# 20 True or False

Decide, then check the answer and reason below each statement.

## Question 1

**The LC limit formula is LC Limit = Consumption of Material (CM) multiplied by Total Time (TT), divided by 12.**

**TRUE**

This is the core formula used to assess LC limits for CAIIB ABM numericals.

## Question 2

**Total Time (TT) equals only the Usance Period, excluding Lead Time.**

**FALSE**

Total Time equals Lead or Procurement Time plus the Usance Period, not the usance period alone.

## Question 3

**A Letter of Credit is issued by the exporter's bank to assure the importer of payment.**

**FALSE**

An LC is issued by the importer's bank, called the issuing or opening bank, to assure the exporter of payment.

### Question 4

**Banks deal in documents, not goods, when honouring a Letter of Credit.**

**TRUE**

An LC is honoured strictly based on whether presented documents match its terms.

### Question 5

**The issuing bank must pay under an LC even if the presented documents do not match the LC terms.**

**FALSE**

A discrepancy in documents is valid ground for the bank to decline payment.

### Question 6

**For LC assessment, purchase value is taken on a CIF basis.**

**TRUE**

CIF stands for Cost, Insurance and Freight, reflecting the full landed value of goods.

## Question 7

**Under a DP LC, the Total Time used includes both lead time and a usance period.**

**FALSE**

A DP LC has no usance period, so its Total Time uses lead time only.

## Question 8

**Under a DA LC, Total Time equals Lead Time plus Usance Period.**

**TRUE**

DA LCs allow a credit period, which is added to the lead time in the calculation.

## Question 9

**EOQ stands for Economic Order Quantity, the ideal order size that avoids overspending.**

**TRUE**

EOQ helps inventory managers balance holding costs against order frequency.

## Question 10

**The number of LCs to be opened equals the EOQ value divided by the annual purchase amount.**

**FALSE**

It is the annual purchase amount divided by the EOQ value, not the reverse.

## Question 11

**Applying EOQ to LC assessment keeps outstanding LC exposure below twice the EOQ value.**

**TRUE**

A new LC is opened before the earlier one is retired, capping the maximum outstanding amount.

## Question 12

**A DPG, or Deferred Payment Guarantee, is assessed in the same manner as a term loan.**

**TRUE**

DPG substitutes for a term loan, so the same assessment method applies.

## Question 13

**An APG is assessed like a non-fund-based limit with no deduction from the working capital gap.**

**FALSE**

An APG is assessed like a fund-based limit, and the advance amount is deducted from the working capital gap.

## Question 14

**LC limits sanctioned for importing raw materials generally increase a borrower's working capital limit.**

**FALSE**

They generally reduce the working capital limit since the LC funds part of the purchase cycle.

## Question 15

**A working-capital LC can be freely used to import capital goods.**

**FALSE**

A working-capital LC cannot be used to import capital goods; capital imports need separate arrangements.

## Question 16

**Forgetting to add usance for DA LCs is described as the single biggest error in LC numericals.**

TRUE

DP uses lead time only, while DA requires adding the credit period, a common point of error.

## Question 17

**Monthly purchase for LC calculation is obtained by dividing annual consumption by 12.**

TRUE

This monthly figure is then multiplied by the total time to arrive at the LC limit.

## Question 18

**In the solved DP-LC illustration, the total sanctioned LC limit worked out to Rs 15 lakh.**

TRUE

This combined a Rs 5 lakh inland LC requirement with a Rs 10 lakh import LC requirement.

### Question 19

**In the solved DA-LC illustration with a 2-month usance period, the total LC requirement worked out to Rs 25 lakh.**

**TRUE**

This combined a Rs 10 lakh inland DA requirement with a Rs 15 lakh import DA requirement.

### Question 20

**The EOQ adjustment for LC limits applies specifically to DP-term LCs, not DA-term LCs.**

**FALSE**

The article states this EOQ adjustment applies to LCs under DA terms, not DP terms.