

JAIIB AFM Practice Questions (Set-2)

Q1. When the drawer and the payee are identical in a Bill of Exchange scenario, what is the outcome?

- (a) The payee is required to endorse the bill to a third party for payment.
- (b) The bill loses its validity and cannot be honored.
- (c) The bill is deemed null and cannot be utilized for transactions.
- (d) Such occurrences do not occur in Bill of Exchange transactions.

Q2. Bank reconciliation statement compares a bank statement with ____?

- (a) Passbook.
- (b) Cash book.
- (c) Vouchers.
- (d) Financial Statements.

Q3. In a manufacturing facility, the management is analyzing its cost structure. Which of the following statements accurately describes the relationship between fixed, variable, and semi-variable costs?

- (a) Fixed costs increase in direct proportion to the level of production, while variable costs remain constant over time.
- (b) Variable costs are those that do not depend on the volume of production, while semi-variable costs fluctuate in direct proportion to production levels.
- (c) Semi-variable costs are fixed costs that increase linearly with production levels, while variable costs exhibit a non-linear relationship with production volume.
- (d) Fixed costs remain constant regardless of production levels, while variable costs vary directly with the level of production, and semi-variable costs combine fixed and variable elements.

Q4. A company named Viz Pvt. Ltd took a loan of \$200,000 from a Bank at the rate of interest of 8% to issue a company bond of \$200,000. Based on the loan amount and interest rate, interest expense will be \$16,000, and the tax rate is 30%. Calculate the cost of debt.

- (a) \$11,899
- (b) \$12,987
- (c) \$11,200
- (d) \$459,987

Q5. Which of the following is NOT a primary objective of a bank audit?

- (a) Detection and prevention of fraud
- (b) Ensuring the accuracy and completeness of financial records
- (c) Compliance with statutory requirements and regulations
- (d) Maximizing the bank's profitability



Q6. Which of the following statements regarding the Accounting Rate of Return (ARR) method is incorrect?

Statement 1: ARR does not take into consideration the time value of money, potentially leading to incorrect project rankings, especially when comparing projects with different income distributions over their useful life.

Statement 2: ARR relies on cash flows for project evaluation rather than accounting profits cash flows, which includes cash items.

Statement 3: ARR can be calculated in various ways, resulting in potential inconsistencies in project assessment.

Statement 4: A firm's decision to accept or reject a project using ARR may be influenced by its current rate of return on assets, potentially leading to the acceptance of unprofitable projects by firms with low current rates of return.

- (a) Statement 1 is incorrect.
- (b) Statement 2 is incorrect.
- (c) Statement 3 is incorrect.
- (d) Statement 4 is incorrect.

Q7. According to the general instructions for the preparation of a balance sheet, when is an asset classified as current?

- (a) If it is expected to be realized within twelve months after the reporting date.
- (b) If it is held primarily for the purpose of being traded.
- (c) If it is expected to be realized in the company's normal operating cycle.
- (d) If it is not intended for sale or consumption in the company's normal operating cycle.

Q8. What are some of the main limitations/disadvantages of Marginal Costing?

Statement 1: Segregating costs into fixed and variable costs can be challenging, as some expenses exhibit characteristics of both, and precision in classification is difficult.

Statement 2: The assumption that fixed costs remain constant and variable costs are entirely proportional to production volume is not always realistic.

- (a) All of the statements are correct.
- (b) Statement 1 is correct only.
- (c) Statement 2 is correct only.
- (d) None of the statements is correct.

Q9. In complex financial scenarios, what role does the Modigliani-Miller theorem play, and what are its primary implications for firms?

(a) The Modigliani-Miller theorem addresses the impact of taxes on a firm's capital structure decisions, highlighting the advantages of debt financing in a tax-advantaged environment. Its primary implications suggest that firms should prioritize debt financing over equity to maximize shareholder value.

(b) The Modigliani-Miller theorem asserts that, under certain assumptions, the value of a firm is independent of its capital structure. This implies that in a perfect capital market with no taxes or transaction costs, a firm's value is determined solely by its underlying assets and cash flows.

(c) The Modigliani-Miller theorem argues that firms should always strive for an optimal capital structure by balancing the benefits of debt financing with potential bankruptcy costs. It emphasizes the importance of maintaining a conservative debt-to-equity ratio to mitigate financial distress and preserve shareholder value.

(d) The Modigliani-Miller theorem provides insights into the complexities of asymmetric information and agency costs within firms. It suggests that in situations where managers have more information than shareholders, debt financing can be an effective tool for aligning interests and reducing agency conflicts.

Q10. Which of the following is an assumption of a fair value measurement that the transaction to sell the asset or transfer the liability takes place either?

- (a) In the absence of a principal market,
- (b) In the most advantageous market for the asset or liability
- (c) Both (a) and (b)
- (d) Only (a)

Q11. Sumit decides to double his deposit in the same account for the same period but with an interest rate that has increased to 6.5%. How much will he have at the end of the 180 days if he deposits ₹100,000 on 1st January?

- (a) 103,000
- (b) 103,205
- (c) 105,000
- (d) 104,000

Q12. The total requirement of current assets of a firm is estimated at Rs. 200 lac. The firm has arranged short-term finance of Rs. 125 lac from various sources. What is the amount of margin or NWC required to be brought in by the firm? What will be the Current Ratio of the firm?

- (a) 75 lakhs, 1.6
- (b) 100 lakhs, 1.9
- (c) 85 lakhs, 2.4
- (d) 200 lakhs, 5.3

Q13. Which of the following transactions does not generate a credit or debit entry between offices?

1. Issue of remittance instruments like drafts on other branches.
2. Payment of remittance instruments like drafts drawn by other branches.
3. Payment to/receipts from other branches of the proceeds of instruments received/sent for collection/realization/clearing.
4. Transactions through NEFT, ECS and RTGS.
5. ATM transactions of the customer either at ATMs linked with other branches or with merchant establishments.
6. Transactions through payment gateways of ATMs etc.

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- (a) 1, 2, and 3
 - (b) 4, 5, and 6
 - (c) 3, 4, and 5
 - (d) None of the above

Q14. What is one of the primary responsibilities of back offices in specialized functions like Treasury operations and Forex?

- (a) Managing front office activities directly
- (b) Controlling confirmations and settlement transactions
- (c) Handling customer service inquiries
- (d) Conducting market research

Q15. What are noting charges in the context of dishonoured instruments?

- (a) Fees paid to the bank for dishonouring a cheque
- (b) Amount paid to the Notary Public for recording the fact of dishonour
- (c) Penalty charges imposed by the payee
- (d) Interest charges on the dishonoured amount

Q16. Consider the following statements regarding Marginal Costing:

Statement 1: Marginal costing encompasses both the process of recording costs and generating reports to aid in decision-making.

Statement 2: In the realm of marginal costing, total costs are dissected into distinct categories, namely fixed costs and variable costs. Additionally, costs that exhibit characteristics of both fixed and variable costs are categorized as semi-variable costs.

- (a) Statement 1 is correct, but Statement 2 is incorrect.
- (b) Statement 1 is incorrect, but Statement 2 is correct.
- (c) Both Statement 1 and Statement 2 are correct.
- (d) Both Statement 1 and Statement 2 are incorrect

Q17. If a company's total assets are \$100,000 and its liabilities are \$30,000, what is the owner's equity?

- (a) \$30,000
- (b) \$70,000
- (c) \$100,000
- (d) \$130,000

Q18. Which of the subsequent features is not counted among the advantages of Core Banking?

- (a) It facilitates multi-currency operations.
- (b) It ensures uninterrupted 24/7 operations.
- (c) It leads to heightened customer contentment.
- (d) It results in augmented profits for the bank as customers may incur additional charges for core banking services.

Q19. Which statement about Concurrent Audit is true?

1. A concurrent audit is done every year to check financial transactions.
2. Concurrent audit aims to reduce the time between a transaction and its review.
3. Only internal auditors hired by the bank carry out concurrent audits.
4. Important areas do not get detailed checks during a Concurrent Audit.

- (a) Only Statement 2 is correct.
- (b) Statements 1 and 3 are correct.
- (c) Statements 2 and 4 are correct.
- (d) Only Statement 3 is correct.

Q20. What effect has computerization had on traditional methods like voucher preparation and manual record-keeping in banks?

- (a) Computerization has increased the amount of manual record-keeping.
- (b) Computerization has completely eliminated the need for understanding manual record-keeping.
- (c) Computerization has decreased reliance on manual record-keeping.
- (d) Computerization has improved the accuracy of manual records.

Q21. Which one of the following statements is not correct?

- (a) GST is aimed at broadening the tax base and also at better tax compliance
- (b) GST is charged only on the component of value addition at each stage
- (c) GST has made doing business more difficult
- (d) GST ensures that indirect tax rates and structures are uniform across the country

Q22. What is meant by "clearance of cheques"?

- (a) The act of logging cheque transactions in the passbook.
- (b) The act of providing cheques to customers.
- (c) The act of depositing cheques into a bank account.
- (d) The act of validating and executing cheque payments.

Q23. Under the straight-line method, depreciation is charged on ____ of the fixed asset.

- (a) Original cost.
- (b) Market value.
- (c) Written down value.
- (d) Scrap value.

Q24. Which of the following is relevant when determining the WACC for a new project?

- (a) The historical cost of existing funds
- (b) The risk profile of the new project
- (c) The current market value of the firm's equity
- (d) The firm's past dividend payments

Q25. The statement of “source and application of fund “is known as

- (a) Cash Flow statement
- (b) Fund Flow Statement
- (c) Balance Sheet
- (d) Notes To Accounts

Q26. Complete the following by selecting the right set of options:

In a business, __ transactions play a very important role. For manufacturing goods, a __ purchases raw materials, the majority of which will be on __. Once the goods are manufactured, they will be sold to __ and __. Here also the manufacturer will give credit to his wholesalers or regular customers. Thus, credit passes on from the manufacturer to the __ and from the wholesalers to __ and from the retailers to the ultimate consumers.

