following is NOT a type of change that affects the cash pool in a bank?
 - a. Changes in the level of investments
 - b. Changes in the level of deposits
 - c. Changes in the level of loans
 - d. Changes in the level of capital
 - 16) What is the journal entry for the repayment of a loan with an "on us" check of \$7,500?
 - a. Debit Loans \$7,500, Credit Demand Deposit Accounts \$7,500
 - b. Debit Cash Items in Process of Collection \$7,500, Credit Loans \$7,500
 - c. Debit Demand Deposit Accounts \$7,500, Credit Loans \$7,500
 - d. Debit Currency and Coin (Cash) \$7,500, Credit Loans \$7,500
 - 17) Which of the following statements is true about Treasury bills?
 - a. They are high profitability, liquidity, and low risk investments.
 - b. They are high liquidity, and low profitability and risk investments.
 - c. They are high profitability, low liquidity and risk investments.
 - d. They are only available to large institutional investors.
 - 18) A customer. factors \$2,000,000 of its accounts receivables without recourse for a finance charge of 5%. The bank retains an amount equal to 10% of the accounts receivable for possible adjustments. What would be recorded by the customer as a gain (loss) on the transfer of receivables?
 - a. gain of \$100,000
 - b. loss of \$100,000
 - c. loss of \$300,000
 - d. loss of \$200,000
- Use the following information for Next Three questions.**
- On May 1, 2024, Sarah Co. assigned \$500,000 of accounts receivable to Sun Bank. as security for a loan of \$450,000. Sun charged a 3% commission on the amount of the loan; the interest rate on the note was 12%. During May and June 2024, Sarah collected \$160,000 on assigned accounts after deducting \$580 of discounts. Sarah accepted returns worth \$1,350 and wrote off assigned accounts totaling \$2,970.
- 19) The amount of cash Sarah received from Sun at the time of the transfer was
 - a. \$445,000
 - b. \$436,500
 - c. \$435,000
 - d. \$500,000
 - 20) The collection of accounts receivable during May and June would include cash of
 - a. \$155,100
 - b. \$160,000
 - c. \$197,500
 - d. \$235,000
 - 21) Sarah transferred cash collected form receivables to Sun on June 30, 2024. How much cash is transferred?
 - a. \$197,500
 - b. \$160,500
 - c. \$160,000
 - d. \$169,000
 - 22) Paradise Bank acquired three short-term investments. Investment A cost \$50,000 and had a year-end market value of \$60,000. Investment B cost \$35,000 and had a year-end market value of \$17,000. Investment C cost \$26,000 and had a year-end market value of \$24,000. What amount should be reported as a charge against income in Paradise's income statement at end of year?
 - a. Unrealized gain of \$10,000
 - b. Unrealized loss of \$10,000
 - c. \$0
 - d. Unrealized loss of \$20,000

23) Which of the following are bank assets?

- a. Investments and capital
- b. Reserves and customer deposits
- c. Reserves and advances to public
- d. Customer deposits and Stockholders' equity

24) For a bank, loans to customers are assets

- a. True
- b. False

25) Which of the following is most likely the largest expense of a bank?

- a. Interest on loans
- b. Taxes
- c. Interest on deposits
- d. Administrative expenses

Use the following information to answer the next 3 questions

On October 1, 2023, Platinum Bank purchased Treasury bills of \$4 million at a price of 92%, issued for 6 months which mature on April 1, 2024.

26) What is journal entry to record the purchase on October 1, 2023?

- a. Debit Investment of T. Bills of \$3,680,000, and Credit Cash of \$3,680,000.
- b. Debit Investment of T. Bills of \$4,000,000, and Credit Cash of \$4,000,000.
- c. Debit investment of T. Bills of \$3,680,000, and Debit Discount on T. Bills of \$320,000, and Credit Cash of \$4,000,000.
- d. Debit Investment of T. Bills of \$4,000,000, and Credit Discount on T. Bills of \$320,000, and Credit Cash of \$3,680,000.

