PG DEPARTMENT OF COMMERCE (CA)

QUESTION BANK

COURSE: B.Com (CA) **SEMESTER :** V

SUBJECT CODE: 17UCC519 **SUBJECT**:BANKING & INSURANCE LAW

K1 LEVEL

MULTIPLE CHOICE QUESTIONS

1. The relationship between a banker and customer is............

   a) That of a debtor and creditor
   b) That of a creditor and debtor
   c) Primarily that of a debtor and a creditor
   d) (a) and (b) together

2. The banker has a lien on........

   a) Bonds given for collection
   b) Bonds given for safe custody
   c) Bonds left by mistake
   d) (a) and (b) together

3. In executing the standing instructions, there exists a relationship of........

   a) debtor and creditor
   b) Trustee and Beneficiary
   c) Bailee and Bailor
   d) Agent and Principal

4. To constitute a person as a customer.......

   a) There must be frequency of transactions
   b) There must be a dealing of a banking nature
   c) There must be some sort of an account

d) There must be a single transactions of any nature

5. The banker has a statutory obligation to.........

a) Honour customers' cheque
b) Exercise lien
c) Maintain secrecy of his customers' accounts
d) Honour customers' bill

6. Contracts by lunatics in India are..........

a) Always void
b) Always valid
c) Always voidable
d) At times voidable

7. The best procedure for opening an account in the name of a minor X and the guardian Y would be under the style............

a) 'X' Account
b) 'b'-Account- Minor
c) 'y' in trust for X
d) 'y' account

8. The balance of a joint A/c in the name of X,Y,Z Should be paid on the death of X........

a) To the legal representative of x
b) To Y and Z
c) To Y or Z
d) TO the legal representative of X,Y and Z

9. The most undesirable customer is.......

a) A minor
b) A married Woman
c) An unregistered firm

d) **An undischarged bankrupt**

10. A customer's letter of instructions without any stamp, in Connection with the operations of his account is known as......

a) Power of attorney
b) Authority letter
c) Probate
d) **Mandate**

11. The following one is a negotiable instrument, negotiable by usage or custom............

a) Bill of Exchange
b) Accommodation Bill
c) Promissory Note
d) **Share warrant**

12. The document drawn by a debtor on the creditor agreeing to pay a certain sum is called...........

a) Cheque
b) **Promissory Note**
c) Bill of Exchange
d) Draft

13. The most important feature of a negotiable instrument is......

a) Free transfer
b) Transfer free from defects
c) Right to sue
d) **(a) and (b) together**

14. In the case of a negotiable instrument, The following person generally gets a good title.....

a) Finder of the lost instrument

b) Holder of a stolen instrument
c) Holder in due course
d) Holder of a forged instrument

15. The reasonable period allowed in India for the presentation of a cheque is............

a) 1 Year
b) 3 Months
c) 9 months
d) Depending upon banking custom

16. A cheque bearing a date 31st April,1992 is presented for payment on 5th May 1992, As per the practice............

a) The cheque should be dishonoured with the remark 'non-exixting date'
b) The cheque is returned with the remark 'irregularly drawn'
c) The cheque is dishonoured with the remark 'not valid'
d) The cheque can be honoured

17. The document which can be used only for making local payment is........

a) A cheque
b) A bill of exchange
c) A banker's cheque
d) A draft

18. The offence under Sec.138 is deemed to have been committed, if t5he drawer fails to make payment within ....period from the date of the rece3ipt of notice.

a) 1 Month
b) 40 days
c) 15 days
d) 16 days

19. Not negotiable crossing is a warning to the...........

a) Paying banker
b) Collecting banker
c) Holder
d) (a) and (b) together

20. A Not negotiable crossing restricts............ of the cheque

a) Transferability
b) Negotiability
c) Neither transferability nor Negotiability
d) Both transferability and Negotiability

21. The following one is absolutely essential for a special crossing.

a) Two parallel transverse lines
b) Words 'And Company'
c) Words 'Not Negotiable'
d) Name of a banker

22. The safest from of crossing is

a) General crossing
b) Special crossing
c) Double crossing
d) A/c Payee crossing

23. A cheque which is not crossed is called:

a) Uncrossed cheque
b) open cheque
c) order cheque
d) Bearer Cheque

24. An order cheque can be converted in to a bearer cheque by means of........

a) Sans recourse endorsement
b) Special endorsement
c) Blank endorsement
d) Sans fairs endorsement

