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JAIIB MAY 2023 EXAM

AFM

RECOLLECTED QUESTIONS

WITH

DETAILED EXPLANATION

Preface

The document gives a fair idea of the kind of questions that were asked in JAIIB May 2023 Exam. The document also helps in identifying the most important topics and extrapolate the topics from which questions can be asked in the upcoming exams. Kindly note that the questions mentioned below are memory based and are presented to the best of our knowledge. The questions have been classified into three sections described as follows:

1. Complete Questions

These are the questions for which the topic of the question, the type of question and the options were known to us and have been presented as they had appeared in the exam. There is also mention of the correct answer with the detailed explanation along with the reference from where the question was asked (E.g. Page number, Chapter number and the Module of the IIBF book from which the question has been set).

2. Topic of questions and type of questions

The second section consists of questions for which the exact question asked in the exam is not known to us, but the topic and the kind of question is known and we have tabulated the same. This will give an idea of the important topics and the depth to which the questions are asked in the exam.

3. Topic of questions

The third section consists of only the topics of the remaining questions as the type of question is also not known to us. This will help in identifying important topics for the upcoming exam.

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Accounting & Financial Management

Q1. Which of the following statements is true about the golden rule of accounting for real accounts?

a) Debit all increases, and credit all decreases.
b) Credit all increases and debit all decreases.
c) Debit all assets and credit all expenses.
d) Credit all assets and debit all expenses.

Solution: A
Explanation:
Module A – Chapter 3 – Page 102

Here is a brief explanation of each of the answer choices:
(A) is the correct answer. This is the golden rule of accounting for real accounts.
(B) is incorrect. This is the opposite of the golden rule of accounting for real accounts.
(C) is incorrect. This is the golden rule of accounting for nominal accounts, which are income and expense accounts.
(D) is incorrect. This is the opposite of the golden rule of accounting for nominal accounts.

person imparts.

2. Real Accounts

'Debit what comes in and credit what goes out', i.e. debit the account of the thing that comes in and credit the account of the thing that goes out. For example, where furniture is purchased for cash, furniture account is debited while cash account is credited.

3. Nominal Accounts

'Debit all expenses and losses and credit all incomes and gains', i.e. debit the accounts of expenses and losses and credit all incomes and gains. For example, if you pay salary to your clerk, the two accounts involved are the 'Salary Account' and 'Cash Account'. Salary account is a nominal account. Salary paid is an expense of the business and therefore, this account will be debited. Similarly, if interest is received, interest account will be credited, since interest is an income item.

The rules of debit and credit can be summarised as under:

Types of Account	Debit	Credit
Personal	The Receiver	The Giver
Real	What Comes in	What Goes out
Nominal	Expenses or Losses	Incomes or Gains

Q2. The Section 80U of the Income Tax Act in India is related to

a) Deductions in respect of royalty of income of authors of certain books.
b) Deductions in respect of royalty on patents.
c) Deductions in respect of interest on deposits by senior citizens.
d) Deductions in respect of a person with disability.

Solution: D
Explanation:
Module D – Chapter 29 – Page 541

Here is a brief explanation of each of the answer choices:

a) Deductions in respect of royalty of income of authors of certain books: Section 80QQB
b) Deductions in respect of royalty on patents: Section 80 RB
c) Deductions in respect of interest on deposits by senior citizens: Section 80 TTB
d) Deductions in respect of a person with disability: Section 80 U

29.8 DEDUCTIONS TO BE MADE IN COMPUTING TOTAL INCOME

Chapter VIA specifies the exemptions available for deductions from the Gross Income for the arriving at the taxable income of the Assessee to calculate the income tax liability. These deductions are specified in sections 80C to 80U. Some of these deductions are mentioned below:

Section 80 C: Deduction in respect of life insurance premia, deferred annuity, contributions to provident fund, subscription to certain equity shares or debentures, etc. The aggregate amount of deductions under section 80C, section 80CCC and sub-section (1) of section 80CCD is limited to Rupees one hundred and fifty thousand.

Section 80D: Deduction in respect of health insurance premia.

80E: Deduction in respect of interest on loan taken for higher education.

80G: Deduction in respect of donations to certain funds, charitable institutions, etc.

80QQB: Deduction in respect of royalty income, etc., of authors of certain books other than text-books

80RRB: Deduction in respect of royalty on patents.

80TTA: Deduction in respect of interest on deposits in savings account.

80TTB: Deduction in respect of interest on deposits in case of senior citizens.

80U: Deduction in case of a person with disability.

Q3. The accounting standard - 'AS18' – is related to

a) Accounting for earnings per share.
b) Related party disclosures.
c) recognition, measurement, presentation, and disclosure of leases.
d) Preparation of consolidated financial statements.

Solution: B
Explanation:
Module A – Chapter 1 – Page 11

TABLE: 1.1: Accountancy Standards

Number of the Accounting Standard (AS)	Title of the Accounting Standard	Date from which Mandatory (accounting periods commencing on or after)
AS 1	Disclosure of Accounting Policies	1-4-1991/1-4-1993
AS 2 (Revised)	Valuation of Inventories	1-4-1999
AS 3 (Revised)	Cash Flow Statements	1-4-2001 *
AS 4 (Revised)	Contingencies and Events Occurring after the Balance Sheet Date	1-4-1995
AS 5 (Revised)	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies	1-4-1996
AS 7 (Revised)	Construction Contracts	1-4-2003
AS 9	Revenue Recognition	1-4-1991/1-4-1993
AS 10 (Revised)	Property, Plant and Equipment	1-4-1991/1-4-1993
AS 11 (Revised)	The Effects of Changes in Foreign Exchange Rates	1-4-2004
AS 12	Accounting for Government Grants	1-4-1994
AS 13	Accounting for Investments	1-4-1995
AS 14	Accounting for Amalgamations	1-4-1995
AS 15	Employee Benefits	1-4-1995
AS 16	Borrowing Costs	1-4-2000
AS 17	Segment Reporting	1-4-2001 *
AS 18	Related Party Disclosures	1-4-2001

AS 18: Related Party Disclosures deals with the disclosures that are required to be made in the financial statements of an enterprise in respect of its related party transactions.
AS 19: Leases deals with the recognition, measurement, presentation, and disclosure of leases in the financial statements of lessors and lessees.
AS 20: Earnings Per Share requires enterprises to calculate and present EPS in a way that is consistent with the requirements of the standard. The standard also requires disclosures about EPS, such as the number of shares used in the calculation, the weighted average number of shares outstanding, and the basic and diluted EPS.
AS 21: Consolidated Financial Statements deals with the preparation and presentation of consolidated financial statements by a parent or holding company and its subsidiaries.