- (a) credit, manufacturer, credit, wholesalers, retailers, wholesaler, retailers
- (b) cash, retailer, cash, wholesalers, manufacturers, retailer, wholesalers
- (c) credit, wholesaler, cash, retailers, manufacturers, retailer, manufacturers
- (d) cash, manufacturer, credit, retailers, consumers, manufacturer, consumers

Q27. What does the term "Financial year" refer to according to the applicable Accounting Standards?

- (a) A period that starts on the 1st of January and ends on the 31st of December every year for all companies.
- (b) A period that always ends on the 31st of March every year, but for companies incorporated on or after the 1st of January, it ends on the 31st of March of the next year.
- (c) A fixed duration from the 1st of April to the 31st of March, not influenced by the company's incorporation date.
- (d) A flexible period that a company can choose to start and end at any point within a calendar year based on its operational convenience.

Q28. Identify the correct statements:

Statement 1: A bill of exchange can be issued to any individual, including banks.

Statement 2: A cheque is exclusively issued against a bank.

Statement 3: The acceptor of a bill of exchange is entitled to a three-day grace period beyond its due date.

Statement 4: Cheques do not require stamp duty.

Statement 5: It is mandatory to issue a notice of dishonor for bills of exchange.

- (a) Only Statements 1 and 4 are correct.
- (b) Only Statements 2 and 3 are correct.
- (c) Only Statements 1, 2, and 5 are correct.
- (d) All of the above statements are correct.

Q29. Z Corporation purchased a vehicle for Rs. 20,000 in January 2005. Depreciation is charged at 20% per annum on the diminishing balance method. At the end of the fourth year, it was sold for Rs. 5,000. What was the profit or loss on the sale of the vehicle?

- (a) Profit Rs. 2,048
- (b) Profit Rs. 1,024
- (c) Loss Rs. 3,192
- (d) Loss Rs. 1,024

Q30. Which of the following can be inferred regarding the classification of non-current investments?

- A. Non-current investments must be classified exclusively as trade investments.**
 - B. The classification of non-current investments includes both trade and other investments, with further sub-classifications such as investment property and mutual funds.**
 - C. Investments in government securities are excluded from the classification of non-current investments.**
 - D. The classification of non-current investments encompasses investments in equity instruments, preference shares, and debentures or bonds.**
- (a) Only A, B, D
 - (b) Only B, C
 - (c) Only B, D
 - (d) All of the above

Q31. Which of the following statements about the Net Operating Income (NOI) Approach is incorrect?

- (a) The NOI Approach suggests that the cost of equity decreases as the proportion of debt increases, because the risk perceived by equity shareholders diminishes.
- (b) According to the NOI Approach, as the proportion of debt in the capital structure increases, the total interest cost on debt also increases, but this does not affect the firm's operating profit (EBIT).
- (c) The market value of a firm and its WACC are directly influenced by the firm's operating income and business risks, which are unaffected by financial leverage.
- (d) The approach posits that changes in the debt-to-equity ratio do not impact the overall value of the firm, as any benefits from debt are offset by an increased required return on equity.

Q32. Which statements accurately describe key aspects of a Hindu Undivided Family (HUF) as a form of business organization in India?

Statement 1: HUF comes into existence through a contract between its members.

Statement 2: The members of an HUF are called co-parceners.

Statement 3: The business of an HUF is managed by the senior-most female member, also known as Karta.

Statement 4: For income tax purposes, an HUF is considered a separate entity and is taxed separately.

- (a) Statements 1 and 2 only
- (b) Statements 2 and 4 only
- (c) Statements 1 and 3 only
- (d) Statements 3 and 4 only

Q33. Which regulator in India was responsible for overseeing the commodities futures market before its merger with another regulatory body?

- (a) Reserve Bank of India (RBI)
- (b) Securities and Exchange Board of India (SEBI)
- (c) Forward Markets Commission (FMC)
- (d) Ministry of Finance

Q34. Consider the following statements regarding Basic and Current budgets, as well as Long-term and Short-term budgets. Which are correct?

Statement 1: Basic budget is prepared for long-term use without any consideration of current conditions.

Statement 2: The current budget is prepared for short-term use, taking into account the current conditions.

Statement 3: Long-term budget covers a period longer than a year and is more focused on business forecasting and forward planning.

Statement 4: Short-term budget covers a period of up to five years and involves detailed planning of various budget items.

- (a) Statement 1, Statement 2, and Statement 4
- (b) Statement 1, Statement 2, and Statement 3
- (c) Statement 1, Statement 3, and Statement 4
- (d) Statement 2, Statement 3, and Statement 4

Q35. The Bank reconciliation statement is prepared by _____.

- A. Controller of the bank**
- B. Accountant of the bank**
- C. Manager of the business**
- D. Accountant of the business**

- (a) Only B
- (b) Only C
- (c) Only D
- (d) None of the above

Q36. A company purchases a machine for ₹300,000, and it is expected to produce 50,000 units over its lifetime. If the machine produces 8,000 units in the first year, what will be the depreciation using the Units of Production Method?

- (a) ₹48,000
- (b) ₹50,000
- (c) ₹56,000
- (d) ₹60,000

Q37. What details need to be included for each category of share capital in the financial statements?

- (a) The financial statements should encompass information regarding both the number and monetary value of shares that have been authorized.
- (b) Detailed records should be provided concerning the number of shares that have been issued, subscribed, and fully paid, as well as those that have been subscribed but not yet fully paid.
- (c) The financial statements should explicitly state the nominal or par value associated with each share.
- (d) All of the aforementioned details pertaining to share capital are essential components that need to be included in the financial statements.

Q38. A company is evaluating the acquisition of a new asset and is considering both leasing and bank financing options. Which of the following statements accurately describes a potential advantage of leasing in terms of restrictive covenants?

- (a) Leasing often requires the lessee to maintain a minimum cash reserve.
- (b) Leasing typically imposes fewer covenants related to the company's dividend policy.
- (c) Leasing agreements usually mandate strict compliance with financial ratios.
- (d) Leasing agreements often require personal guarantees from all directors.

Q39. Why is the separate disclosure of cash flows arising from investing activities important in Ind AS-7?

- (a) It indicates the extent of cash management activities within the entity.
- (b) It reflects the amount of cash generated for loan repayments and dividend payments.
- (c) It represents expenditures made for resources intended to generate future income and cash flows.
- (d) It provides information about the specific components of historical operating cash flows.

Q40. Wages paid in the installation of new machinery constitute ____?

- (a) Capital Expenditure.
- (b) Revenue Expenditure.
- (c) Deferred Revenue Expenditure.
- (d) None of the above.

Q41. What does the term "derivative" refer to?

- (a) A financial instrument that must be settled immediately
- (b) An instrument whose value is based on future changes in various financial factors
- (c) A fixed-term investment with guaranteed returns
- (d) A type of insurance policy related to financial markets

Q42. An individual gets an option to choose between the existing tax rates and the new concessional tax rates under which Section?

- (a) 115 BAA
- (b) 115 BAB
- (c) 115 BBB
- (d) 115 BAC

Q43. Which of the following can be inferred regarding the classification and characteristics of taxes imposed by governments?

- A. Direct taxes are paid directly to the government by the taxpayer, and their burden can be transferred to another person.**
- B. Income tax is an example of a direct tax, as it is imposed directly on individuals with taxable income and cannot be shifted to others.**
- C. Corporate tax, wealth tax, and capital gains tax are examples of indirect taxes.**
- D. Indirect taxes include taxes such as property tax and securities transaction tax (STT).**

- (a) Only B
- (b) Only A, B
- (c) Only B, C, D
- (d) All of the above

Q44. Fill in the blanks:

Depreciation is an effort to stretch out the cost of a long-lasting asset throughout its useful economic life as an _____ to the profit and loss account. Depreciation is a part of _____. It is the _____ in the value of assets. The decrease in the value of an asset is due to its regular use and is caused by _____. The decrease in the value of assets is gradual and continuous. The estimated value of an item at the end of its useful life is called _____, often known as salvage value or junk value. Depreciation is calculated using a variety of techniques, such as straight-line, falling balance, and units of production depreciation.

- (a) Operating costs, expenses, wear and tear, residual value, reduction
- (b) Expenses, operating costs, reduction, wear and tear, residual value
- (c) Wear and tear, residual value, operating costs, expenses, reduction
- (d) Residual value, wear and tear, reduction, expenses, operating cost

Q45. Why is determining the cost of debt more complex for bonds and debentures compared to term loans from a bank or financial institution?

- (a) Bonds and debentures have variable interest rates, making the cost calculation challenging.
- (b) Term loans are traded in the secondary market, introducing additional factors in cost determination.
- (c) Investors' expectations in the secondary market depend on coupon rates, risk perception, and market conditions.
- (d) Banks and financial institutions provide more transparent interest rates for term loans.

Q46. What is one of the primary benefits of using the technique of standard costing in management?

- (a) It provides real-time updates of inventory levels to management.
- (b) It helps in comparing actual costs with estimated costs to find and fix inefficiencies and wastages.
- (c) It allows the company to reduce overall product prices directly.
- (d) It offers a detailed analysis of customer preferences and market trends.



Q47. The amount withdrawn from the bank and spent results in ____.

- (a) change in assets only
- (b) change in liabilities only
- (c) change in both assets and liabilities
- (d) no changes

Q48. A bank reconciliation statement is prepared with the balance of:

- (a) Pass book
- (b) Cash book
- (c) Either cash book or pass book
- (d) Neither cash book nor pass book

Q49. How would you categorize a cost center that doesn't directly participate in product manufacturing but plays a crucial role in supporting productive cost centers?

- (a) Cost Center for Productivity Support
- (b) Cost Center with No Productive Role
- (c) Mixed Cost Center
- (d) Cost Center for Service Provision

Q50. Every Company's memorandum of association has a capital clause. The capital clause states ____ capital.