25. Negotiability gives to the transferee......... title of the transferor.

a) The same title
b) no title
c) no better title
d) better title

26. Endorsement signifies that the...........

a) Endorser has got a good title
b) endorser's signature is genuine
c) Previous endorsements are genuine
d) All of the above

27. One of the following endorsements is not a valid one.....

a) Partial endorsement
b) restrictive endorsement
c) Facultative endorsement
d) Conditional endorsement

28. When garnishee order is issued by the court attaching the account of customer, the banker is called................

a) Judgement debtor
b) Judgement creditor
c) Garnishee
d) Garnishor

29. When the amount stated in words and figures differs, the banker.........

a) Can hanour the amount in figures

b) Can honour the amount in words
c) Can honour the smaller amount
d) Can dishonour it

30. The best answer for returning a cheque for want of funds in the account is.........

a) Refer to drawer
b) Not provided for
c) Exceeds arrangement
d) Not sufficient funds

31. To get statutory protection, paying banker must make:

a) Payment to a holder
b) Payment to a holder in due course
c) Payment in due course
d) Payment to a drawee in case of need

32. Bankers undertake the duty of collection of cheques and bills because......

a) Sec.131 of the NI Act compels them to do so
b) Sec.85 of the NI Act compels them to do so
c) They want to do it as a service
d) Collection is a must for a crossed cheque

33. A collecting banker is given protection only when he collects

a) A crossed cheque
b) An order cheque
c) An Bearer Cheque
d) An mutilated cheque

34. Collecting a cheque payable to the firm to the private account of a partner without enquiry constitutes.......

a) gross negligence
b) Negligence under remote grounds
c) Negligence connected with immediate collection of a cheque
d) Contributory Negligence

35. A Collecting banker is given the statutory protection only when he acts as...

a) A banker
b) A holder for value
c) A holder in due course
d) An agent

36. The bank which provides long-term finance is.......

a) Exchange Banks
b) Investment banks
c) Savings Bank

37. The system where two or more banking companies are controlled by one or two individuals is called...........

a) claim banking
b) Group banking
c) Mixed banking

38. The banks which are engaged in diverse kind of banking activities are called.........

a) Local area bank
b) Narrow Banking
c) Universal banking

39. Which banks provide short-term capital to agriculturists?

a) Cooperative bank
b) Land Development banks

c) Central bank

40. Businessman prefer.....

a) Loan
b) Overdraft
c) cash credit

41. The most important principle of sound lending is.......

a) Safety
b) Profitability
c) Security

42. Capacity of the borrower is determined by

a) Willingness to repay
b) Viability of the project
c) Managerial ability

43. Discounting of bills of exchange is.....

a) Clean Advance
b) Secured advance
c) Neither

44. Neither possession nor ownership is transferred in....

a) Pledge
b) mortgage
c) Hypothecation

45. A mortgage can neither sue for foreclosure nor for sale of the property in..............

a) English mortgage
b) Usufructuary mortgage
c) Mortgage by conditional sale

46. A banker's lien is...........

a) **general lien**
b) particular lien
c) Negative lien

47. A pledge can be made in respect of....

a) **Shares**
b) Building
c) Book debts

48. The rate of interest payable on various deposits is determined by the:

a) Head office of each bank
b) Central Government
c) **Reserve bank of India**
d) Indian banks Association

49. A savings bank A/c in the Sole name of a minor can be opened provided he completes...

a) **10 years of age**
b) 12 years of age
c) 18 years of age
d) 21 years of age

50. The best suited deposit for a trading community is

a) Savings deposit
b) fixed deposit
c) **current deposit**
d) Recurring deposit

K2 Level

1. Define Banker.

'A Company which transacts the business of banking in India', and the term, 'Banking' has been defined as 'Accepting for the purpose of lending and investment, of deposits of money from the public, repayable on demand, order or otherwise and withdrawable by cheque, draft order or otherwise'.

2. Define Customer.

(a) He must have some sort of an account.

(b) Even a single transaction may constitute him as a customer.

(c) Frequency of transactions is anticipated but not insisted upon.

(d) The dealing must be of a banking nature.

