



JAIIB AFM

MEMORY BASED 2023



AMBITIOUS BABA



1. Under Section 10 of the Income Tax Act, which of the following options correctly indicates when insurance deductions are possible?

- (a) Only for life insurance premiums
- (b) Only for health insurance premiums
- (c) For both life and health insurance premiums
- (d) Insurance deductions are not allowed under Section 10

Ans. a

2. In the context of process costing, which industry is most likely to use this method?

- (a) Oil Refinery
- (b) Chemical
- (c) Paper Industry
- (d) Retail Industry

Ans. a

3. Statement I: Promissory notes and bills of exchange are examples of negotiable instruments.

Statement II: Fixed deposits are considered negotiable instruments.

Statement III: Negotiable instruments must contain an unconditional promise or order to pay a certain sum of money.

Which of the following options is correct?

- (a) Statement I and II are correct.
- (b) Statement II and III are correct.
- (c) Statement I and III are correct.
- (d) All three statements are correct.

Ans. c

Sol. Statement I is correct as it provides examples of negotiable instruments. Statement II is incorrect, as fixed deposits are generally not considered negotiable instruments. Statement III is correct, as negotiable instruments must contain an unconditional promise or order to pay a certain sum of money.

4. Which section of the Income Tax Act governs the deduction of interest on housing loans for individuals?

- (a) Section 10(14)
- (b) Section 80C
- (c) Section 24(b)
- (d) Section 80E

Ans. c

Sol. Deduction of interest on housing loans for individuals is covered under Section 24(b) of the Income Tax Act.



5. What does the term "Margin of Safety" represent in financial management?

- (a) The difference between total sales and variable costs
- (b) The difference between estimated sales and breakeven even sales
- (c) The amount of profit earned in a given period
- (d) The amount of equity in a company

Ans. b

6. In the context of marginal costing, which statement is incorrect?

- (a) Fixed costs are considered variable in the short term
- (b) Contribution margin is calculated as selling price minus variable cost per unit
- (c) Marginal costing is suitable for decision-making and break-even analysis
- (d) Variable costs remain constant in total regardless of production volume

Ans. a

Sol. In marginal costing, fixed costs are considered fixed in the short term, not variable.

7. What financial concept is associated with regular, periodic payments of a fixed sum over time?

- (a) Marginal Costing
- (b) Annuity
- (c) Yield to Maturity (YTM)
- (d) Foreign Exchange (Forex)

Ans. b

Sol. Annuity refers to regular, periodic payments of a fixed sum over time, often used in financial calculations.

8. Statement I: Bank reconciliation is required to identify discrepancies between a company's cash book and bank statement.

Statement II: Bank reconciliation helps in detecting fraudulent transactions.

Statement III: Bank reconciliation is a legal requirement for all businesses.

Which of the following options is correct?

- (a) Statement I and II are correct.
- (b) Statement II and III are correct.
- (c) Statement I and III are correct.
- (d) Statement I, II, and III are correct.

Ans. a

Sol. Statement I is correct as bank reconciliation is primarily done to identify discrepancies between the cash book and bank statement.

Statement II is correct because it can help in detecting fraudulent



transactions. Statement III is incorrect, as bank reconciliation is not always a legal requirement for all businesses.

9. Statement I: Written Down Value (WDV) method for depreciation reduces the asset's value to its salvage value over time.

Statement II: In WDV method, the depreciation expense is higher in the earlier years of an asset's life.

Statement III: WDV method is also known as the Straight-Line Method.

Which of the following options is correct?

- (a) Statement I and II are correct.
- (b) Statement II and III are correct.
- (c) Statement I and III are correct.
- (d) All three statements are correct.

Ans. a

Sol. Statement I is correct as WDV method reduces the asset's value over time but not necessarily to its salvage value. Statement II is correct because WDV method results in higher depreciation expenses in the earlier years. Statement III is incorrect, as WDV is not known as the Straight-Line Method.