- (a) Authorized Capital
- (b) registered capital
- (c) both
- (d) none of the above

Q51. Which of the following statements is not true regarding the impact of a dishonoured bill receivable, assuming the customer is still solvent?

- (a) The amount of bills receivable will decrease, and the amount due from debtors will increase.
- (b) The current ratio will remain at 2:1 because there is no change in the total current assets or current liabilities.
- (c) The company's current liabilities will increase, causing the current ratio to decrease.
- (d) The dishonoured bill receivable does not necessarily indicate the customer has become insolvent.

Q52. The estimated profits of a project with a life span of 4 years are as under:

1st year = 50,000

2nd year = 52,000

3rd year = 56,000

4th year = 60,000

If the initial investment in a project is Rs. 18,00,000. What is ARR?

- (a) 6.89%
- (b) 4.44%
- (c) 6.05%
- (d) 5.56%

Q53. Fill in the blanks:

The reconciliation work of Inter Office accounts is normally centralised at a designated office of the bank, typically known as the ___ department. With the advent of the new CBS environment, ___ of the banks have opted to centralise this reconciliation work at the ___ department located at the Head Office.

- (a) reconciliation, most, IT
- (b) IT, some, reconciliation
- (c) reconciliation, few, financial
- (d) financial, most, IT

Q54. What is the importance of entities like companies maintaining accurate financial records as per the legal requirements?

- (a) To enhance their image and standing in the public eye
- (b) To appeal to prospective investors and other interested parties
- (c) To comply with tax laws and various legal mandates
- (d) To decrease the workload on their staff

Q55. Rebate on bills discounted refers to:

- (a) Concessional rate of discount for priority sector
- (b) Rebate provided to priority customers of the bank
- (c) Unexpired discount
- (d) None of the above

Q56. A Bank Reconciliation Statement is prepared to reconcile the differences between the balances of the Cash Book and the Pass Book. Which of the following items would be added to the Cash Book balance to arrive at the Pass Book balance?

- (a) Cheques issued but not yet presented
- (b) Cheques deposited but not yet credited
- (c) Bank charges
- (d) Direct deposits by customers

Q57. Which statement correctly defines an Artificial Juridical Person (AJP)?

- (a) An AJP is a natural person conducting business under a different name.
- (b) An AJP is a legal entity separate from natural persons, recognized by law when it does not fit into other categories of persons.
- (c) An AJP includes all individuals working in a group without formal registration.
- (d) An AJP is any person or organization given special recognition by the court.

Q58. Which of the following is a task that falls outside the purview of cost accounting?

- (a) Gathering information on production costs for managerial decision-making.
- (b) Conducting thorough analyses and providing cost-related reports to management.
- (c) Establishing product prices in line with market dynamics.
- (d) Documenting and preserving production cost data for future analysis and decision-making.

Q59. How would you describe a company that possesses the following attributes: it has a solitary individual as its sole member and is legally established as a separate entity?

- (a) Chartered Company
- (b) Private Company
- (c) Government company
- (d) One Person Company

Q60. Regarding the classification of assets and liabilities in a balance sheet, which of the following statements is correct?

- (a) An asset is classified as current if it is expected to be realized within twelve months before the reporting date.
- (b) A liability is classified as current if the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.
- (c) A receivable is classified as a "trade receivable" if it is in respect of the amount due on account of goods purchased.
- (d) All other liabilities are classified as current.

Q61. Under what circumstances does Ind AS-1 require an entity to present a third balance sheet for the beginning of the preceding period, besides the minimum comparative financial statements mandated in paragraph 38A?

- (a) When the entity changes its accounting policies.
- (b) When items in the financial statements are retrospectively restated.
- (c) When there's a reclassification of items within the financial statements.
- (d) When any of the situations above significantly impacts the information in the statement of financial position at the start of the preceding period.

Q62. Which of the following can be inferred about the implications and mechanisms of Ind AS 116 based on its treatment of leased assets in the balance sheet of the lessor?

A. Ind AS 116 mandates that leased assets must be capitalized on the balance sheet of the lessor, highlighting ownership rights.

B. The standard allows the leased asset to be presented as a receivable, representing the lessor's net investment in the lease, calculated as the present value of future lease payments.

C. The calculation of the present value of lease rentals receivable by the lessor does not require any discount rate according to Ind AS 116.

D. Ind AS 116 requires the use of the lessee's incremental borrowing rate for the discounting of future lease payments if the interest rate implicit in the lease cannot be readily determined.

- (a) Only A, C
- (b) Only B, D
- (c) Only B
- (d) All of the above

Q63. Fill in the blanks:

1. Computerization and technological innovations have enabled banks to operate on the principle of _____ where all branches of a bank are linked to each other online.
2. A customer having an account with any branch of a bank can deposit money into his account, withdraw money, and make inquiries regarding balance, etc., in other branches/outlets of the bank, which are linked _____.
3. The concept of automated banking through _____ is the result of computerization and technological innovation.
4. ATM transactions are automatically accounted for their occurrence with the help of _____.
 - (a) Centralized banking, online, ATMs, computers.
 - (b) Back offices, offline, online, ATMs.
 - (c) Computers, banks, offline, banking.
 - (d) Computer system, online, offline, banks.

Q64. Where should the balances held with a foreign branch by other branches of the bank be included in the financial statements?

- (a) In the 'Deposit Accounts'
- (b) In the 'Current Accounts'
- (c) In inter-branch accounts
- (d) In the 'Deposit Accounts' of the foreign branch

Q65. Calculate the market price of an 11% government security currently quoted at Rs 110 if the market interest rate decreases by 1%.

- (a) 123.15
- (b) 125.35
- (c) 120.13
- (d) 122.22

Q66. Fill the missing part of the formula given below;

Interest Coverage Ratio = _____ / Fixed Interest charges

- (a) Profit after charging Interest and Income Tax
- (b) Profit before charging Interest and Income tax.
- (c) Earnings after tax
- (d) Return on Investment

Q67. If capital expense is recorded as a revenue expense, then which calculation will be wrong?

- (a) Bank balance
- (b) Debtors
- (c) Creditors
- (d) Net profit

Q68. Which of the following statements concerning journal entries is not correct?

- (a) The journal entries show the effect of transactions
- (b) The debited account titles are listed first in the journal
- (c) The account balance is provided by the journal entries
- (d) Each journal entry should start with the date

Q69. A company has authorized capital of ₹50,00,000 divided into 5,00,000 equity shares of ₹10 each. It issued 4,00,000 shares, and out of these, 3,50,000 shares were subscribed. How much is the subscribed capital?

- (a) ₹35,00,000
- (b) ₹50,00,000
- (c) ₹40,00,000
- (d) ₹30,00,000

Q70. Fill in the blanks:

1. Fixed price contracts entail a _____ for executing the contract.
 2. Cost-plus contracts are based on the _____, plus a percentage profit or fixed profit.
 3. In Time and material contracts, the contractor includes a _____ in its billings.
 4. Under cost-plus contracts, the customer may use the services of an _____ to examine the contractor's contract costs.
- (a) Variable amount, cost estimated, loss, CA.
 - (b) Semi-variable amount, cost estimated, profit and loss, auditor.
 - (c) Fixed total amount, cost incurred, profit, auditor.
 - (d) Notional amount, cost realized, profit, CMA.

Q71. Consider the following statements about types of companies based on ownership:

Statement 1: A private company limits the number of its members to a hundred, does not restrict the right to transfer its shares, and prohibits any invitation to the public to subscribe to any security of the company.

Statement 2: A public company has no restriction on the number of members and shares are freely transferable.

Statement 3: A government company is one in which at least 53 percent of the paid-up share capital is held by the Central Government or by any State Government or partly by the Central Government and partly by one or more State Governments.

Which of the following statements is true?

- (a) Only Statement 2 is true.
- (b) Statements 1 and 2 are true.
- (c) Statements 2 and 3 are true.
- (d) All of the statements are true.

Q72. What is the key advantage of Joint Stock Companies compared to other forms of business, like partnerships, particularly in the context of shareholder liability?

- (a) Shareholders in Joint Stock Companies have unlimited liability.
- (b) Shareholders in Joint Stock Companies can recover their investment from other shareholders if the company fails.
- (c) Shareholders in Joint Stock Companies have liability limited to the nominal value of their shares.
- (d) Shareholders in Joint Stock Companies are entitled to profits but must contribute more in case of company failure.

Q73. Which of the following statements are advantages of a budgetary control system?

1. It decreases the probability of achieving the planned objectives of the organization expressed through the budget.
2. It leads to the wasteful utilization of limited resources available to the organization.
3. It fosters better coordination among various functionaries of the organization.
4. It discourages proactive thinking and actions as the targets are unknown to the functionaries.
5. It promotes delegation of authority while emphasizing the culture of accountability.
6. It enhances the transparency of performance evaluation for various functionaries.

- (a) Statements 1 and 2
- (b) Statements 3 and 4
- (c) Statements 3, 5, and 6
- (d) Statements 1, 2, and 4

Q74. An electronics retailer has the following details:

- Beginning inventory: ₹120,000
- Ending inventory: ₹80,000
- Cost of goods sold: ₹600,000

Determine the stock turnover ratio using the average of the inventory levels at the beginning and end of the period.

- (a) 6
- (b) 8
- (c) 7
- (d) 9

Q75. Which statement best describes the impact of computerization on the back-office operations of financial institutions?

- (a) Computerization has led to a decrease in the significance of back-office tasks, with a greater emphasis on front-office functions.
- (b) The role of the back office in supporting trading activities has been notably reduced as a result of computerization.
- (c) The implementation of computerization has completely removed the need for the 'Reconciliation' process in the back office.
- (d) The integration of computerization has revolutionized the handling of the 'Reconciliation' process in the back office.

Q76. The ____ indicates the percentage of each sales rupee remaining after the firm has paid for its goods.