Q4. For the core banking system of a large bank, which one of the following statements is true?

a) Each branch has its own server connected directly to servers of other branches.
b) There is only one powerful server at centralised data centre.
c) Each branch has a server connected to the server at centralised data centre.
d) None of the above.

Solution: C
Explanation:
Module B – Chapter 18 – Page 381

The Technical Architecture of Core Banking Solutions in General

A powerful server will be installed at the centralised data centre (Hub). Every branch will have a branch server. Each user at each branch will have a terminal; these terminals will be connected to the branch server, and the branch servers will be connected to the central server (Hub). The branches and the 'Host' will be connected through a dedicated line.

Under the Core Banking System of banks, a powerful server is installed at the centralised data center (hub).
Every branch will have a branch server. These branch servers will be connected to the central server (hub).

The branches and Hub will be connected through a dedicated line.

Q5. Process costing is ideal for which among the following types of industries?

- **I. Chemical Industry**
- **II. Oil Refinery**
- **III. Paper Industry**

a) I & II
b) II & III
c) I & III
d) I, II & III

Solution: D
Module D – Chapter 31 – Page 560

Process Costing

When crude oil is processed in a refinery, it passes through distinct stages of processing. The output of one stage of processing becomes the input of the next stage of processing. The company would like to know the cost of each stage of processing involved in the production. The method adopted for this is known as process costing.

Apart from oil refineries, the method of process costing is generally used in chemical industries, soap manufacturing, paper manufacturing, textile industries, tanneries, etc.

Q6. Which of the following inventory valuation methods is permitted under Ind AS-2 ?

a) First In First Out (FIFO)
b) Absorption Costing Method
c) Weighted Average Cost Method
d) All of the above

Solution: D
Explanation:

Module A – Chapter 1 – Page 60

Ind AS-2

The standard deals with the determination of the values at which inventories are carried in the financial statements until the related revenues are recognised. The standard also deals with determination of such value, including the ascertainment of cost of inventories and any write-down thereof to net realisable value. It states that inventories are to be valued at a lower of cost or net realisable value. The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Weighted average cost or First in First Out (FIFO) methods is permitted in cases where goods are ordinarily interchangeable. Specific identification method is permitted only when goods are not ordinarily interchangeable. The standard does not permit the use of the direct costing method and states that absorption-costing method is to be applied to manufactured goods.

Q7. Consider the following statements and choose the correct ones:

- **I. When the market interest rate is equal to the coupon rate, the value of the bond is equal to its par value.**
- **II. When the market interest rate is greater than the coupon rate, the discount on the bond declines as maturity approaches.**
- **III. A bond price is inversely related to it yield to maturity.**
- **IV. When the market interest rate is less than the coupon rate, the premium on the bond declines as maturity approaches.**

a) I. II & III
b) II & III
c) II, III & IV
d) I, II, III & IV

Solution: D
Module C – Chapter 22 – Page 449

22.10 THEOREMS FOR BOND VALUE

1. When the required rate of return (market interest rate) is equal to the coupon rate, the value of the bond is equal to its par value.
2. When the required rate of return (kd) is greater than the coupon rate, the value of the bond is less than its par value.
3. When the required rate of return is less than the coupon rate, the value of the bond is greater than its par value.
4. When the required rate of return (kd) is greater than the coupon rate, the discount on the bond declines as maturity approaches.
5. When the required rate of return (kd) is less than the coupon rate, the premium on the bond declines as maturity approaches.
6. A bond price is inversely related to its yield to maturity.
7. For a given difference between YTM and coupon rate of the bonds, the longer the term to maturity, the greater will be the change in price with a change in YTM. It is because, in the case of long maturity bonds, a change in YTM is cumulatively applied to the entire series of coupon payments and the principal payment is discounted at the new rate for the entire number of years to maturity.
8. Given the maturity, the change in bond price will be greater with a decrease in the bond's YTM than the change in bond price with an equal increase in the bond's YTM. That is, for equal sized increases and decreases in the YTM, price movements are not symmetrical.
9. For any given change in YTM, the percentage price changes, in case of bonds of a high coupon rate, will be smaller than in the case of bonds of a low coupon rate, other things remaining the same.
10. A change in the YTM affects the bonds with a higher YTM more than it does bonds with a lower YTM.

As explained above, all the statements given in the question are correct.

Q8. A Capital Expenditure budget is a type of ________.

a) Master Budget
b) Functional Budget
c) Production Budget
d) Performance Budget

Solution: B

Explanation:

Module D – Chapter 35 – Page 611

35.4 PREPARATION AND MONITORING OF BUDGETS

The highlights about the characteristics and preparation and monitoring of various types of budgets are given below:

35.4.1 Functional budgets

Budgets are prepared for each of the various interrelated activities in the organisation. These budgets are then consolidated to show the combined budget for all the activities. This consolidated budget is called the "Master Budget". Approved budgets for individual functions are called "functional budgets". The main functional budgets are:

1. **Sales Budget:** Sales budget is the key functional budget which forms the basis for preparing other functional budgets. It is the estimate of total sales, expressed in money terms as also in terms of quantity. The sales during the budget period (normally one year) , are estimated taking into account various internal and external factors. The internal factors relate to the present production capacity of the company, expansion plans, development of new products, pricing policy etc. The external factors relate to competition in the market, growth of economy, Consumer preference, Government policies, etc.
2. **Production Budget:** It contains the estimated production quantities of various products during the budget period. This is an offshoot of the sales budget and depends on the decision taken by the management regarding the sales estimates of various products.
3. **Production Cost Budget:** Once the production budget is prepared specifying the quantities of various products, the costs of production are calculated. As per the components of cost of products, this budget may be a combination of three budgets, viz., Materials, Labour and Overhead costs budgets.
4. **Cash Budget:** This budget contains the detailed estimates of cash inflows (receipts) and cash outflows (payments) periodically. For this, the budget period is further sub-divided on quarterly, monthly or even weekly basis. Cash budgets have been discussed in detail in Module C of this book.
5. **Capital Expenditure Budget:** The Capital expenditure budget details the plan of the proposed expenditure on fixed assets to enhance the capacity and efficiency of production process of the organisation. Capital expenditure is a continuous process in any organisation and is planned through a long-term budget. Capital forecasts should be made for a number of years. As the capital budget

Q9. If the estimated sales of a company during the year are ₹110 lakh and its break even sales level is ₹70 lakh, the margin of safety is______.

a) 24.24%
b) 32.32%
c) 36.36%
d) 39.39%

Solution: C

Explanation:

Module D – Chapter 34 – Page 604

Marginal Safety = $\left[\frac{Estimated\ Sales - Break\ Even\ Sales}{Estimated\ Sales}\right]$ x 100

So,

Marginal Safety in this case = [(110 – 70)/110] x 100 = (40/110) x 100 = 36.36%

Q10. Consider the following statements and choose the correct ones:

I. In marginal costing, the fixed overhead costs are not allocated to the product whereas, it is allocated in case of absorption costing.

