20 True or False

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

Question 1

The Nayak Committee turnover method estimates bank finance as 20% of projected annual turnover.

TRUE

The turnover method funds 20% of projected turnover, with the borrower contributing a 5% margin.

Question 2

Under the turnover method, the borrower must contribute a minimum margin of 5% of projected turnover.

TRUE

This 5% margin is the borrower's Net Working Capital contribution under the Nayak method.

Question 3

Under the Second Method of Lending, MPBF equals 75% of Total Current Assets minus Other Current Liabilities.

TRUE

This is the Tandon Committee's Second Method of Lending formula for larger borrowers.

Question 4

The Cash Budget method is commonly used for seasonal businesses such as sugar mills and tea estates.

TRUE

It maps monthly cash flows so the peak deficit sets the limit, suited to lumpy seasonal cycles.

Question 5

The Projected Balance Sheet method aims to keep the current ratio at or above 1.33:1.

TRUE

This benchmark corresponds to the 25% Net Working Capital margin under the Tandon framework.

Question 6

Cash Credit charges interest only on the amount actually drawn, not the full sanctioned limit.

TRUE

This is a defining feature of Cash Credit as a running account facility.

Question 7

A Working Capital Demand Loan is a fixed-tenor, fixed-rate loan component carved out for large borrowers.

TRUE

RBI introduced WCDL to improve credit discipline for borrowers above a specified limit.

Question 8

Bills discounting is a self-liquidating form of finance because the bill matures and the buyer pays directly.

TRUE

This ties the lending directly to a genuine underlying trade transaction.

Question 9

Drawing Power is recalculated based on the borrower's periodic stock statement.

TRUE

Banks update DP from fresh stock statements to track how much can actually be drawn.

Question 10

Letters of Credit and Bank Guarantees are non-fund-based instruments that still consume a borrower's credit limits.

TRUE

Although no cash is disbursed upfront, both instruments form part of the overall credit exposure.

Question 11

The turnover method sets bank finance at 75% of projected annual turnover.

FALSE

The turnover method actually sets bank finance at 20% of projected annual turnover, not 75%.

Question 12

Under the MPBF formula, Other Current Liabilities include the borrower's existing bank borrowings.

FALSE

Other Current Liabilities exclude bank borrowings and mainly consist of trade creditors.

Question 13

The Cash Budget method is mainly used for large manufacturing units with steady, non-seasonal cash flows.

FALSE

The Cash Budget method is used where cash flows are seasonal or lumpy, such as sugar mills and construction firms.

Question 14

The Projected Balance Sheet method targets a current ratio of 2:1.

FALSE

The method targets a current ratio of 1.33:1, not 2:1, matching the 25% NWC margin.

Question 15

Under the turnover method, the borrower's margin contribution is 25% of projected turnover.

FALSE

The borrower's margin under the turnover method is 5% of turnover; the bank funds 20%.

Question 16

An Overdraft facility is generally unsecured and never linked to fixed deposits or property.

FALSE

Overdrafts are usually secured against fixed deposits, property, or LIC policies.

Question 17

A Working Capital Demand Loan lets large borrowers draw and repay flexibly like a running Cash Credit account.

FALSE

WCDL is a fixed-tenor, fixed-rate loan, unlike the flexible drawing nature of Cash Credit.

Question 18

Drawing Power is always equal to the full sanctioned credit limit regardless of the stock statement.

FALSE

Drawing Power is computed from the latest stock statement and can be lower than the sanctioned limit.

Question 19

TReDS is a platform used exclusively for gold loan disbursement to bank customers.

FALSE

TReDS is a digital platform for discounting MSME trade receivables, not for gold loans.

Question 20

The Second Method of Lending requires no minimum borrower contribution toward current assets.

FALSE

The Second Method of Lending requires the borrower to fund at least 25% of Total Current Assets as NWC.