- (a) Net Profit Margin
- (b) Operating Profit Margin
- (c) Price Earnings Ratio
- (d) Gross Profit Margin

Q77. Which of the following statements is correct regarding the considerations for changes in financial statements?

Statement 1: "Depreciation must be factored in when comparing successive balance sheets to accurately assess the change in fixed assets."

Statement 2: The buyback of shares may not be correctly recorded because profits have been added to reserves.

- (a) Statement 1 is correct, and Statement 2 is incorrect.
- (b) Statement 1 is incorrect, and Statement 2 is correct.
- (c) Both Statement 1 and Statement 2 are correct.
- (d) Both Statement 1 and Statement 2 are incorrect.

Q78. Which type of agreement is deliberately discussed to bring about the development of a single asset or a group of assets that exhibit strong links in terms of design, technology, function, or ultimate purpose?

- (a) General Services Agreement
- (b) Sales and Procurement Agreement
- (c) Building Agreement
- (d) Rental Arrangement

Q79. Which of the following statements are correct regarding Agency Theory and Stakeholder Theory?

1. Agency Theory addresses conflicts of interest that arise when a representative acts on behalf of another party in business, potentially prioritizing personal beliefs over the principal's interests.

2. Stakeholder Theory emphasizes the diverse interests of various groups, both within and outside an organization, and asserts that the collective interests of these groups define the organization's mission.

3. Agency Theory primarily centers on the concerns of shareholders, while Stakeholder Theory focuses on the interests of all groups associated with the organization.

- (a) Statements 1 and 2 are correct.
- (b) Statements 1 and 3 are correct.
- (c) Statements 2 and 3 are correct.
- (d) All statements are correct.



Q80. What is included in the scope of financial management concerning compliance?

- (a) Ensuring the profitability of the business by maximizing returns on investments.
- (b) Ensuring compliance with statutory and regulatory provisions regarding capital markets, audit and accounting, disclosures, and taxation.
- (c) Ensuring the growth and expansion of the business into new markets.
- (d) Ensuring the development of new products and services to meet customer demands.

Q81. Read the statements carefully:

Statement 1: Non-fund-based facilities offered by commercial banks, a crucial component of financial instruments, encompass a range of instruments such as letters of credit, bank guarantees, and co-acceptance of bills. These tools play a vital role in facilitating international trade transactions, mitigating risks associated with non-payment or default, and fostering trust between parties involved in the exchange of goods and services.

Statement 2: Cash Credit, a widely utilized form of working capital advance in the banking sector of India, extends a line of credit to businesses. Under this arrangement, banks establish a predetermined Cash Credit (CC) limit for the borrower. This allows the customer to draw funds as needed, up to the sanctioned limit, offering them the flexibility to manage their day-to-day financial operations and meet working capital requirements effectively.

- (a) Both Statement 1 and Statement 2 are correct.
- (b) Statement 1 is correct, and Statement 2 is incorrect.
- (c) Statement 1 is incorrect, and Statement 2 is correct.
- (d) Both Statement 1 and Statement 2 are incorrect.

Q82. Which statement correctly explains the concept of batch costing?

- (a) Batch costing calculates the cost of each unit by dividing the total production cost by the total number of units produced over a certain period, regardless of the product type.
- (b) Batch costing treats each product as a separate job and calculates the cost of each unit by dividing the individual product's cost by the number of units produced.
- (c) Batch costing treats a batch of similar products as one job and calculates the cost of one unit by dividing the total batch cost by the number of units in the batch.
- (d) Batch costing is used for continuous production processes and calculates costs based on time periods rather than product batches.

Q83. The following balances are provided:

- Salaries Paid: ₹30,000
- Outstanding Salaries: ₹5,000
- Prepaid Salaries: ₹3,000

What is the Salaries Expense to be recorded in the Profit and Loss Account?

- (a) ₹32,000
- (b) ₹28,000
- (c) ₹35,000
- (d) ₹30,000

Q84. What is the correct sequence of steps in the manual accounting process of a bank for recording accounting entries?

- (a) Begin with recording entries in the journal, followed by entries in the ledger accounts.
- (b) Start by entering entries in the control account, then proceed with entries in the journal.
- (c) Initiate the process by recording entries in the physical ledgers, then move on to the journal.
- (d) Commence by entering entries in the journal, and subsequently record them in the control account.

Q85. Why is it important for the balance sheet to balance between assets and liabilities?

- (a) It ensures that assets always exceed liabilities.
- (b) It demonstrates the business's ability to fulfill its financial commitments.
- (c) It reflects the business's profitability.
- (d) It indicates the efficiency of business operations.

Q86. Calculate the owner's equity based on the following information:

Assets: Rs. 120,000

Liabilities: Rs. 50,000

- (a) Rs. 60,000
- (b) Rs. 120,000
- (c) Rs. 70,000
- (d) Rs. 160,000

Q87. What characteristics are associated with a lease agreement?

1. A lease contract is a legally binding agreement that outlines the terms under which one party grants another party the use of its property.
2. It provides the lessee with the right to use the property and ensures that the lessor receives periodic payments for a specified duration in exchange for permitting the property's use.
3. Lease agreements can take the form of either residential leases, which are typically uniform for all tenants, or commercial leases, which may come in various types.
4. Violating a lease contract can lead to legal repercussions.

- (a) 1 and 2
- (b) 3 and 4
- (c) 1,2 and 4
- (d) 1,2,3 and 4

Q88. Which accounting standard mandates the uniform use of an accounting technique once adopted, with any modifications being openly reported to ensure clear and comparable financial statements?

- (a) Convention of Conservatism
- (b) Convention of Disclosure
- (c) Convention of Materiality
- (d) Convention of Consistency

Q89. What best describes a "forward exchange rate" in foreign exchange markets?

- (a) It is the rate at which a bank agrees to exchange one currency for another at a future date, based on current market conditions, without requiring immediate settlement.
- (b) The forward exchange rate is a special rate offered for immediate cash transactions in the forex market, allowing for the instant exchange of currencies at today's price.
- (c) It represents the interest rate differential between two currencies in a swap agreement, where no actual currency exchange takes place until the contract matures.
- (d) Forward exchange rate refers to the fluctuating market rate that applies to currency exchanges scheduled to occur in real-time, adjusting constantly with market dynamics.

Q90. 400 liters of a chemical were manufactured during a period. There is a normal loss of 25% of the material input into the process. An abnormal loss of 5% of material input occurred in the period. How many liters of material (to the nearest liter) were input into the process in the period?

- (a) 500
- (b) 520
- (c) 560
- (d) 571

Q91. Why do cash flows exclude movements between items that constitute cash or cash equivalents?

- (a) Because these movements are part of cash management, which involves investing excess cash in cash equivalents.
- (b) Because these movements reflect the day-to-day operational activities of the business.
- (c) Because these movements are related to long-term financial planning and strategy.
- (d) Because these movements are required for the preparation of accurate financial statements.

Q92. Which one is not a type of Audit Report issued by Statutory Auditors of banks?

- (a) statutory audit report
- (b) long form audit report
- (c) tax audit report
- (d) none of the above

Q93. Which of the following statements is correct regarding the maintenance of profit and loss accounts in banks?

Statement 1: All banks maintain a profit and loss account in the general ledger with separate books for each revenue or expense head/sub-head.

Statement 2: For managerial purposes, the account heads in the profit and loss ledgers are more detailed than those shown in the published profit and loss accounts of banks.

- (a) Both Statement 1 and Statement 2 are correct.
- (b) Statement 1 is correct, and Statement 2 is incorrect.
- (c) Statement 1 is incorrect, and Statement 2 is correct.
- (d) Both Statement 1 and Statement 2 are incorrect.

Q94. Which statement accurately describes the format requirements for financial statements of banking companies in India?

- (a) Banking companies must present their financial statements following the format outlined in Schedule III of the Companies Act, 2013.
- (b) Banking companies are required to adhere to the format specified in the third schedule annexed to the Banking Regulation Act for presenting their financial statements.
- (c) RBI mandates banking companies to use Form A and Form B for their financial reporting.
- (d) Banking companies are allowed to choose any format that suits their reporting needs, as long as it complies with general accounting standards.

Q95. Which of the following best describes the internal factors that affect the Weighted Average Cost of Capital (WACC)?

- (a) Market interest rates, inflation, and global economic conditions.
- (b) Company's policies on capital structure, capital investment, and dividends.
- (c) External economic policies and foreign exchange rates.
- (d) Brand reputation and employee satisfaction.

Q96. Which of the following best explains why an investor might choose to purchase high-yield bonds over investment-grade bonds?

- (a) Investors prioritize high-yield bonds for their lower risk and stability compared to investment-grade bonds, resulting in a safer investment environment.
- (b) Investors choose high-yield bonds because the lower ratings assigned by credit agencies suggest a potential for higher long-term capital appreciation.
- (c) Investors select high-yield bonds due to the expectation of a higher yield, compensating for the increased risk compared to investment-grade bonds.
- (d) Investors favor high-yield bonds as they are often backed by collateral that guarantees the return of principal, minimizing financial risk.

Q97. Brokerage paid on the purchase of a fixed asset is treated as _____.

- (a) Capital Expenditure.
- (b) Revenue Expenditure.
- (c) Deferred Revenue Expenditure.
- (d) Revenue Receipt.

Q98. How is a contingency described in accounting?

- (a) A specific situation with a predictable result.
- (b) A situation with an assured profit.
- (c) A situation with an unclear future outcome – either a gain or a loss – that cannot be accurately determined at present.
- (d) A condition or situation with a predetermined gain.

Q99. Which statement regarding depreciation is incorrect?

- (i) Depreciation is a component of operational expenses.
 - (ii) It entails a decrease in the worth of an asset.
 - (iii) The decline in an asset's value arises from its utilization, which may result from wear and tear or other factors.
 - (iv) The reduction in an asset's value occurs gradually and persistently.
- (a) i, ii only
 - (b) iii only
 - (c) All of the above
 - (d) None of the above

Q100. Which of the following services is NOT provided by ATMs?