II. Cost-Volume-Profit relationship is used in absorption costing while in marginal costing, it is not used.

III. **Costs are classified into fixed costs and variable costs under absorption costing. In marginal costing, there is no such classification.**

IV. **Due to allocation of fixed overhead costs to the product, the valuation is higher under absorption costing as compared to that under marginal costing.**

a) I & IV
b) II & III
c) I & III
d) II & III

Solution: A
Explanation:
Module D – Chapter 34 – Page 605 & 606

34.12 DIFFERENCE BETWEEN ABSORPTION COSTING AND MARGINAL COSTING

The differences between the marginal costing and absorption costing can be summarised as under:

1. In marginal costing, the fixed overhead costs are not allocated to the product whereas, it is allocated in case of absorption costing.
2. Cost-volume-profit relationship is used in marginal costing while in absorption costing, it is not used.
3. Costs are classified into fixed costs and variable costs under marginal costing. In absorption costing, There is no such classification.
4. The valuation of finished goods inventory is different in both the methods. Due to allocation of fixed overhead costs to the product, under absorption costing, the valuation is higher under this, compared to that under marginal costing.

Q11. (Numerical on Break Even Sales – Actual Data Given in the Question may be different as we are only using the data recollected from memory):

A company manufacturing Staplers has the following financial information:

A. Total fixed costs : ₹ 2 lakh
B. Sales price per stapler : ₹60
C. Cost of all direct inputs like material, labour etc. : ₹40

Calculate the break-even sales volume in terms of sales value.

a) ₹ 5 lakh
b) ₹ 6 lakh
c) ₹ 8 lakh
d) ₹ 10 lakh

Solution: B
Explanation:
Module D – Chapter 34 – Page 603

34.7 BREAK-EVEN ANALYSIS

The break-even analysis, which is a part of Cost–volume– profit (CVP) analysis, also involves finding correlation between the fixed costs, variable costs, sales revenue and profit. Whenever one unit of the product is sold, its sales value minus its variable cost provides a surplus which goes towards meeting the fixed expenses. This sales value of one unit minus its variable cost is called "Contribution" as this is what one unit of the product contributes towards recovering the fixed expenses. Break-even level is that activity level at which all relevant fixed costs are recovered and there is no profit or no loss. For activity level below the breakeven level, the company will make losses, while above this level it will make profit.

As the sales price of one stapler is ₹60 and its variable cost is ₹40, the contribution is ₹20 (60 – 40). So, sale of each stapler contributes ₹20 towards meeting the fixed cost.

Now, total fixed costs = ₹2,00,000

For meeting this cost, we have to sell 200000/20 = 10,000 staplers

After selling 10 thousand staplers, the fixed costs are fully met and there is no profit or loss. The next stapler we sell, will result in profit of ₹20. So, the break even sales volume is 10,000 staplers.

So, the break-even sales value would be = Sales volume x Sales price of one stapler

= 10,000 x ₹60 = **₹6 Lakh**

Q12. Variance in material costs is due to _________.

a) Variance in price of materials consumed.
b) Variance in the quantity of materials consumed.
c) theft or pilferage of the material during the production process.
d) All of the above

Solution: D

Explanation:

Module D – Chapter 33 – Page 594

Possible causes of Material usage variance:

Some of the possible causes of variance in material usage can be as under:

a. Inferior quality of material purchased
b. Theft, pilferage
c. Increased wastage due to careless handling during manufacturing
d. Not following the standard production procedures
e. Changes in quality of the finished goods compared to that envisaged in standard costing

Q13. Which among the following statements is incorrect regarding Contract Costing?

a) A separate contract account is maintained for each contract.
b) All the direct costs related to execution of contract, are allocated to the contract.
c) In a contract, most of the costs are of indirect nature, unlike in job costing.
d) Work in progress is an important aspect of contract costing.

Solution: C

Explanation:

Module D – Chapter 32 – Page 574

32.4.1 Features of Contract Costing

The important features of Contract Costing are as under:

1. Under Contract Costing, a separate contract account is maintained for each contract.
2. All the direct costs related to execution of contract, are allocated to the contract.
3. The overheads for a contract are allocated in the same way as under the job costing. A contract usually involves a lower amount of overheads but these require appropriate allocation.
4. Work-in-progress is an important aspect in contract costing.

32.4.2 Distinction Between Job and Contract Costing

Even though contract costing is a form of job costing only, there are some distinguishing features, as mentioned below:

1. The work is usually carried out at a site different from contractor's workplace, in a contract. In execution of a job, the job is usually carried out at the contractor's workplace.
2. A contract and a job are differentiated on the basis of size and time taken also. Contracts are usually larger and take longer time compared to jobs.
3. In a contract, most of the costs are of direct nature, unlike in a job.
4. In costing a contract, each contract is treated as a cost unit while in job costing, there can be more than one cost units.

Q14. What is the rate of taxation under the GST regime for banking services such as fund transfer, loan processing fees etc.

a) 5%
b) 12%
c) 18%
d) 28%

Solution: C
Explanation:
Module D – Chapter 30 – Page 552

4. GST on banking Transaction fees in financial services such as credit card payments, fund transfer, ATM transactions, processing fees on loans etc. is increased to 18% tax bracket in the GST regime. The hike in the tax rate means, individuals will have to pay more charges/fees for banking transactions. Bank branches provide services to each other, which is taxable under GST. They can later claim input tax credit, but that increases the paperwork and the operating cost.