10. Consider the following statements:

Statement I: This budgeting approach focuses on the quantity and quality of goods or services produced.

Statement II: It involves setting targets for production and evaluating performance against these targets.

Statement III: Variance analysis is a common tool used in this type of budgeting.

Which budgeting approach do these statements describe?

- (a) Zero-Based Budgeting
- (b) Production Budgeting
- (c) Cash Budgeting
- (d) Flexible Budgeting

Ans. b

Sol. The statements describe the key features of production budgeting, where the focus is on production quantity and quality, target setting, and variance analysis.

11. Statement I: This budgeting approach involves a single lump-sum payment of a debt or obligation.

Statement II: It is often used for loans or bonds where the entire principal amount is paid at once.

Statement III: This payment method does not involve instalment payments.



Which budgeting approach is represented by these statements?

- (a) Incremental Budgeting
- (b) Bullet Payment Budgeting
- (c) Activity-Based Budgeting
- (d) Zero-Based Budgeting

Ans. b

Sol. The statements describe the concept of bullet payment, where a single lump-sum payment is made for a debt or obligation, often associated with loans or bonds.

12. Statement I: This budgeting approach evaluates the costs and benefits of different projects or investments.

Statement II: It helps in selecting the most financially viable projects to undertake.

Statement III: The focus is on maximizing the return on investment.

Which budgeting approach is reflected in these statements?

- (a) Capital Budgeting
- (b) Performance Budgeting
- (c) Incremental Budgeting
- (d) Cash Budgeting

Ans. a

Sol. The statements describe the key features of capital budgeting, which involves evaluating and selecting projects or investments based on their financial viability and maximizing returns.

13. M/s ABC Electronics, a retail store, sold electronic goods during the year 2023. They had various expenses and revenues. Identify the appropriate account (Profit and Loss, Trading, or Ledger) where the following transactions should be recorded: M/s ABC Electronics purchased computer parts for resale.

- (a) Trading Account
- (b) Profit and Loss Account
- (c) Ledger Statement
- (d) None of the above

Ans. a

Sol. Purchases of goods for resale are recorded in the Trading Account as they contribute to the calculation of gross profit.

14. M/s ABC Electronics, a retail store, sold electronic goods during the year 2023. They had various expenses and revenues. Identify the appropriate account (Profit and Loss, Trading, or Ledger) where the



following transactions should be recorded: M/s ABC Electronics incurred electricity expenses for their store.

- (a) Trading Account
- (b) Profit and Loss Account
- (c) Ledger Statement
- (d) None of the above

Ans. b

Sol. Electricity expenses are operating expenses and should be recorded in the Profit and Loss Account.

15. Mr. Sharma, a customer of XYZ Bank, deposited a sum of money into his savings account. Identify the appropriate ledger statement (Debit or Credit) for the bank's account: Mr. Sharma deposited Rs. 10,000 into his savings account.

- (a) Debit
- (b) Credit
- (c) Neither Debit nor Credit
- (d) Both Debit and Credit

Ans. b

Sol. When Mr. Sharma deposited money into his savings account, the bank's account should be credited because it represents an increase in the bank's liability to Mr. Sharma.

16. Mr. Sharma, a customer of XYZ Bank, deposited a sum of money into his savings account. Identify the appropriate ledger statement (Debit or Credit) for the bank's account: Mr. Sharma withdrew Rs. 2,000 from his savings account.

- (a) Debit
- (b) Credit
- (c) Neither Debit nor Credit
- (d) Both Debit and Credit

Ans. a

Sol. When Mr. Sharma withdrew money from his savings account, the bank's account should be debited because it represents a decrease in the bank's liability to Mr. Sharma.

17. ABC Corporation purchased machinery for its manufacturing unit. Identify the appropriate account (Profit and Loss, Trading, or Ledger) for the following transactions: ABC Corporation purchased machinery to expand its manufacturing capacity.