3. Explain Banker Lien?

A Banker's lien is always a general lien. A banker has a right to exercise both kinds of lien. his general lien confers upon his the right to retain the securities in respect of the general balance due from the customer.

4. Point out the kinds of lien?

Lien is two kinds- Particular lien and General lien.

5. Define Negative lien?

It is otherwise called non-possessory lien. In the case of a negative lien, the securities are not in the possession of the creditor, But, the debtor gives an undertaking that he will not create any change on those securities in question without the prior written permission of the creditor.

6. Construct indemnity bond?

In the absence of any compulsion from outside, a banker voluntarily takes up the duty of honoring a bill just to please his customer, and thus, to render him some service. But, he should keep in mind that the statutory protection extended to cheque under Sec.85 of the Negotiable Instruments Act is not extended to the payment of bills.

7. Analyze lunatic person?

Unsound mind person is called lunatic person

8. Define liquidity.

Liquidity refers to the ability of an asset to be converted in cash without loss within a short time.

9. Explain commission?

The banker has an implied right to charge commission for the services provided to the customer.

10. Define Garnishee order?

On receiving order the account of customer becomes suspended,

11. Define Cheque.

"A bill of exchange drawn on a specified banker and not expressed to be payable otherwise that on demand".

12. Define Banker Cheque

The cheque which has been discussed so far in this chapter is called a customer's cheque, since, it is drawn by a customer upon a banker.

13. Define Endorsement

' Where the maker or holder of a negotiable instrument signs the same, otherwise than as such maker, for the purpose of negotiation, on the back face thereof, or on a slip of paper annexed thereto... he is said to endorse the same, and is called the endorser'.

14. What are the kinds of Endorsement?

- Blank endorsement
- Special endorsement
- Conditional endorsement
- Prepro endorsement

15. Define Draft.

The draft can also be crossed just like a cheque. Moreover, the statutory protection as extended to cheque, has been extended to draft, also. But, the holder of a draft differs from the holder of cheque in many respects.

16. Define crossing.

In Bellamy Vs Morjori Banks, it was also said that, '....Crossing is a mere memorandum on the face of the cheque and forms no part of the instrument itself and in no way alters its effects...'

17. Define Material Alteration.

According to sec.87 of the negotiable instruments Act, if a cheque is materially altered, it cannot be regarded as a cheque at all. Therefore, material alteration renders the cheque void. A material alteration affects the parties at the time of alteration, and, it does not affect parties, Subsequent to such an alteration.

18. Point out the kinds of crossing?

- General crossing
- Special crossing

19. Explain general crossing?

'Where a cheque bears across its face , an additional of the words; 'And company' or any abbreviation thereof, between two parallel transverse lines or of two parallel transverse lines simply, either with or without the words 'Not negotiable', that addition shall be deemed to be a crossing, and the cheque shall deemed to be crossed generally.

20. Compose Special crossing?

"Where a cheque bears across its face , an addition of the name of a banker with or without the words 'Not Negotiable', that addition shall be deemed a crossing, and the cheque shall be deemed to be crossed specially, and to be crossed to that banker'.

21. Define paying Banker,

A banker on whom a cheque is drawn should pay the cheque when it is presented for payment. This cheque-Paying function is a distinguished one of a banker.

22. Define Collecting Banker.

A collecting banker is one who undertakes to collect the amount of a cheque for his customer from the paying banker.

23. Define Bearer Bond.

A bearer bond certifies that the bearer is entitled to certain sum specified on the date indicated. The bearer of the bonds possesses the ownership. The title to the bonds is transferred by mere delivery without any formality.

24. Explain Promissory Note?

Promissory notes contain a promise by the president of India in a case of central Government and by the Governor of the state in case of state government securities to pay the specified sum of money to the holder of the note or the last endorsee whose name appears on the reverse, on a specified date or after certain notice, according to the terms of issue, A promissory note is a negotiable one. The title to the promissory note passes by the endorsement and delivery.

25. Define Collateral Security.

The term collateral Security is used in two senses. In a narrow sense, it refers to the securities deposited by the third party to secure advance for the borrower, in a wider sense, it denotes any type of security on which the creditor has a personal right of action on the debtor in respect of the advance.