27) What is the journal entry to recognize interest on December 31, 2023?

- a. Debit Investment in T. Bills of \$3,680,000, and Credit Cash of \$3,680,000.
- b. Debit Cash of \$4,000,000, and Credit Investment in T. Bills of \$4,000,000.
- c. Debit Discount on T. Bills of \$160,000, and Credit Interest Income of \$160,000.
- d. Debit Investment in T. Bills of \$320,000, and Credit Cash of \$320,000.

28) What is the journal entry to redeem Treasury bills at maturity date?

- a. Debit Investment of T. Bills of \$4,000,000, and Credit Cash of \$4,000,000.
- b. Debit Cash of \$5,320,000, and Credit Investment of T. Bills of \$5,320,000.
- c. Debit Cash of \$4,000,000, and Credit Investment of T. Bills of \$4,000,000.
- d. Debit Cash of \$4,680,000, and Credit Investment of T. Bills of \$4,680,000.

29) Treasury bills are sold on a discount basis, with interest paid separately at maturity.

- a. True
- b. False

Use the following information to answer the next 2 questions

On January 1, 2023, Money Saving Bank purchased \$300,000 Investment Certificates of Group A. The return is 11% added to the certificate at December 31 each year.

30) What is the journal entry of recognizing the interest on December 31, 2023?

- a. Debit to Investments in Certificates of Investment (Group A), \$33,000; Credit to Interest on Investments in Certificates of Investment, \$33,000.
- b. Debit to Investments in Certificates of Investment (Group A), \$33,000; Credit to Cash, \$33,000.
- c. Debit to Cash, \$33,000; Credit to Investments in Certificates of Investment (Group A), \$33,000.
- d. Debit to Cash, \$33,000; Credit to Interest on Investments in Certificates of Investment, \$33,000.

31) How much the carrying amount of the investments in Certificates on December 31, 2024?

- a. \$333,000
- b. \$300,000
- c. \$399,000
- d. \$366,000

32) How are interest income and gains or losses on the sale of held-to-maturity and trading securities recognized?

- a. Interest income is recognized when received, and gains or losses from sale are recognized as other comprehensive income.
- b. Interest income is recognized when earned, and gains or losses from sale are recognized in net income.

- c. Both interest income and gains or losses from sales are recognized as other comprehensive income.
- d. Both interest income and gains or losses from sales are not recognized.

33) What is the impact of amortizing the bond premium on the company's financial statements?

- a. It has no impact on interest income or the carrying value of the bond.
- b. It increases both interest income and the carrying value of the bond.
- c. It decreases interest income and increases the carrying value of the bond.

34) When the bond matures, what will be the difference between the face value and the carrying value of the bond?

- a. The difference will be equal to the original premium.
- b. The difference will be equal to the original discount.
- c. The difference will be zero.
- d. The difference cannot be determined from the information given.

35) Which of the following is a condition that must be met before a company would record a sale of receivables

- a. The transferred asset has been isolated from the transferor
- b. The transferees have obtained the right to pledge or exchange either the transferred assets or beneficial interests in the transferred assets
- c. The transferor does not maintain effective control over the transferred assets through an agreement to repurchase or redeem them before their maturity
- d. All of the above is correct

36) What is the primary concern for an investor regarding safety?

- a. The ability to generate high returns
- b. The ability to easily sell the investment
- c. The ability to preserve the invested capital
- d. The ability to diversify the investment portfolio

37) For receivables sold with recourse, the seller considers recourse value as a type of

- a. A revenue
- b. A liability
- c. An expense
- d. An asset

38) When companies use receivables as collateral in a borrowing transaction from the bank, the bank would be responsible for collecting these receivables.

- a. True
- b. False

39) There is an explicit rate of interest on T. bills

- a. True
- b. False

40) When the market value of a bank's assets is less than the market value of its liabilities, the bank becomes insolvent. This refers to

- a. Interest Rate Risk
- b. Liquidity Risk
- c. Capital Risk
- d. Credit Risk