- (a) Trading Account
- (b) Profit and Loss Account



- (c) Ledger Statement
- (d) None of the above

Ans. c

Sol. The purchase of machinery is a capital expenditure and should be recorded in the ledger statement, specifically the Machinery Account.

18. Which of the following statements is correct regarding Net Present Value (NPV) and Internal Rate of Return (IRR)?

- (a) NPV assumes difference between what an investment costs and its present value while IRR assumes reinvestment at the IRR itself.
- (b) NPV is always positive if IRR is positive.
- (c) NPV and IRR will always give the same investment decision.
- (d) NPV is more sensitive to the timing of cash flows than IRR.

Ans. a

Sol. The correct answer is (a). NPV assumes that all cash flows are reinvested at the project's cost of capital, while IRR assumes reinvestment at the IRR itself. This fundamental difference can lead to differing investment decisions when evaluating projects. Option (b) is not always true as NPV can be negative even if IRR is positive. Option (c) is not always true, as NPV and IRR may give different investment decisions in certain cases. Option (d) is also true; NPV is more sensitive to the timing of cash flows than IRR, making it a more accurate measure when cash flows are unconventional or when comparing projects with different cash flow timing.

19. Which of the following is true regarding a Bank Reconciliation Statement (BRS)?

- (a) BRS is prepared by the bank to reconcile its own records.
- (b) BRS is prepared by the account holder to reconcile their bank account with the bank's records.
- (c) BRS is not required for savings accounts.
- (d) BRS is prepared only for fixed deposits.

Ans. b

Sol. A Bank Reconciliation Statement (BRS) is a statement prepared by the account holder (customer) to reconcile their bank account with the bank's records. It helps in identifying any discrepancies between the bank statement and the account holder's records, such as outstanding checks, unrecorded deposits, or bank charges. BRS is a crucial tool for ensuring the accuracy of financial transactions in a bank account. Options (a), (c), and (d) are incorrect because BRS is primarily a document prepared by the account holder to reconcile their own records with the bank's records, and it is relevant for various types of accounts, not just fixed deposits.



20. Mr. Sharma maintains a savings account with XYZ Bank. He maintains a cashbook and wants to reconcile his passbook balance. According to his cashbook, his balance as of 31st August is Rs. 15,000. However, after comparing his cashbook with the passbook statement received from the bank, he identifies the following:

Outstanding checks amount to Rs. 5,000.

An unrecorded deposit of Rs. 2,000 was made on 29th August.

Bank charges of Rs. 500 were debited by the bank.

Calculate Mr. Sharma's passbook balance as of 31st August.

(a) Rs. 15,000

(b) Rs. 12,500

(c) Rs. 11,500

(d) Rs. 17,500

Ans. c

Sol. To calculate Mr. Sharma's passbook balance as of 31st August, we need to consider the adjustments:

Outstanding checks: Rs. 5,000 (Deduct this from the cashbook balance)

Unrecorded deposit: Rs. 2,000 (Add this to the cashbook balance)

Bank charges: Rs. 500 (Deduct this from the cashbook balance)

Now, let's calculate the passbook balance:

Cashbook Balance (as per Mr. Sharma) = Rs. 15,000

Outstanding checks (Deduct) = Rs. 5,000

Unrecorded deposit (Add) = Rs. 2,000

Bank charges (Deduct) = Rs. 500

Passbook Balance = Cashbook Balance - Outstanding checks + Unrecorded deposit - Bank charges

Passbook Balance = Rs. 15,000 - Rs. 5,000 + Rs. 2,000 - Rs. 500

Passbook Balance = Rs. 11,500

21. Which of the following statements is true regarding standard costing?

(a) Standard costing is only used in manufacturing industries.

(b) Standard costing helps in cost control but not in performance evaluation.

(c) Standard costing involves comparing actual costs with predetermined standards.

(d) Standard costing is primarily used for financial reporting purposes.