- (a) Accepting cash/cheques
- (b) . Disbursing cash
- (c) Providing loan approvals
- (d) Inter-bank transfer and balance enquiry

Solutions

S1. Ans.(a)

Sol. In some cases, when the drawer and the payee are the same person in a Bill of Exchange, the payee is required to endorse the bill to another party for payment. This endorsement effectively transfers the right to receive the payment from the original payee to the new payee, allowing the bill to be used as an instrument of credit.

This situation often arises when the seller (the creditor) draws a bill on the buyer (the debtor), and the bill is made payable to the seller, who is also the payee. In such cases, the seller might choose to endorse the bill to a third party, like a financial institution, for early payment or to use the bill as a form of trade credit.

S2. Ans.(b)

Sol. The bank reconciliation statement is a tool used to compare the bank statement (issued by the bank) with the cash book (maintained by the account holder). It's used to identify any discrepancies between these two records.

The cash book is maintained by the account holder, while the passbook (or bank statement) is issued by the bank to provide a record of all transactions related to the account.

S3. Ans.(d)

Sol. The relationship between fixed, variable, and semi-variable costs in a cost structure.

- Fixed costs do not change with production levels.
- Variable costs change proportionally with production.
- Semi-variable costs have both fixed and variable components and change with production but not necessarily in a linear manner.

S4. Ans.(c)

Sol. Cost of Debt = Interest Expense (1- Tax Rate)

Cost of Debt = \$16,000(1-30%)

Cost of Debt = \$16000(0.7)

Cost of Debt = \$11,200

The cost of debt of the company is \$11,200.

S5. Ans.(d)

Sol. A bank audit primarily focuses on ensuring the accuracy of the bank's financial records, detecting fraud, and ensuring compliance with statutory requirements. The audit's goal is to provide an independent assessment of the bank's financial position and ensure that it follows the required regulatory frameworks. **Maximizing profitability** is the bank's operational goal, not an audit objective.

S6. Ans.(b)

Sol. Some limitations of the ARR method are:

- ARR does not take into consideration the time value of money, potentially leading to incorrect project rankings, especially when comparing projects with different income distributions over their useful life.
- ARR relies on accounting profits rather than cash flows for project evaluation, which includes non-cash items.
- ARR can be calculated in various ways, resulting in potential inconsistencies in project assessment.
- A firm's decision to accept or reject a project using ARR may be influenced by its current rate of return on assets, potentially leading to the acceptance of unprofitable projects by firms with low current rates of return.

S7. Ans.(a)

Sol. According to the general instructions for preparing a balance sheet, an asset is classified as current if it is expected to be realized within twelve months after the reporting date. This includes assets that are intended for sale or consumption in the company's normal operating cycle, as well as those held primarily for trading. Assets that do not meet these criteria are classified as non-current.

S8. Ans.(a)

Sol. Statement 1: Segregating costs into fixed and variable costs can be challenging, as some expenses exhibit characteristics of both, and precision in classification is difficult. This statement is correct. It acknowledges the difficulty in accurately categorizing certain expenses as purely fixed or variable.

Statement 2: The assumption that fixed costs remain constant and variable costs are entirely proportional to production volume is not always realistic. This statement is correct. In practice, fixed costs may vary with changes in production levels, and the relationship between variable costs and volume may not always be linear.



S9. Ans.(b)

Sol. The Modigliani-Miller theorem, in its most basic form, states that in a perfect capital market with no taxes, bankruptcy costs, or agency costs, the value of a firm is determined solely by its underlying assets and cash flows. This means that the way a firm chooses to finance its operations (whether through equity or debt) does not affect its overall value. This theorem provides critical insights into the relationship between capital structure and firm value.

S10. Ans.(c)

Sol. A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the absence of a principal market or in the most advantageous market for the asset or liability.

S11. Ans.(b)

Sol.

Principal (P) = ₹100,000

Rate (r) = 6.5% per annum

Time (t) = 180 days

The formula for the amount with simple interest for part of a year is:

$$A = P \times \left(1 + r \times \frac{t}{365}\right)$$

$$A = 100,000 \times \left(1 + 0.065 \times \frac{180}{365}\right)$$

$$A = 100,000 \times 1.03205$$

$$A = ₹103,205$$

S12. Ans.(a)

Sol. NWC = Total current assets – total current liabilities

$$= 200 - 125$$

$$= 75 \text{ lakhs}$$

Current ratio = current assets/current liabilities

$$= 200/125$$

$$= 1.6$$

S13. Ans.(d)

Sol. Inter-office transactions mostly originate at branches. Each branch may have several transactions with other branches, as well as with the head office of the bank. In many transactions, undertaken by the branch, one leg of the transaction involved is Inter Office Account.

S14. Ans.(b)

Sol. In specialized functions like Treasury operations and Forex, the back office plays a crucial role in directly supporting the trading room or front office. One of the main responsibilities of the back office in this context is to control confirmations and settlement transactions. This involves ensuring that the details of trades and transactions are accurately confirmed and settled, which is essential for the smooth functioning of financial operations.

S15. Ans.(b)

Sol. Noting charges refer to the amount paid to a Notary Public for officially recording the fact that an instrument, such as a bill of exchange or promissory note, has been dishonoured. This formal noting serves as legal evidence of the dishonour, which can be used for further legal action if necessary.

S16. Ans.(c)

Sol. Statement 1 is accurate. Marginal costing encompasses both the process of recording costs (cost accounting) and generating reports to aid in decision-making. This means it not only records costs but also provides reports that assist in decision-making.

Statement 2 is also true. Under marginal costing, total costs are segregated into fixed costs and variable costs. Additionally, some costs may exhibit characteristics of both fixed and variable costs, and these are categorized as semi-variable costs.

S17. Ans.(b)

Sol. Using the balance sheet equation ($\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$), we can rearrange to find $\text{Owner's Equity} = \text{Assets} - \text{Liabilities}$. Therefore, $\text{Owner's Equity} = \$100,000 - \$30,000 = \$70,000$.

S18. Ans.(d)

Sol. Option (d) states that Core Banking increases the bank's profit as customers are charged extra for core banking. However, this is not true. Core Banking Systems are implemented to enhance efficiency, streamline operations, and improve customer service. While they may lead to cost savings and potentially increased revenue through improved services, it is not the practice to charge customers extra specifically for using core banking services.

S19. Ans.(a)

Sol.

- Statement 1 is incorrect because a concurrent audit happens continuously throughout the year, usually every month, not just annually.
- Statement 2 is correct since the goal of a Concurrent Audit is to examine transactions shortly after they happen, which helps find issues quickly.
- Statement 3 is not true because external auditors, like chartered accountants, usually do concurrent audits, not just internal auditors from the bank.
- Statement 4 is incorrect as there is a focus on thorough checking in crucial areas during a Concurrent Audit.

S20. Ans.(c)

Sol. Computerization in banking has significantly diminished the dependence on traditional manual practices such as voucher preparation and maintaining manual records. The use of online transaction processing and automated systems has streamlined operations and lessened the need for manual handling. However, it remains important for bank staff to be familiar with manual accounting methods. This knowledge ensures staff can adequately address customer inquiries and auditor questions, rather than pleading ignorance of the processes and procedures.

S21. Ans.(c)

Sol. The introduction of Goods and Services Tax (GST) was primarily aimed at simplifying the indirect tax structure in India and making it easier for businesses to comply with tax regulations. The overall intention of GST was to streamline and simplify the tax process, not make it more difficult.

S22. Ans.(d)

Sol. "Clearance of cheques" refers to the procedure where cheques submitted for payment undergo verification and processing. This includes confirming the authenticity of the cheque, ensuring there are enough funds in the issuer's account, and ultimately, transferring the amount to the recipient's account. The clearance process can vary in duration, often extending over several days, particularly with cheques from other regions, leading to a delay between when transactions are recorded in the cash book and when they appear in the passbook.

S23. Ans.(a)

Sol. Depreciation is charged on the original cost of the asset. It includes the amount spent to acquire the asset, installation charges, repairs, and all capital expenditures spent on a specific asset.

S24. Ans.(b)

Sol. When determining the WACC for a new project, the relevant factor is the risk profile of the new project. This is because the cost of raising new funds and the required return by investors will be influenced by the perceived risk associated with the new project, rather than the historical cost of existing funds or other factors related to the firm's past performance.

S25. Ans.(b)

Sol. The "source and application of funds" statement, also known as the Fund Flow Statement, provides a summary of how funds have been sourced and utilized by an organization over a specific period. It outlines the inflow and outflow of funds from various activities, helping stakeholders understand how funds are generated and where they are allocated. This statement is crucial for assessing the financial health and management of an entity, aiding in informed decision-making and financial planning.

S26. Ans.(a)

Sol. In a business, **credit** transactions play a very important role. For manufacturing goods, a **manufacturer** purchases raw materials, the majority of which will be on **credit**. Once the goods are manufactured, they will be sold to **wholesalers** and **retailers**. Here also the manufacturer will give credit to his wholesalers or regular customers. Thus, credit passes on from the manufacturer to the **wholesaler** and from the wholesalers to **retailers** and from the retailers to the ultimate consumers.

S27. Ans.(b)

Sol. A "Financial year" is a specific time that usually finishes on March 31st each year. If a company starts its business on or after January 1st, then its first financial year will end on March 31st of the next year, giving them time to prepare their financial statements properly.

