20 One-Liners to Remember

Quick-fire facts for last-minute revision.

1. **Net Working Capital = Total Current Assets minus Total Current Liabilities.**
   It measures short-term liquidity available to a borrower after covering current obligations.

2. **Debt Service Coverage Ratio (DSCR) measures a borrowers ability to service term-loan repayments from operating cash flow.**
   DSCR = (Net Profit + Depreciation + Interest) divided by (Instalment + Interest) on long-term liabilities.

3. **Interest Coverage Ratio (ICR) equals EBIT divided by interest on long-term borrowings.**
   EBIT stands for Earnings Before Interest and Taxes, the numerator used in ICR.

4. **Current Ratio compares Current Assets to Current Liabilities, expressed as CA divided by CL.**
   It is the most basic liquidity ratio tested in CAIIB ABM numericals.

5. **Quick Ratio, or Acid Test Ratio, excludes inventory from current assets before dividing by current liabilities.**
   Quick Ratio = (Current Assets minus Inventory) divided by Current Liabilities.

6 **Narrow Money M1 equals currency with the public plus demand deposits with banks plus other deposits with RBI.**

M1 is the RBI narrowest money supply measure and the base for M2, M3 and M4.

7 **Broad Money M3 equals M1 plus time deposits with the banking system.**

M3 is the money supply measure most commonly quoted as broad money.

8 **GDP by the expenditure method equals Consumption plus Investment plus Government spending plus Net exports.**

This is written as C + I + G + (X - M) in ABM economics formulae.

9 **Present Value equals a future cash flow multiplied by the discount factor 1 divided by $(1+r)^n$.**

The discount factor converts a future sum back to its value in today's terms.

10 **Effective Interest Rate equals $(1 + r/n)^n$ minus 1, where n is the number of compounding periods per year.**

EIR shows the true annual return once intra-year compounding is accounted for.

11 **Current Yield on a bond equals coupon income divided by the bond's current market price, times 100.**

Current Yield ignores any capital gain or loss the investor makes at maturity.

12 **Yield to Maturity accounts for both coupon income and the capital gain or loss held to maturity, unlike current yield.**

YTM = [C + (A-P)/n] x 100 divided by [(A+P)/2], averaging income and price gain.

13 **A Zero Coupon Bond's value equals Face Value divided by $(1+r)^n$, since it pays no periodic coupon.**

Such bonds are issued at a discount and redeemed at face value on maturity.

14 **Discounted money-market instruments like Treasury Bills price off a 365-day or 36500 convention, not a 360-day one.**

Mixing up the day-count base is a common error candidates make in ABM numericals.

15 **Present Value of a Perpetuity equals the annuity amount divided by the interest rate.**

PV of Perpetuity = A/r, used for cash flow streams with no fixed end date.

16 **Standard Error of the Mean equals the population standard deviation divided by the square root of the sample size.**

It is written as sigma divided by the square root of n in ABM statistics.

17 **CAIIB Advance Bank Management (ABM) is Paper 2 of the CAIIB examination conducted by IIBF.**
ABM is widely regarded as the most numerically demanding of the CAIIB papers.

18 **Debt Equity Ratio equals Term Loan divided by Tangible Net Worth.**
It can also be expressed as Long-term Debt divided by Shareholders' Equity.

19 **Tangible Net Worth equals Net Worth minus Intangible Assets.**
This adjusted figure is used as the base in several ABM leverage ratios.

20 **Return on Capital Employed (ROCE) equals Net Profit after Tax times 100, divided by Total Capital Employed.**
ROCE measures how efficiently a firm's total capital generates post-tax profit.