Ans. c

Sol. Standard costing involves comparing actual costs with predetermined standards to evaluate performance and control costs. It is not limited to manufacturing industries and is widely used in various sectors.



22. If a company increases its debt-to-asset ratio, what is the likely effect?

- (a) Increased financial stability.
- (b) Reduced financial risk.
- (c) Increased financial leverage.
- (d) Decreased profitability.

Ans. c

Sol. Increasing the debt-to-asset ratio indicates higher financial leverage, which can amplify returns on equity but also increase financial risk.

23. Identify the incorrect statement regarding social responsibility:

- (a) Social responsibility involves a company's ethical and philanthropic efforts.
- (b) It is not relevant to a company's image or reputation.
- (c) Social responsibility considers the impact of business operations on society.
- (d) Companies can engage in social responsibility voluntarily.

Ans. b

Sol. Statement (b) is incorrect. Social responsibility is indeed relevant to a company's image and reputation, and it involves ethical and philanthropic efforts aimed at making a positive impact on society.

24. How does the price of a bond typically react when the expected rate of return (yield) increases?

- (a) Bond price increases.
- (b) Bond price decreases.
- (c) Bond price remains unchanged.
- (d) Bond price depends on the bond's coupon rate.

Ans. b

Sol. When the expected rate of return (yield) on bonds increases, the bond prices generally decrease. This inverse relationship is due to the opportunity cost of holding lower-yielding bonds when higher-yielding alternatives are available.

25. What does the "going concern" concept in accounting imply?

- (a) Assets should be valued at their historical cost.
- (b) Financial statements should be prepared with the assumption that the entity will continue to operate indefinitely.
- (c) Liabilities should be understated to show a conservative financial position.
- (d) Dividends should be recognized as revenue.

Ans. b



Sol. The "going concern" concept implies that financial statements should be prepared with the assumption that the entity will continue to operate indefinitely, meaning it is not expected to be liquidated or cease its operations in the near future. This assumption allows for the proper presentation of assets and liabilities based on their expected long-term use.

26. XYZ Company provided services to a client in December 2022 but received payment in January 2023. According to the accrual concept, when should XYZ recognize the revenue?

- (a) In December 2022
- (b) In January 2023
- (c) In both December 2022 and January 2023
- (d) It depends on the company's preference.

Ans. a

Sol. According to the accrual concept, revenue should be recognized when it is earned, which in this case is in December 2022 when the services were provided, irrespective of the actual payment date.

27. ABC Ltd. purchased machinery for Rs. 1,00,000 with an expected useful life of 5 years and a salvage value of Rs. 10,000. What is the annual depreciation using the straight-line method?

- (a) Rs. 10,000
- (b) Rs. 18,000
- (c) Rs. 20,000
- (d) Rs. 25,000

Ans. b

Sol. The annual depreciation using the straight-line method is calculated as $(\text{Cost} - \text{Salvage Value}) / \text{Useful Life}$
 $= (1,00,000 - 10,000) / 5$
 $= \text{Rs. } 18,000.$

28. A company has fixed costs of Rs. 50,000, a variable cost per unit of Rs. 10, and a selling price per unit of Rs. 20. What is the break-even point in units?

- (a) 2,000 units
- (b) 3,000 units
- (c) 5,000 units
- (d) 7,000 units

Ans. c

Sol. The break-even point in units is calculated as $\text{Fixed Costs} / (\text{Selling Price per Unit} - \text{Variable Cost per Unit})$
 $= 50,000 / (20 - 10)$



$$= 50,000 / 10$$
$$= 5,000 \text{ units.}$$

29. A trader purchased goods for Rs. 50,000, sold goods worth Rs. 60,000, and incurred expenses of Rs. 10,000. Calculate the gross profit and net profit.