S28. Ans.(d)**Sol.**

1. A bill of exchange is versatile, allowing it to be drawn against any party, including banks, demonstrating its wide applicability in trade and finance. This contrasts with a cheque, which is specifically drawn against a bank, reflecting its nature as a banking instrument.
2. Acceptance is a key feature of bills of exchange, requiring the drawee's agreement to pay, whereas cheques are directly payable on demand without the need for acceptance.
3. The provision of a grace period for bills of exchange allows for a brief extension beyond the maturity date, accommodating for any settlement delays, a provision not applicable to cheques, which are expected to be payable immediately upon presentation.
4. The distinction in the requirement for stamp duty highlights the formalities associated with bills of exchange, in contrast to cheques, which are exempt from such requirements, streamlining their use for immediate payments.
5. The obligation to notify the drawer upon the dishonor of a bill of exchange underscores the formal mechanisms to address non-payment, a practice not mandated in the case of cheques, reflecting their immediate payment nature.

S29. Ans.(c)**Sol. Initial cost of the vehicle:** Rs. 20,000**Depreciation rate:** 20% on the diminishing balance method**Depreciation calculations:**

- **End of Year 1:**
 - o Depreciation = 20% of Rs. 20,000 = Rs. 4,000
 - o Remaining book value = Rs. 20,000 - Rs. 4,000 = Rs. 16,000
- **End of Year 2:**
 - o Depreciation = 20% of Rs. 16,000 = Rs. 3,200
 - o Remaining book value = Rs. 16,000 - Rs. 3,200 = Rs. 12,800
- **End of Year 3:**
 - o Depreciation = 20% of Rs. 12,800 = Rs. 2,560
 - o Remaining book value = Rs. 12,800 - Rs. 2,560 = Rs. 10,240
- **End of Year 4:**
 - o Depreciation = 20% of Rs. 10,240 = Rs. 2,048
 - o Remaining book value = Rs. 10,240 - Rs. 2,048 = Rs. 8,192

Sale of the vehicle:

- Sold for = Rs. 5,000

Loss on sale:

- Loss = Book value at the end of Year 4 - Sale price
- Loss = Rs. 8,192 - Rs. 5,000 = Rs. 3,192

S30. Ans.(c)**Sol. Statement A:** Non-current investments must be classified exclusively as trade investments.

This statement is incorrect. Non-current investments are classified as both trade investments and other investments, not exclusively as trade investments.

Statement B: The classification of non-current investments includes both trade and other investments, with further sub-classifications such as investment property and mutual funds.

This statement is correct. The classification of non-current investments does include both trade investments and other investments, with sub-classifications including investment property, mutual funds, and others.

Statement C: Investments in government securities are excluded from the classification of non-current investments.

This statement is incorrect. Investments in government or trust securities are explicitly listed as one of the sub-classifications of non-current investments.

Statement D: The classification of non-current investments encompasses investments in equity instruments, preference shares, and debentures or bonds.

This statement is correct. These types of investments are all listed under the sub-classifications of non-current investments.

S31. Ans.(a)

Sol. According to the NOI Approach, as the proportion of debt in the firm's capital structure increases, the cost of equity increases, not decreases. This increase is due to the heightened risk perception among equity shareholders, who demand a higher return to compensate for the increased risk, primarily the risk of bankruptcy associated with higher levels of debt. The NOI Approach maintains that while the cost of debt and the WACC remain constant, the cost of equity must rise to maintain the overall value of the firm constant in the face of increased debt.

S32. Ans.(b)

Sol. Statement 1: This is incorrect. An HUF comes into existence by birth in a Hindu family, not through a contract.

Statement 2: This is correct. The members of an HUF are indeed called co-parceners.

Statement 3: This is incorrect. The business of an HUF is typically managed by the senior-most male member, known as the Karta.

Statement 4: This is correct. For income tax purposes, an HUF is considered a separate entity and is taxed separately.

S33. Ans.(c)

Sol. The Forward Markets Commission (FMC) was the regulatory authority responsible for overseeing the commodities futures market in India. However, it was merged with the Securities and Exchange Board of India (SEBI) on September 28, 2015. This merger brought the regulation of both securities and commodities under the purview of SEBI.

S34. Ans.(b)

Sol. Statement 1: This statement is correct. A basic budget is designed for long-term use, typically without factoring in current conditions. It serves as a foundational framework and is based on standard or ideal conditions, making it less adaptable to changing circumstances.

Statement 2: This statement is correct. A current budget is tailored for short-term use and is formulated with consideration of the existing circumstances and conditions. It is designed to be more responsive to immediate changes and fluctuations in the business environment.

Statement 3: This statement is correct. A long-term budget encompasses a period longer than a year and is primarily oriented toward business forecasting and strategic planning for the future. It is less detailed in terms of specific itemized data.

Statement 4: This statement is incorrect. A short-term budget usually spans up to one year, not five years. Additionally, while it does involve planning various budget items, it is typically more focused on the immediate future and is more detailed and specific compared to long-term budgets.

S35. Ans.(c)

Sol. A bank reconciliation statement is prepared to reconcile the balances as per the cash book (bank column) with the balances as per the pass book (bank statement).

It is done by the accountant of the business as it is the business which needs to find the causes of differences between the two balances in order to present a true and fair view of its financial statements and books of accounts to its various stakeholders.

S36. Ans.(a)

Sol. The depreciation per unit is calculated by dividing the cost of the machine by the total expected production.

Depreciation per unit = $\text{₹}300,000 \div 50,000 = \text{₹}6$ per unit.

Depreciation for the first year = $\text{₹}6 \times 8,000 = \text{₹}48,000$.

S37. Ans.(d)

Sol. (a) The number and amount of shares authorized is important to know how many shares a company is allowed to issue.

(b) The number of shares issued, subscribed and fully paid, and subscribed but not fully paid provides information on how many shares have been actually issued, how many have been subscribed (promised to be bought), and how many have been paid for in full.

(c) The par value per share indicates the nominal value assigned to each share.

Therefore, all of these options (a), (b), and (c) are crucial pieces of information needed for each class of share capital in the financial statements.

S38. Ans.(b)

Sol. Leasing agreements are less likely to impose restrictive covenants related to the company's dividend policy compared to bank financing. Banks and term lending institutions may require restrictions on dividend payments to ensure that the company retains sufficient earnings to service its debt, whereas leasing agreements tend to be more lenient in this regard, providing more financial flexibility to the lessee.

S39. Ans.(c)

Sol. Option C accurately describes the importance of the separate disclosure of cash flows arising from investing activities according to Ind AS-7. This disclosure is crucial because it represents the extent to which expenditures have been made for resources intended to generate future income and cash flows. It provides insights into the investments made by the entity and their potential to contribute to future financial performance.

S40. Ans.(a)

Sol. Wages paid in the installation of new machinery are considered a **capital expenditure**. Capital expenditures are costs incurred to acquire, improve, or extend the useful life of a long-term asset, such as machinery. They are investments that provide benefits over an extended period rather than being consumed immediately. The installation of new machinery enhances the company's productive capacity and is expected to generate benefits over several accounting periods. Therefore, it is categorized as a capital expenditure.

S41. Ans.(b)

Sol. A derivative is an instrument that derives its value from changes in various financial factors such as interest rates, foreign exchange rates, credit ratings, credit indices, or the prices of securities (referred to as the "underlying"). This means that the value of a derivative is linked to the fluctuations in these financial variables and is settled at a future date. The definition also includes specific financial instruments like interest rate swaps, forward rate agreements, foreign currency swaps, and various options. These derivatives are subject to specifications by the relevant financial authority (in this case, the Bank) from time to time.

S42. Ans.(d)

Sol. Section 115BAC of the Income Tax Act, 1961 provides an individual taxpayer with the option to choose between the existing tax regime and the new concessional tax regime. Under this section, an individual (and HUFs) can opt for lower tax rates without availing certain deductions and exemptions, such as those related to housing loan interest, standard deduction, or investments under Section 80C. This optional tax regime was introduced in the Finance Act, 2020, applicable for income from the financial year 2020-21.

S43. Ans.(a)

Sol.

- **Option A:** States that direct taxes are paid directly to the government by the taxpayer, and their burden can be transferred to another person. This is incorrect because the burden of direct taxes cannot be transferred.
- **Option B:** Correctly identifies income tax as a direct tax that is imposed directly on individuals with taxable income and cannot be shifted to others.
- **Option C:** Incorrectly classifies corporate tax, wealth tax, and capital gains tax as indirect taxes. These are actually direct taxes.
- **Option D:** Incorrectly states that indirect taxes include property tax and STT, which are actually direct taxes.

S44. Ans.(b)

Sol. Depreciation is an effort to stretch out the cost of a long-lasting asset throughout its useful economic life as an **expense** to the profit and loss account. Depreciation is a part of **operating costs**. It is the **reduction** in the value of assets. The decrease in the value of an asset is due to its regular use and is caused by **wear and tear**. The decrease in the value of assets is gradual and continuous. The estimated value of an item at the end of its useful life is called **residual value**, often known as salvage value or junk value. Depreciation is calculated using a variety of techniques, such as straight-line, falling balance, and units of production depreciation.

S45. Ans.(c)

Sol. This question highlights the complexity of determining the cost of debt for bonds and debentures. Unlike term loans, where the interest rate is transparent and set by the bank or financial institution, the cost of debt for bonds and debentures is influenced by various factors, including the coupon rate, investors' perception of the firm's risk profile, and prevailing market conditions. This leads to the yield to maturity (YTM) being the relevant measure for the return on a bond or debenture in the secondary market.

S46. Ans.(b)

Sol. Standard costing is a technique that involves comparing actual costs incurred during production with the estimated or standard costs. This comparison, known as variance analysis, helps management identify areas where inefficiencies and wastages are occurring. By locating these areas, management can take steps to eliminate inefficiencies and improve overall efficiency.

S47. Ans.(a)

Sol. When a withdrawal is made from the bank, it affects both the cash and bank accounts. This transaction leads to a change in assets because cash, which is an asset, is reduced, while the bank account balance is also reduced. Therefore, the transaction impacts the overall asset position of the entity.