Q15. (Numerical on Cost Volume Profit Analysis – Actual Data Given in the Question may be different as we are only using the data recollected from memory):

A company manufacturing plastic bottles has the following financial information:

A. Total fixed costs : ₹ 1 lakh
B. Variable cost per unit : ₹120
C. Sales price per unit : ₹160
D. Total units sold : 3500

Calculate the profit/loss earned by the company.

a) ₹ 40000
b) ₹ 60000
c) ₹ 90000
d) ₹ 120000

Solution: B
Explanation:
Module D – Chapter 34 – Page 602

The basic formula of CVP analysis, when profit, sales volume and costs, all are expressed in money terms, is:

Profit = Sales Volume – Costs

Who invented this formula may be debatable but, it is certain the first person of the mankind, who started a business, knew it. The concept of marginal costing has refined this formula as under:

Profit = Sales Volume – (Fixed Costs + Variable Costs) or,

P = (S × N) – [F + (V× N)]

where,

P = Profit,

S = Sales value per unit

N = Number of units sold

F = Fixed Costs

V = Variable Cost per unit

In the formula,

S = ₹160

N = 3500

F = ₹100000

V = ₹120

So, Profit = (160 x 3500) – [100000 + (120 x 3500)]

= 560000 – [100000 + 420000]

= 560000 – 520000 = 40000

So, the gross profit earned is ₹40000.

Q16. If GST returns are not filed within time, one is liable to pay interest at the rate of ____% on delayed payment. It has to be calculated on the amount of tax liability from the _______ of due date of return till date of payment.

a) 12% ; next day
b) 18% ; next day
c) 12% ; next month
d) 18% ; next month

Solution: B

Explanation:

Module D – Chapter 30 – Page 551

If GST Returns are not filed within time, you will be liable to pay interest and a late fee. At present, interest on delayed payment of tax is payable @ 18% per annum. It has to be calculated on the amount of tax liability from the next day of due date of return till the date of payment.

Q17. Consider the following statements regarding Derivative instruments and choose the correct ones:

I. Derivatives shift the risk from the seller of the derivative product to the buyer and therefore are very effective risk management tools.

II. Derivatives improve the liquidity of the underlying asset.

III. Derivatives provide better avenues for raising funds.

IV. Derivatives contribute to increasing depth and complexity of the markets.

a) I, II & III
b) II & III
c) II, III & IV
d) I, III & IV

Solution: C

Explanation:

Module C – Chapter 28 – Page 526

28.1.1 Characteristics of Derivatives

A Derivative has the following 3 main characteristics:

(a) Their value changes in response to the change in a specified 'underlying' asset

(b) Derivatives have the characteristics of high leverage and of being complex in their pricing and trading mechanism. They require no or little initial net investment when compared to other types of contracts having a similar response to changes

(c) It is settled at a future date

28.1.2 Functions of Derivatives

(a) Derivatives shift the risk from the buyer of the derivative product to the seller and as such are very effective risk management tools.

(b) Derivatives improve the liquidity of the underlying instrument. Derivatives perform an important economic function viz. price discovery.

(c) They provide better avenues for raising money.

(d) They contribute substantially to increasing the depth of the markets.

Q18. Which among the following is not an essential component of the price of any futures contract?

a) Spot price of underlying asset.

b) Cost of financing, storing, insuring, and transporting the asset.

c) Taxes levied on market transactions.

d) Income earned from the underlying asset.

Solution: C

Explanation:

Module C – Chapter 28 – Page 528

28.4.2 Futures

Futures contract is an agreement to buy or sell an asset for a certain price at a certain time in future. It is similar to forward contract. While a forward contract is traded over the counter, a futures contract is traded on an exchange. It has standardized contract parameters. While markets for Forward contracts are not very liquid. Futures contracts are highly liquid and can be closed out easily. In India, futures contracts are available and traded on the Stock Exchanges and commodity exchanges. Futures are available on currencies, bonds, interest rates, stock indices, commodities etc.

Pricing Futures: The price of any futures contract has three essential components. These are:

(a) the spot price of the underlying asset

(b) the cost of financing, storing, insuring and transporting the asset

(c) the income if any, earned from the asset

Taking all these three factors into account futures price(FP) will be equal to the spot price(SP) + financing and other costs – income if any.

F.P = S.P + Costs – Income.

Q19. Which among the following is not a correct statement about the derivates?

a) Derivatives have the characteristics of high leverage.

b) Derivatives are simpler in pricing and their trading mechanism.

c) RBI is empowered to regulate the interest rate derivatives, foreign currency derivatives and credit derivatives.

d) Derivates perform a very important economic function of price discovery in the market.

Solution: B

Explanation:

Module C – Chapter 28 – Page 532 & 533

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LET US SUM UP

A derivative is a financial instrument whose value is derived from an underlying asset. Derivatives are often used as instruments to hedge risks. Derivatives have the characteristics of high leverage and of

DERIVATIVES | 533

being complex in their pricing and trading mechanism. Derivatives perform an important economic function viz. price discovery. The derivatives market can be either Over-the-counter (OTC) derivatives market where they are traded directly between two eligible parties or the Derivatives Exchange where standardised derivative contracts are traded. The main users of derivatives include hedgers, speculators and traders. RBI is empowered to regulate the interest rate derivatives, foreign currency derivatives and credit derivatives. The derivatives broadly consist of forwards, futures, swaps and options. Forwards are definitive purchases and/or sales of a currency or commodity for a future date. Futures contract is also an agreement to buy or sell an asset for a certain price at a certain time in future. It is similar to forward contract. While a forward contract is traded over the counter, a futures contract is a standardised product, traded on an exchange. A swap is a custom tailored bilateral agreement in which cash flows are determined by applying a prearranged formula on a notional principal. An option is a contract, which gives the buyer (holder) the right, but not the obligation, to buy or sell specified quantity of the underlying assets, at a specific (strike) price on or before a specified time (expiration date). Some of the important derivatives in Indian market are: Forward Rate Agreements, Interest Rate Swaps and Interest Rate Options. Credit Default Swaps (CDS) is a bilateral contract in which the risk seller (lending bank) pays a premium to the buyer for protection against credit default or any other specified credit event resulting in loss in the value of an underlying debt instrument.