26. Explain Mortgage?

'Mortgage is the transfer of an interest in specific immovable property for the purpose of securing the payment of money advanced or to be advanced by way of loan, an existing or future debt or the performance of an engagement which may give rise to a pecuniary liability'.

27. Define Pledge.

Section 172 of Indian contract Act 1872, defines a pledge as, the 'bailment of goods as security for payment of a debt or performance of a promise'.

28. Define overdraft.

Overdraft is an arrangement between a banker and his customer by which the latter is allowed to withdraw over and above his credit balance in the current account upto an agreed limit.

29. Define Negotiable instrument.

'Negotiable instrument means promissory note, bill of exchange or cheque payable either to order or to bearer'.

30. Express legal bar?

The existence of legal bar like Garnishee order limits the duty of the banker to pay a cheque

31. Define Insurance.

"Insurance is a process in which uncertainties are made certain"

32. Define Life insurance.

"Life insurance business is the business of effecting contracts upon human life"

33. Define Marine Insurance.

"A contract of marine insurance is a contract whereby the insurer undertakes to indemnify the insured in a manner and to the extent thereby agreed, against marine losses, i.e. to say, the losses incidental to marine adventures".

34. Define IRDA Act?

"An act to provide for the establishment of an authority to protect the interest of holders of insurance policies, to regulate , promote and insure orderly growth of the insurance industry and for matters connected therewith and incidental thereto."

35. Explain consideration?

When a party to an agreement promises to do something he must get something in return. This is called 'Consideration'.

36. Express lawful Object?

Another important basic principal of insurance contract is the legality of objects.

37. Explain insurance policy?

On the payment of first premium, the policy comes into operation and risk is covered then onward. Insurance policy is prepared in proper form, duly stamped and signed is finally issued to the insured.

38. Define fire insurance.

"Fire insurance may be defined as an agreement whereby one party, in return for a consideration, undertakes to indemnity the other party against financial loss caused by fire or other defined perils upto an agreed amount".

39. Define Social insurance.

Social Insurance has developed to provide economic security to weaker sections of the society who are able to pay the premium for an adequate insurance

40. Define General insurance.

General insurance business refers to fire, marine and other insurance business whether carried on singly or in combination with one or more of them.

K3 LEVEL

1. Distinguish between a banker and a customer?
2. Explain statutory obligation to honor cheque?
3. Explain the circumstance for exerting lies?
4. Explain the general precautions of banker?
5. Explain the general relationship of banker and a customer?
6. Explain Salient Features of a cheque?
7. Distinguish between cheque and draft?
8. Explain the special types of cheque?
9. What are the kinds of cheque?
10. Distinguish between cheque and bill of exchange?
11. Explain Secured Advance?
12. Explain unsecured Advance?
13. Analyze the circumstance of a dishonor of cheque?
14. Sketch general particulars of banker?
15. Explain the risks in advances against title of goods?
16. Explain duties of paying banker and collecting banker?
17. Explain Liabilities of paying banker and collecting banker?
18. Point out the circumstances for refusing payment of cheque?
19. Explain the circumstances for dishonor of cheque?
20. Sketch statutory protection of collecting banker?

21. Explain functions of insurance?

22. Classify of insurance?

23. Explain the types of insurance?

24. Explain merits and demerits of insurance?

25. Sketch principals of insurance?

K4 & K5 QUESTIONS

1. Define Banker and explain special relationship of banker?

2. Distinguish between a banker and a customer?

3. Explain statutory obligation to honor cheque?

4. Define customer and explain general relationship of customer?

5. Explain the general precautions of banker?

6. Explain the general relationship of banker and a customer?

7. Define Cheque and explain its types?

8. Distinguish between Cheque and draft

9. Define Banker Cheque.

10. Define Endorsement

11. Explain principles of sound lending?

12. Define Farms of advance?

13. Define precaution of before honoring a cheque?

14. Express circumstances of a dishonor of cheque?

15. Define statutory protection of paying banker?
16. Analyze the duties of paying banker?
17. Analyze the duties of collecting banker?
18. Explain Liabilities of collecting banker?
19. Classify the forms of cheque?
20. Explain the statutory protection of collecting banker?
21. Define functions of insurance?
22. Point out the classifications of insurance?
23. Compose the types of insurance?
24. Explain merits and demerits of insurance?
25. Define life Insurance.