S48. Ans.(c)

Sol. A bank reconciliation statement is prepared to reconcile the difference between the bank balance shown in the company's cash book (also known as the bank ledger or bank column of the cash book) and the balance shown in the bank's pass book (also known as the bank statement). The reconciliation statement starts with the balance of either the cash book or the pass book, and adjustments are made to arrive at the balance of the other.

S49. Ans.(c)

Sol. A cost center that doesn't directly engage in product manufacturing but offers vital support to productive cost centers is termed a mixed cost center. Mixed cost centers serve a dual function, occasionally contributing to production and at other times providing services or assistance, thus embodying elements of both productive and service-oriented cost centers.

S50. Ans.(a)

Sol. The capital clause in a company's memorandum of association states the authorized capital. Authorized capital, also known as authorized stock or nominal capital, refers to the maximum amount of capital that a company is allowed to issue to shareholders. It represents the upper limit defined in the company's charter or memorandum of association.

S51. Ans.(c)

Sol. When a bill receivable is dishonored, it means the amount that was supposed to be received will now be shown as an amount due from debtors. This does not affect the company's current liabilities or the current ratio if the customer is still solvent. The company's current liabilities remain unchanged, and thus, the current ratio also remains unchanged.

S52. Ans.(c)

Sol. $ARR = \text{Average profit after tax} / \text{average value of investment}$

Average profit = $50,000 + 52,000 + 56,000 + 60,000 / 4$

Average profit = $2,18,000 / 4 = 54,500$

Average investment = $18,00,000 / 2 = 9,00,000$

$ARR = (54,500 / 9,00,000) * 100$

$ARR = 6.05\%$

S53. Ans.(a)

Sol. The reconciliation work of Inter Office accounts is normally centralised at a designated office of the bank, typically known as the **reconciliation** department. With the advent of the new CBS environment, **most** of the banks have opted to centralise this reconciliation work at the **IT** department located at the Head Office.

S54. Ans.(c)

Sol. It is essential for companies and other organizations to keep accurate financial records in accordance with laws such as the Companies Act, Societies Act, Public Trust Act, Sales Tax Act, and Income Tax Act. This practice is vital for ensuring they meet legal and regulatory requirements, properly document their financial transactions, incomes, and expenditures, and uphold their tax responsibilities, thereby achieving legal compliance. The alternative options do not specifically relate to the fundamental reason for adhering to legal standards in financial record-keeping.

S55. Ans.(c)

Sol. Rebate on bills discounted refers to the unexpired portion of the discount that is given to the borrower when they settle the bill before its maturity date. This means that the borrower receives a reduction on the amount they owe because they paid early. This unexpired portion of the discount is considered as income for the entity providing the rebate.

S56. Ans.(b)

Sol.

1. Cheques issued but not yet presented: These reduce the Cash Book balance but do not affect the Pass Book balance until they are presented.
2. Cheques deposited but not yet credited: These increase the Cash Book balance, but the corresponding entry in the Pass Book will be made only after the cheques are credited by the bank.
3. Bank charges: These are recorded in the Pass Book but need to be adjusted in the Cash Book.
4. Direct deposits by customers: These are recorded in the Pass Book and need to be added to the Cash Book balance to reconcile.

S57. Ans.(b)

Sol. An Artificial Juridical Person (AJP) is an entity that is not a natural person but is recognized by law as a separate legal entity when it does not fall under other categories like individuals, companies, or firms. Option (B) correctly defines this concept, while the other options describe scenarios that do not match the definition of an AJP.

S58. Ans.(c)

Sol. Cost accounting primarily deals with the collection, analysis, and reporting of information related to the costs incurred in production processes. This information is vital for managerial decision-making. Setting standard selling prices based on market demand and supply is not typically a responsibility of cost accounting. This task falls under the domain of pricing strategies and market analysis, which are areas distinct from cost accounting.

S59. Ans.(d)

Sol. A One Person Company (OPC) is a legal entity with a solitary individual as its sole member. It is established with a distinct legal identity independent of its member. OPCs offer the benefits of limited liability, enabling individuals to pursue entrepreneurial endeavors independently, without the necessity of forming partnerships or involving larger organizations.

S60. Ans.(b)

Sol. (a) This statement is incorrect. An asset is classified as current if it is expected to be realized within twelve months after the reporting date, not before.

(b) This statement is correct. A liability is classified as current if the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. This means the company anticipates settling this liability within the next year.

(c) This statement is incorrect. A receivable is classified as a "trade receivable" if it is in respect of the amount due on account of goods sold, not goods purchased.

(d) This statement is not accurate. All other liabilities, not classified as current, are classified as non-current.

S61. Ans.(d)

Sol. Ind AS-1 stipulates the presentation of a third balance sheet at the start of the preceding period, in addition to the standard comparative financial statements, whenever there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items, provided any of these actions materially affect the details in the statement of financial position at the beginning of the preceding period. This ensures that users of the financial statements have a clear view of the impact of such changes or adjustments.

S62. Ans.(b)

Sol. A is incorrect because Ind AS 116 specifically states that the leased asset is not capitalized on the lessor's balance sheet as an asset; instead, it is presented as a receivable.

B is correct as it accurately reflects the provision of Ind AS 116, where the leased asset, despite being owned by the lessor, is not shown as a capital asset but as a receivable equal to the net investment in the lease.

C is incorrect because the standard explicitly requires the use of a discount rate, specifically the interest rate implicit in the lease, to calculate the present value of lease rentals receivable.



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D is correct in general accounting practice under Ind AS 116, as the lessee's incremental borrowing rate may be used when the implicit rate cannot be easily determined, though this point specifically about the lessee's rate as a fallback is more broadly applicable and might not be directly stated in the context provided but aligns with accounting principles for leases.

S63. Ans.(a)

Sol. Computerization and technological innovations have enabled banks to operate on the principle of **centralized banking** where all branches of a bank are linked to each other online.

A customer having an account with any branch of a bank can deposit money into his account, withdraw money, and make inquiries regarding balance, etc., in other branches/outlets of the bank, which are linked **online**.

The concept of automated banking through **ATMs** is the result of computerization and technological innovation.

ATM transactions are automatically accounted for their occurrence with the help of **computers**.

S64. Ans.(c)

Sol. Balances held with a foreign branch by other branches of the bank are considered internal transactions and must be classified under inter-branch accounts. They are not included in the 'Deposit Accounts' as they do not represent customer deposits but internal transfers between branches. Proper accounting and classification of these balances are necessary to avoid overstating deposit liabilities and to maintain the transparency of the bank's financial position.

S65. Ans.(d)

Sol. Coupon rate = 11 %, And Current market Price = Rs 110/-

So, Current Yield = $\text{Coupon rate} \times 100 / \text{Market Price}$

$= 11 \times 100 / 110 = 10 \%$

When market interest decreases by 1 %,
the market interest becomes, $10 - 1 = 9 \%$

So, Market Price = $\text{Coupon Amount} \times 100 / \text{Current Yield}$

$= 11 \times 100 / 9 = \text{Rs } 122.22$

S66. Ans.(b)

Sol. The Interest Coverage Ratio is a financial metric used to assess a company's ability to cover its interest expenses with its operating income. The formula is:

$\text{Interest Coverage Ratio} = \text{Profit before charging Interest and Income tax} / \text{fixed interest charges}$

This ratio indicates how many times a company can cover its interest expenses with its earnings before interest and taxes (EBIT). A higher ratio suggests a better ability to meet interest obligations.

S67. Ans.(d)

Sol. When a capital expense is incorrectly recorded as a revenue expense, it means that an expenditure that should have been capitalized (added to the balance sheet as an asset) has been treated as an immediate expense (income statement item). This error impacts the calculation of net profit in the following way:

Net Profit: Net profit is calculated as the difference between total revenue (income) and total expenses. If a capital expense is incorrectly recorded as a revenue expense, it artificially inflates the total expenses in the income statement. As a result, the expenses are higher than they should be, leading to a lower reported net profit.

S68. Ans.(c)

Sol. The journal entries themselves do not provide the account balances. They record individual transactions and their effects on specific accounts, but they do not give an account's current balance. To find the balance of an account, you would need to look at the general ledger, which is a complete record of all financial transactions of a business. The general ledger summarizes the effects of journal entries on each account and provides the current balance for each account.

S69. Ans.(a)

Sol. The subscribed capital is calculated based on the number of shares subscribed by the shareholders:
Subscribed Capital = Number of shares subscribed × Face value per share
Subscribed Capital = 3,50,000 × ₹10 = ₹35,00,000
Hence, the subscribed capital is ₹35,00,000.

S70. Ans.(c)

Sol. Fixed price contracts entail a **fixed total amount** for executing the contract. Cost-plus contracts are based on the **costs incurred**, plus a percentage profit or fixed profit. In Time and material contracts, the contractor includes a **profit** in its billings. Under cost-plus contracts, the customer may use the services of an **auditor** to examine the contractor's contract costs.

S71. Ans.(a)

Sol. Statement 1 is false because A private company limits the number of its members to two hundred, restricts the right to transfer its shares, and prohibits any invitation to the public to subscribe to any security of the company. Statement 3 is also false. A government company is one in which at least 51 percent of the paid-up share capital is held by the Central Government or by any State Government or partly by the Central Government and partly by one or more State Governments.

S72. Ans.(c)

Sol. The main advantage of Joint Stock Companies over other forms of business organizations like partnerships is the concept of limited liability. In Joint Stock Companies, shareholders' liability is restricted to the nominal value of the shares they hold. This means they are not personally liable for the company's debts beyond the amount they have invested. This limited liability feature encourages more people to invest in large-scale businesses without the fear of losing personal assets, unlike partnerships, where partners may be liable for all business debts, even beyond their initial investment.

S73. Ans.(c)

Sol. Statement 1 is incorrect. Budgetary control enhances the probability of achieving planned objectives, not decrease it.

Statement 2 is incorrect. Budgetary control leads to optimal utilization of limited resources, not wasteful utilization.

Statement 3 is correct. Budgetary control fosters better coordination among various functionaries of the organization.