Q20. Cash budget method of assessment is more suitable for those business enterprises which have ______.

a) Uniform level of operations
b) High level of operations
c) Low level of operations
d) Seasonal operations

Solution: D

Explanation:

Module C – Chapter 27 – Page 522

Customers enjoying working capital limits in excess of ₹ 5.00 crore can be given option to adopt the Cash Budgeting Method at the discretion of the Bank. In case such borrowers choose the Cash Budget System of lending, they have to satisfy the Bank that they have necessary infrastructure in place to submit the required information periodically in time. The scope of internal MIS should be satisfactory and commensurate with the level of operations. The borrower must have a finance professional and computerised environment. Cash Flow Based Lending is more customer- friendly. Here, bank finance is sanctioned in the form of a short term loan which may be repaid in suitable instalments. This is well suited to units dealing in seasonal products, construction activities and order based activities. Cash Flow based lending method is popular in developed countries. Under this method the peak level cash deficit will be the level of total working capital finance to be provided to the borrower by the Bank. The peak level cash deficit will be ascertained from the Projected Cash Budget Statement submitted by the borrower. Deficit is worked out and financed subject to availability of chargeable assets. The required contribution (NWC), which should be at least 25% of peak deficit, is also worked out based on the Current Assets & Current Liabilities as at the peak period. Drawings are allowed to the extent of monthly deficit.

Q21. For loans and advances to Micro and Small Enterprises (MSEs), RBI guidelines are as under: 'Banks are advised to grant working capital credit limits to MSEs computed on the basis of minimum _____ of their estimated annual turnover whose credit limit in individual cases is up to ______.'

a) 5% , ₹ 1 crore

b) 7% . ₹2 crore
c) 10% . ₹3 crore
d) 20% ' ₹5 crore

Solution: D

Explanation:

Module C – Chapter 27 – Page 522

27.5.3 Turnover Method of Assessment

Under this method of working capital assessment, it is assumed that the enterprise needs 25% of its annual turnover as gross working capital, out of which 20% will be provided by the bank and 5% will be brought in as margin by the enterprise. For loans and advances to Micro and Small Enterprises (MSEs), RBI guidelines are as under: 'Banks are advised to grant working capital credit limits to Micro and Small Enterprises(MSEs) computed on the basis of minimum 20% of their estimated annual turnover whose credit limit in individual cases is up to ₹ 5 crore'. The RBI guidelines may result in under-financing for those units where the working capital cycle is more than 3 months. Therefore, the banks, normally, also assess the requirement on the basis of holding norms also and sanction the limit whichever is higher.

Q22. Which of the following statements is incorrect regarding Inter-Corporate Deposits?

a) Procurement procedure is simple as the regulation for such deposits are not very strict.
b) Rate of interest on such deposits is not fixed and is dependent on amount involved and tenure of lending.
c) The market for inter-corporate deposits is not structured.
d) These deposits are secured deposits.

Solution: D

Explanation:

Module C – Chapter 27 – Page 516

6. Inter-Corporate Deposits

Short term deposits of up to six months, accepted by a company from another company, are called inter-corporate deposits. In Inter-corporate deposits, Call deposit is a type of deposit can be withdrawn by the lender by giving a notice of one day. Apart from this, there are 3 month and 6 month inter-corporate deposits. The important features of an inter-corporate deposit are:

(a) Procurement procedure is simple as the regulations regarding such deposits are not strict.
(b) The rate of interest on such deposits is not fixed. It depends upon the amount involved and the tenure of lending.
(c) The market for inter-corporate deposits is not structured.
(d) These deposits are unsecured deposits.

Q23. _______ is similar to factoring but is used only in case of exports and where the sale is supported by bills of exchange/promissory notes?

a) Forfaiting
b) Featuring
c) Fostering
d) All of the above

Solution: A

Explanation:

Module C – Chapter 27 – Page 518

> **10. Forfaiting**
>
> This is similar to factoring but is used only in case of exports and where the sale is supported by bills of exchange/promissory notes. The financier discounts the bills and collects the amount of the bill from the buyer on due dates. Forfaiting is always without recourse to the client. Therefore, the exporter does not carry the risk of default by the buyerImporters often raise trade credit (buyers' credit/suppliers' credit) from overseas supplier, bank and financial institution for import of capital and non-capital goods into India. With a view to providing greater Working Capital Finance flexibility for structuring of trade credit arrangements, RBI has decided that the resident importer can raise trade credit in Rupees (INR) within the following framework after entering into a loan agreement with the overseas lender:
>
> i. Trade credit can be raised for import of all items (except gold) permissible under the extant Foreign Trade Policy
>
> ii. Trade credit period for import of non-capital goods can be up to one year from the date of shipment or up to the operating cycle whichever is lower
>
> iii. Trade credit period for import of capital goods can be up to five years from the date of shipment
>
> iv. No roll-over/extension can be permitted by the AD Category-I bank beyond the permissible period
>
> v. AD Category-I banks can permit trade credit up to USD 20 mn equivalent per import transaction (vi) AD Category-I banks are permitted to give guarantee, Letter of Undertaking or Letter of Comfort in respect of trade credit for a maximum period of three years from the date of shipment
>
> vi. The all-in-cost of such Rupee (INR) denominated trade credit should be commensurate with prevailing market conditions

Q24. Consider the following statements regarding lease transactions and choose the correct ones:

I. In a lease transaction, the lessor is eligible for depreciation on the asset.

II. The lessee will be eligible to claim any depreciation of the leased asset.

III. The entire lease rentals are taxed as income of the lessor.

IV. The lessor is entitled to treat the rentals as expenses.

a) I, II & III

b) I & III

c) II, III & IV

d) I, III & IV

Solution: B

Explanation:

Module C – Chapter 26 – Page 565

> i. In a lease transaction, the lessor is eligible for depreciation on the asset, as he owns the assets. The lessee, therefore, will not be eligible to claim any depreciation. In sale and leaseback transactions, income Tax rules permit depreciation on the sold asset's depreciated value rather than the actual value of the sales transaction.
>
> . The entire lease rentals are taxed as income of the lessor.
>
> . The lessee is entitled to treat the rentals as expenses.

Q25. Which of the following statements is not true for an infrastructure project?

a) It has long gestation period.

b) It reduces the risk for the lender as his funds get assured deployment for a long time.

c) Normally, the debt equity ratio is high for an infrastructure project.

d) The implementation period is usually long.

Solution: B
Explanation:
Module C – Chapter 26 – Page 495
Infrastructure projects involve some distinct features like exceptionally long implementation, gestation and pay back periods, high debt equity ratio etc. It increases the risk of the lender due to:
1. Economic Uncertainty
2. Cost Overruns
3. Funding Challenges
4. External Factors

Q26. What is the minimum paid-up capital that is required to set up a Joint Stock Company?
a) ₹20 lakh
b) ₹10 lakh
c) ₹5 lakh
d) None of the above

Solution: D
Explanation:
Module B – Chapter 14 – Page 253
Initially, he minimum paid-up capital that is required to set up a Joint Stock Company in India was Rs. 1 lakh. This was the minimum capital requirement under the Companies Act, 2013. However, the Companies Amendment Act, 2015 relaxed the minimum requirement for paid-up capital. **Therefore, there is now no requirement for any minimum capital to be invested to start a private limited company**.

Q27. The aggregate amount of deduction under Section 80C, Section 80CCC and Sub-section 1 of Section 80CCD is limited to ________.
a) ₹2 lakh
b) ₹1.5 lakh
c) ₹1 lakh
d) None of the above

Solution: B
Explanation:
Module D – Chapter 29 – Page 541.
The aggregate amount of deduction under Section 80C, Section 80CCC and Sub-section 1 of Section 80CCD is limited to ₹1.5 lakh.

Q28. Consider the following statements and choose which ones are correct:
I. Authorised capital is the amount up to which the company can raise the capital.
II. Issued capital is issued directly to the public or be issued partly to vendors.
III. The part of issued capital that is actually subscribed to the public is known as scheduled capital.
IV. The amount of capital that is actually paid for by the shareholders is known as paid up capital.
a) I, II and III
b) III and IV
c) I, II, III and IV
d) I, II and IV

Solution: C
Explanation:
Module B – Chapter 14 – Page 256

- Authorised capital is the amount up to which the company can raise the capital.
- Issued capital is issued directly to the public or be issued partly to vendors.
- The part of issued capital that is actually subscribed to the public is known as scheduled capital.
- The amount of capital that is actually paid for by the shareholders is known as paid up capital.

Q29. Which among the following statement is incorrect?

a) When the drawee of the bill is unable to make payment on the due date, the bill is said to be dishonoured.
b) Transfer of bill to some other person be the holder is called endorsement of the bill.
c) When one party accepts the bill drawn on him for the purpose of mutual help, it is called as mutual bill.
d) All of the above statements is correct

Solution: C
Explanation:
Module A – Chapter 8 – Page 179 & 180

- When the drawee of the bill is unable to make payment on the due date, the bill is said to be dishonoured.
- Transfer of bill to some other person be the holder is called endorsement of the bill.
- When one party accepts the bill drawn on him for the purpose of mutual help, it is called as accomodation bill. Therefore, statement C is incorrect.

Q30. ______ mainly looks at the loans and advances, compliance with Priority Sector Lending (PSL) requirements, CRR, SLR, CRAR etc. and other norms compliance as per latest RBI guidelines/Master Directions/Master Circulars?

a) Concurrent audit
b) Statutory audit
c) Information Systems audit
d) None of the above

Solution: B
Explanation:
Module A – Chapter 11 – Page 223

Salient Features of Statutory Audit:

Salient Features

(a) It is conducted by a 'Statutory Auditor' - the word 'Statute' means - mandated or compulsorily required by any law or Act.
(b) In case of Banks, sub-section (1) of Section 30 of the Banking Regulation Act, 1949 requires that the Balance Sheet and Profit and Loss account of a banking company should be audited.
(c) Independent audit of financial statements of Banks is important for a healthy, safe and sound banking system.
(d) Statutory audit does not look at the intricacies of the banking transactions (which are looked into by concurrent and Internal audits); instead they rely on the concurrent audit & internal Audit Reports and test checking to form their opinion.
(e) Statutory audit mainly looks at the loans and advances, Compliance with Priority Sector Lending (PSL) requirements, CRR, SLR, CRAR etc. and other Statutory norms compliance as per latest RBI guidelines/Master Directions/Master Circulars.

Q31. Under Section 129(5) of the Companies Act 2013, where the financial statements do not comply with the accounting standards, such companies shall disclose the following:

I. The deviation from the accounting standards

II. Reasons for such deviation

III. Financial effects, if any, arising out of such a deviation.

a) I & II
b) I, II & III
c) Only II
d) II & III

Solution: B

Explanation:

Module A – Chapter 1 – Page 11

Under the Section 129(5) of the Companies Act 2013, where the financial statements do not comply with the accounting standards, such companies shall disclose the following:

(a) the deviation from the accounting standards;
(b) the reasons for such a deviation; and
(c) the financial effects, if any, arising out of such a deviation.

Q32. At the end of an accounting period, the balances of _______ are transferred to the Profit & Loss Account.

a) all the ledger accounts
b) all the income and expenditure accounts
c) only the tangible real accounts and some income and expenditure accounts
d) some intangible real accounts and some income and expenditure accounts

Solution: B

Explanation:

Module B – Chapter 13 – Page 240

At the end of an accounting period, the balances of revenue accounts and expense accounts are transferred to the Profit & Loss Account.

Q33. The liability of the members of the joint stock company is limited to the ________ of shares held by them.

a) Face value
b) Exchange value
c) Market value
d) All of the above

Solution: A

Explanation:

Module B – Chapter 14 – Page 253

passed by the Board. Companies Act 2013 required common seal to be affixed on certain documents like share certificates, bill of exchange etc. **CA Amendment 2015 has made the use of common seal optional**. Such documents may now instead be signed by two directors or one director and a company secretary of the company.

5. *Limited liability:* The liability of the members of the joint stock company is limited to the face value of shares held by them.
6. *Separation of management from ownership:* Even though the shareholders are true owners, they do not participate in the management of the company. They elect their representatives known as the Board of Directors.
7. *Transferability of shares:* The shares of a company are freely transferable subject to restrictions placed on transfer of private limited company's shares.
8. *Separate legal status:* A company has an independent legal status and as such, the shareholders or the owners are not liable for the acts of the company.
9. *Large membership:* A company is owned by a large number of members. In the case of private limited company, the minimum number of members is two and the maximum is **two hundred**. In the case of public limited company, the minimum number of members is seven and there is no maximum limit on the number of members.
10. *Minimum paid up capital:* It was ₹ one lac for a Private Ltd. company and ₹ Five lacs for a Public Ltd company, as per Companies Act 2013. However, the amendment of 2015 has done away with this requirement and it is at the company's discretion to set its paid-up capital.

Q34. A liability shall be classified as current when it satisfies which of the following criteria?