Statement 4 is incorrect. Budgetary control encourages proactive thinking and actions as targets are known to the functionaries.

Statement 5 is correct. Budgetary control promotes delegation of authority while emphasizing the culture of accountability.

Statement 6 is correct. Budgetary control enhances the transparency of performance evaluation for various functionaries.

S74. Ans.(a)

Sol.

First, calculate the average inventory:

$$\text{Average Inventory} = \frac{\text{Beginning Inventory} + \text{Ending Inventory}}{2}$$

$$\text{Average Inventory} = \frac{₹120,000 + ₹80,000}{2}$$

$$\text{Average Inventory} = ₹100,000$$

Then, calculate the stock turnover ratio:

$$\text{Stock Turnover Ratio} = \frac{\text{COGS}}{\text{Average Inventory}}$$

$$\text{Stock Turnover Ratio} = \frac{₹600,000}{₹100,000}$$

$$\text{Stock Turnover Ratio} = 6$$

S75. Ans.(d)

Sol. With the introduction of computerization in financial institutions, the 'Reconciliation' process in the back office has undergone a significant transformation. This means that the way in which reconciliations are conducted and managed has been revolutionized through the use of computer systems and technology.

S76. Ans.(d)

Sol. Gross Profit Margin is a financial metric that represents the percentage of revenue remaining after deducting the cost of goods sold (COGS). It indicates how efficiently a company generates profit from its direct production or acquisition costs. Gross Profit Margin is calculated as $(\text{Gross Profit} / \text{Total Revenue}) * 100$. It provides insights into the profitability of a company's core operations before considering other expenses like operating costs and taxes.

S77. Ans.(a)

Sol. Statement 1 correctly explains the importance of considering depreciation and asset sales when comparing successive balance sheets. It clarifies that depreciation must be factored in to accurately assess the change in fixed assets.

Statement 2, on the other hand, contains incorrect information. It states that the buyback of shares may not be correctly reflected because profits have been added to reserves. This is misleading. In reality, the buyback of shares is recorded as a reduction in equity.

S78. Ans.(c)

Sol. A building agreement is deliberately discussed to bring about the development of a single asset or a group of assets that exhibit strong links in terms of design, technology, function, or ultimate purpose. This type of agreement is commonly used in the construction industry to establish the terms, conditions, and specifications for construction projects. It covers aspects like costs, timelines, and the roles and responsibilities of the parties involved.

S79. Ans.(d)

Sol. Agency Theory: This theory addresses situations where a representative (agent) acting on behalf of another party (principal) in a business may have conflicting interests or different views on key business matters. The agent may prioritize personal beliefs or self-interest over the interests of the principal.

Stakeholder Theory: This theory focuses on the diverse interests of various groups (stakeholders) both within and outside the organization, including employees, investors, suppliers, and the local community. It asserts that the collective interests of these groups define the organization's mission.

S80. Ans.(b)

Sol. Financial management also involves making sure that the business follows all the laws and regulations related to capital markets, auditing, accounting, financial disclosures, and taxes. This means the company must meet all the legal requirements in these areas to operate properly and avoid penalties.

S81. Ans.(a)

Sol. Statement 1 correctly identifies examples of non-fund-based facilities provided by commercial banks. Letters of credit, bank guarantees, and co-acceptance of bills are indeed crucial instruments that facilitate various financial transactions, especially in the context of international trade. These instruments help in establishing trust and reducing risks associated with non-payment or default. Statement 2 is also accurate. Cash Credit is indeed the most prevalent form of lending by banks for working capital advances in India. This facility provides businesses with a line of credit up to a specified limit, allowing them to withdraw funds as needed to meet their day-to-day financial requirements. This flexibility makes it a popular choice for working capital financing in the Indian banking sector.

S82. Ans.(c)

Sol. Batch costing is a method of costing where a batch of similar products is considered as one job. The total cost of producing the entire batch is calculated first. Then, to find the cost of a single unit within the batch, the total batch cost is divided by the number of units in the batch. This approach ensures that the cost per unit is accurately determined for batches of similar products.

S83. Ans.(a)

Sol. The total Salaries Expense to be recorded in the Profit and Loss Account is calculated as follows:

Salaries Expense = Salaries Paid + Outstanding Salaries - Prepaid Salaries

Salaries Expense = ₹30,000 + ₹5,000 - ₹3,000 = ₹32,000

S84. Ans.(c)

Sol. In the manual accounting process of a bank, the initial step involves the staff responsible for entering entries directly into the physical ledgers. Following this, all entries under a specific ledger category are transcribed into the journal, also known as the day book. Lastly, the cumulative total is documented in the relevant control account within the General Ledger. This information is subsequently utilized in generating both the balance sheet and the Profit and Loss account.

S85. Ans.(b)

Sol. The balance of assets and liabilities on the balance sheet signifies the business's capability to meet its financial obligations. The fundamental accounting equation (Assets = Liabilities + Owner's Equity) shows that the business's assets are financed through liabilities and owner's equity, illustrating a balance between the resources owned and the obligations owed.

S86. Ans.(c)

Sol. Owner's Equity (Capital) = Assets - Liabilities
Owner's Equity = Rs. 120,000 - Rs. 50,000 = Rs. 70,000

S87. Ans.(d)

Sol. A lease contract embodies several key aspects:

- It constitutes a legally enforceable arrangement that sets out the conditions by which one party grants another the privilege of using its property.
- The contract ensures that the lessee has the right to utilize the property while obliging the lessor to receive consistent payments for an agreed-upon period in return for granting that usage.
- Lease agreements can take on different formats, such as standardized residential leases applicable to all tenants, or versatile commercial leases with various options.
- Breaching a lease contract may lead to legal consequences, underscoring the legally binding nature of such agreements.

S88. Ans.(d)

Sol. The Convention of Consistency requires that once an accounting method is chosen, it must be applied consistently in subsequent periods. Should there be a need to alter this method, the change must be transparently reported. This principle ensures that financial statements remain clear and comparable over time, distinguishing it from the other options listed.

S89. Ans.(a)

Sol. A forward exchange rate is an agreed-upon rate for exchanging one currency for another at a future date, determined at the time of the contract. Unlike spot rates, which are for immediate currency exchanges, forward rates are used in contracts to lock in an exchange rate for a transaction that will occur later. This is particularly useful for businesses and investors looking to hedge against currency fluctuations and secure a known rate for future financial planning.

S90. Ans.(d)

Sol. The number of liters during this process of material input is 400 liters in this period. So, the normal and abnormal loss of material input during this period is $25\% + 5\% = 30\%$

So, for 100% we get $400 \times 100 / 70$
 $= 4000 / 7 = 571.4 \text{ liters} = 571 \text{ litres.}$

S91. Ans.(a)

Sol. Cash flows exclude movements between items that constitute cash or cash equivalents because they are part of cash management. This means managing the extra money the business has by investing it in short-term, easily accessible investments called cash equivalents. This is different from the main business activities like running the business, buying or selling assets, or raising money.

S92. Ans.(c)

Sol. The tax audit report is not issued by the Statutory Auditors of banks. It is a separate report issued by tax professionals, typically Chartered Accountants, to assess and verify the accuracy of financial statements for tax purposes.

S93. Ans.(c)

Sol. Statement 1 is incorrect. The first statement suggests that all banks maintain a profit and loss account in the general ledger with separate books for each revenue or expense head/sub-head. This is not universally true, as different banks may have different practices for maintaining their profit and loss accounts.

Statement 2 is correct. It highlights that, for managerial purposes, the account heads in the profit and loss ledgers are more detailed than those shown in the published profit and loss accounts of banks. This allows for a more detailed and granular analysis of revenue and expense components within the bank's operations.

S94. Ans.(b)

Sol. In India, banking companies are obliged to follow the format outlined in the third schedule annexed to the Banking Regulation Act for presenting their financial statements. This format is specifically designed for banking companies and is distinct from the formats laid down in Schedule III of the Companies Act, 2013. This ensures that the financial statements of banking companies accurately reflect their unique operations and activities in the banking sector.

S95. Ans.(b)

Sol. Internal factors affecting WACC are specific to the company's decisions and policies. These include how the company structures its debt and equity (capital structure policy), its choices about investing in long-term projects (capital investment policy), and how it distributes profits to shareholders (dividend policy). These factors influence the overall cost of capital for the company.

S96. Ans.(c)

Sol. High-yield bonds, also known as junk bonds, are riskier than investment-grade bonds because they are rated below investment grade by credit rating agencies. Due to this increased risk, investors expect to earn a higher yield as compensation. Option C is correct as it directly links the higher expected yield to the increased risk, reflecting the rationale behind an investor's decision to choose high-yield bonds. Option A is incorrect because it incorrectly states that high-yield bonds are lower risk and more stable, which is not true. Option B is incorrect because the lower ratings suggest higher risk, not necessarily potential for higher long-term capital appreciation. Option D is incorrect as high-yield bonds do not typically come with guarantees of principal return through collateral.

S97. Ans.(a)

Sol. Brokerage paid on the purchase of a fixed asset is treated as a **capital expenditure**.

Capital expenditures are costs incurred to acquire, improve, or extend the life of an asset. In this case, paying brokerage is directly related to acquiring the fixed asset, and it adds to the overall cost of the asset.

S98. Ans.(c)

Sol. In accounting, contingency refers to a condition or situation that has an uncertain outcome, and this outcome may result in either a gain or a loss. Importantly, at the time of recognizing the contingency, it cannot be accurately determined which of these outcomes will occur.

S99. Ans.(d)

Sol. Depreciation is an element of operating costs and involves the diminishing value of an asset over time due to factors such as wear and tear from usage or other causes. This decline is gradual and ongoing, contributing to the reduction in an asset's value.

S100. Ans.(c)

Sol. ATMs do not provide loan approvals; they offer services like accepting cash/cheques, disbursing cash, inter-bank transfers, and balance enquiries.