I. It is expected to be settled in the company's normal operating cycle.

II. It is held primarily for the purpose of being traded.

III. It is due to be settled within 12 months after the reporting date

a) I, II and III

b) II and III

c) I and II

d) I and III

Solution: A

Explanation:

Module B – Chapter 15 – Page 259

3. A liability shall be classified as current when it satisfies any of the following criteria:
   (a) it is expected to be settled in the company's normal operating cycle;
   (b) it is held primarily for the purpose of being traded;
   (c) it is due to be settled within twelve months after the reporting date; or
   (d) the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification. All other liabilities shall be classified as non-current.
4. A receivable shall be classified as a "trade receivable" if it is in respect of the amount due on account of goods sold or services rendered in the normal course of business.
5. A payable shall be classified as a "trade payable" if it is in respect of the amount due on account of goods purchased or services received in the normal course of business.
6. A company shall disclose the following in the notes to accounts.

Q35. Which of the following cash flows from investing activities?

a) Cash payments to suppliers for goods and services
b) Cash payment to income taxes
c) Cash receipts from sales of property, plant and equipment
d) Cash proceeds from issuing debentures and loans.

Solution: C

Explanation:

Module B – Chapter 16 – Page 315

Examples of cash flows arising from investing activities are:

(a) cash payments to acquire property, plant and equipment, intangibles and other long-term assets. These payments include those relating to capitalised development costs and self-constructed property, plant and equipment;

(b) cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;

(c) cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);

(d) cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes);

(e) cash advances and loans made to other parties (other than advances and loans made by a financial institution);

(f) cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a financial institution);

(g) cash payments for futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities; and

(h) cash receipts from futures contracts, forward contracts, option contracts and swap contracts except when the contracts are held for dealing or trading purposes, or the receipts are classified as financing activities.

When a contract is accounted for as a hedge of an identifiable position the cash flows of the contract are classified in the same manner as the cash flows of the position being hedged.

Q36. Which among the following statements is true regarding the disclosure of accounting policies as per AS 1?

a) All significant accounting policies adopted in preparation of financial statements should be disclosed.
b) All such policies should be disclosed in one place as a part of the financial statement itself.
c) If any change in accounting policy is expected to have a material effect in the future periods, they need not be disclosed in the financial statement for the current period.
d) If fundamental accounting assumptions are followed in the financial statements, their specific disclosure is not required.

Solution: C

Explanation:

Module A – Chapter 1 – Page 13

<u>Disclosure of Accounting Policies according to AS 1:</u>

1. **All significant accounting policies** adopted in the preparation of financial statements should be disclosed.
2. The disclosures should be in **one place as part of the financial statement itself**.

3. Any **change** in accounting policies that have a **material effect in the current accounting period** should be disclosed. In this case, the amount by which any item in the financial statement is affected by such a change should also be disclosed to the extent ascertainable.
4. Any **change** in accounting policies that is expected to have a material effect in the **future accounting periods** should be disclosed.
5. If the **fundamental accounting assumptions are followed** in the financial statements, specific **disclosure is not required**.
6. If any fundamental accounting assumption is **not followed**, then this fact **should be disclosed**.

Q37. Which among the following statements is correct?

a) A Credit Note is a document evidencing a debit to be raised against a party for reasons other than sale on credit.

b) Debit Note is a document evidencing that the credit has been granted to the named person for the reason stated therein.

c) A voucher showing a transaction that contains multiple debits, but one credit is called Credit Voucher.

d) When cash or cheque is received from the customer, a receipt for the amount received is issued.

Solution: D

Explanation:

Module A – Chapter 9 – Page 197

- **Debit Note:** A Debit note is a document evidencing a debit to be raised against a party for reasons other than sale on credit. **Hence, Option A is incorrect**.
  - On finding that goods supplied are not as per the terms of the order placed, the defective goods are returned to the supplier of the goods and a note is prepared to debit the supplier; or when an additional sum is recoverable from a customer such a note is prepared to debit the customer with the additional dues.
  - It details the **reason for the debit**.
  - **For example**, a seller of goods will make a debit note if he finds that his goods have been undervalued.
  - Similarly, a purchaser of goods will make a debit note if the goods have been overvalued or he has returned the goods or the seller has allowed a lower discount, etc.
- **Credit Note:** It is a document evidencing that the credit has been granted to the named person for the reason stated therein. Hence, Option B is incorrect.
- **Compound Voucher:** It is a voucher that records a transaction that entails multiple debits/credits and one debit/credit is called Compound Voucher. A voucher showing a transaction that contains multiple debits but one credit is called Debit Voucher. Hence, Option C is incorrect.

A voucher showing a transaction that contains multiple credits but one debit is called Credit Voucher. Receipt: When cash or cheque is received from the customer, a receipt for the amount received is issued. Hence, Option D is correct. It is prepared in duplicate. The original copy is handed over to the party tendering the payment and the duplicate is kept for record.

Q38. Which of the following is NOT a contra entry?

a) Cash withdrawn from bank for office use

b) Cash deposited into bank

c) Cash withdrawn from bank for personal use by owner.

d) Bank overdraft

Solution: C

Explanation:

Module A – Chapter 3 – Page 109

- A contra entry is a transaction that is recorded between two accounts that are opposite in nature. In the case of cash and bank accounts, they are both assets, but one is a current asset (cash) and the other is a non-current asset (bank). When a transaction involves both cash and bank accounts, it is called a contra entry.
- The other three options are all contra entries because they involve both cash and bank accounts. For example, when cash is withdrawn from bank for office use, it is recorded as a debit to the cash account and a credit to the bank account. This is a contra entry because it reduces the balance of the cash account and increases the balance of the bank account.
- The option that is not a contra entry is cash withdrawn from bank for personal use. This is because it does not involve the bank account and cash account. Instead, it is recorded as a debit to the drawings account and a credit to the cash account. This is not a contra entry because it does not reduce the balance of the cash account and increase the balance of the bank account.

Q39. If you have a strong gut feeling that Interest rates will decrease in coming times and you want to make maximum profits by selling Bonds, then which of the following Bonds will give you maximum appreciation ?

a) Low Coupon and Low Maturity
b) High Coupon and High Maturity
c) Low Coupon and High Maturity
d) High Coupon and Low Maturity

Solution: C
Explanation:

Module C – Chapter 22 – Page 445

Prices fluctuate more for Long Maturity Period and Low Coupon bonds. So if a person is expecting a decrease in interest rate resulting in increase in the of price of bonds, then the person should buy long term and low coupon rate bonds. These Long term and low coupon rate bonds will have more increase in price when interest rate decreases.

Hence C is the answer.

Q40. A prepayment of insurance premium will appear in the Balance Sheet and in the Insurance Account respectively as _____________.

a) a liability and a debit balance
b) an asset and a debit balance
c) an asset and a credit balance
d) a liability and a credit balance

Solution: C
Explanation:

Module B – Chapter 13 – Page 245

- There are several items of expense which are paid in advance in the normal course of business operations.
- At the end of the accounting year, it is found that the benefits of such expense have not yet been fully received; a portion of its benefit would be received in the next accounting year.
- This portion of expense is carried forward to the next year and is termed as **prepaid expenses.**
- The necessary adjustment in respect of prepaid expenses is made by recording he following journal entry:
    - Prepaid Expense A/c Dr.
    - To Concerned Expense A/c
- The effect of the above adjustment entry is that the amount of the prepaid part is deducted from the total of the particular expense, and the **prepaid expense is shown on the assets side of the balance sheet.**
- A credit is an entry made on the right side of an account. It either increases equity, liability, or revenue accounts or decreases an asset or expense account.
- Since, Insurance Account is an Expense A/c and normally shows debit balance but the premium has been paid before the due date, Hence it is a prepaid insurance and **would appear in the credit side indicating the reduction in expenses on due date.**

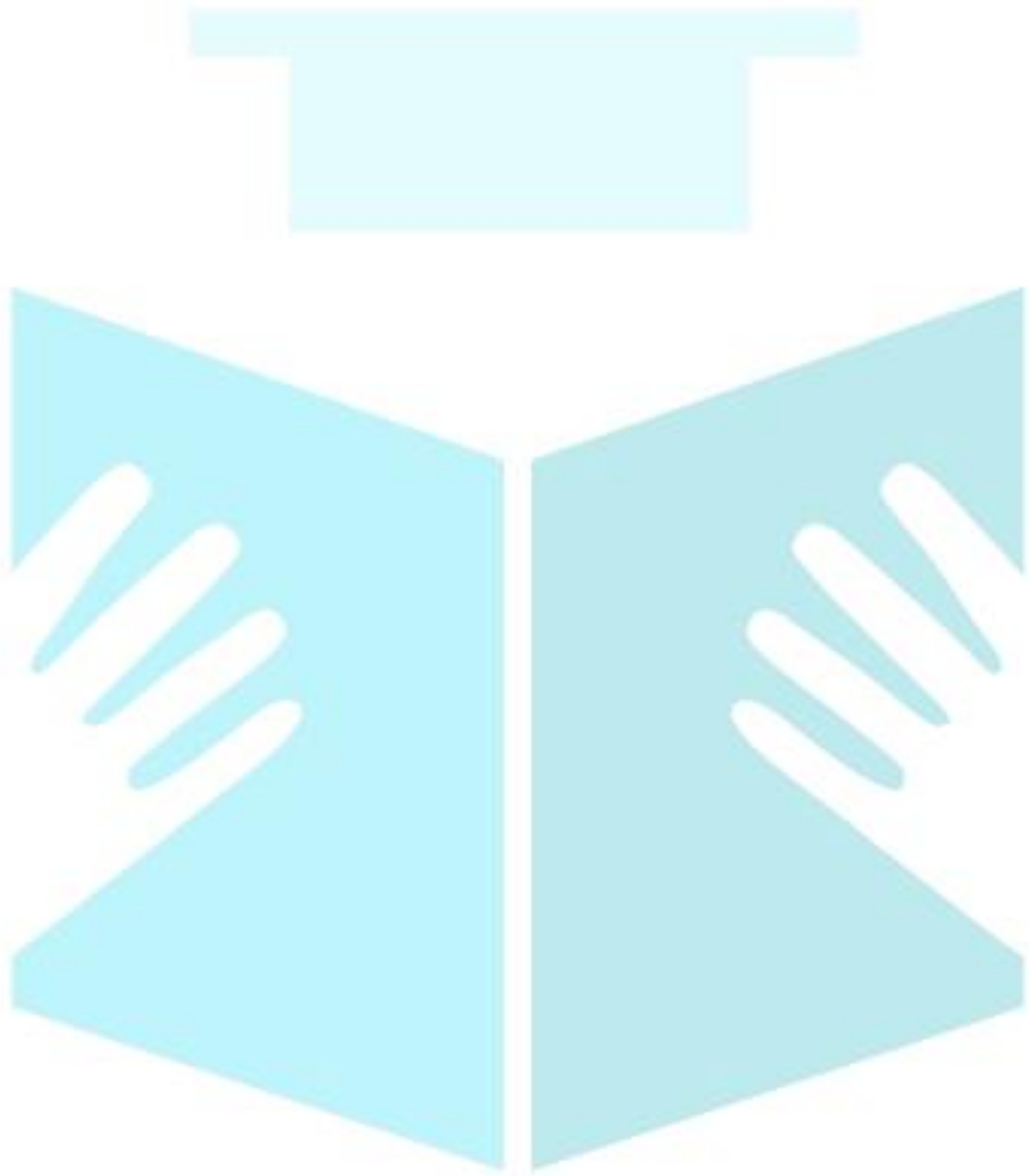
Therefore, Option C is the correct answer. All other options are incorrect.

2. Topics of Questions and Question types

Sno.	Topic	Type of Question
1.	Depreciation numerical	1 – 2 questions related to straight line method were asked in every shift.
2.	Bank Reconciliation Statement	2 numerical were asked in third shift. Cashbook balance was given and pass book balance was asked. One question was related to the need of Bank reconciliation statement.
3.	Share Allotment	A numerical on calculating the refund value when no. of shares, application fees are given.
4.	Rules of debit and credit	4 – 5 case study based questions asking which account will be debited or credited.
5.	Computerised Accounting	One multi statement question related to disadvantages of computerized accounting.
6.	Ratio analysis	Questions related to various solvency, operating and liquidity ratios were asked in every shift.

3. Topics of Questions

1. Bullet payment
2. NPV and IRR where applicable
3. Debt/asset ratio
4. Social responsibility
5. Going concern concept
6. Accrual concept
7. Net worth
8. Networking capital
9. Quick ratio, current ratio
10. Debtor creditor concept
11. Rectification of errors
12. Suspense account
13. Fund flow statement
14. Cash flow statement
15. NPV IRR ARR concept
16. Corporate social responsibility
17. Nominal rate
18. Why bank Reconciliation required
19. Negotiable Instruments
20. Statuary Audits (2 Questions Statement based)
21. Swap agreement
22. Sweat Based Equity
23. New capital investment
24. Stock turnover ratio



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