- (a) Gross profit: Rs. 10,000; Net profit: Rs. 0
- (b) Gross profit: Rs. 10,000; Net profit: Rs. 20,000
- (c) Gross profit: Rs. 60,000; Net profit: Rs. 10,000
- (d) Gross profit: Rs. 50,000; Net profit: Rs. 10,000

Ans. c

Sol. Gross profit is calculated as Sales - Cost of Goods Sold = Rs. 60,000 - Rs. 50,000 = Rs. 10,000.

Net profit is Gross profit - Expenses
= Rs. 10,000 - Rs. 10,000 = Rs. 0

30. A company has total assets of Rs. 1,00,000 and total liabilities of Rs. 40,000. What is the company's net worth?

- (a) Rs. 60,000
- (b) Rs. 40,000
- (c) Rs. 1,00,000
- (d) Rs. 140,000

Ans. a

Sol. Net worth is calculated as Total Assets - Total Liabilities = Rs. 1,00,000 - Rs. 40,000 = Rs. 60,000.

31. A company's _____ is a measure of its short-term liquidity, calculated as Current Assets minus Current Liabilities.

- (a) Profit Margin
- (b) Net Profit
- (c) Networking Capital
- (d) Equity

Ans. c

Sol. Networking Capital is calculated as Current Assets minus Current Liabilities. It represents a company's short-term liquidity.

32. The Quick Ratio, also known as the Acid-Test Ratio, includes only _____ in its calculation, making it a more stringent measure of a company's liquidity compared to the Current Ratio.

- (a) Current Assets
- (b) Inventories
- (c) Current Liabilities



(d) Fixed Assets

Ans. a

Sol. The Quick Ratio includes only Current Assets (excluding Inventories) in its calculation, making it a more stringent measure of liquidity.

33. Section 80C of the Income Tax Act allows taxpayers to claim deductions for investments made in various financial instruments, such as PPF, NSC, and _____.

(a) Bank Savings Account

(b) Fixed Deposit

(c) Stock Market

(d) Life Insurance Premium

Ans. d

Sol. Section 80C allows deductions for investments made in various instruments, including Life Insurance Premiums.

34. The East India Company was historically an example of a _____ company, where private individuals held shares and participated in the company's profits and losses.

(a) Government-owned

(b) Partnership

(c) Cooperative

(d) Joint-stock

Ans. d

Sol. The East India Company was a historical example of a joint-stock company, where individuals held shares in the company.

35. In accounting, a _____ represents a person or entity who owes money to a business, while a _____ is a person or entity to whom the business owes money.

(a) Creditor; Debtor

(b) Debtor; Creditor

(c) Lender; Borrower

(d) Borrower; Lender

Ans. b

Sol. In accounting, a Debtor represents someone who owes money to a business, while a Creditor represents someone to whom the business owes money.

36. In a Cash Flow Statement, Loss of sale of equipment's includes in?

(a) Financing Activities

(b) Investing Activities



- (c) Operating Activities
- (d) Extraordinary Items

Ans. c

37. The Fund Flow Statement provides information about:

- (a) Cash flows from operating, investing, and financing activities.
- (b) Changes in the financial position of a company over a specific period.
- (c) The company's income and expenses.
- (d) The company's assets and liabilities at a given point in time.

Ans. b

Sol. The Fund Flow Statement provides information about the changes in the financial position of a company over a specific period, including the sources and uses of funds.

38. Which accounting standard in India deals with the computation and presentation of the Debt-Equity Ratio in financial statements?

- (a) AS 10 - Accounting for Fixed Assets
- (b) AS 17 - Segment Reporting
- (c) AS 21 - Consolidated Financial Statements
- (d) AS 16 - Borrowing Costs

Ans. b

Sol. AS 17 - Segment Reporting primarily deals with the computation and presentation of the Debt-Equity Ratio in financial statements.

39. In accounting, what is the purpose of a suspense account?

- (a) To record transactions with uncertain values.
- (b) To temporarily hold erroneous entries until they are corrected.
- (c) To track expenses and revenues.
- (d) To record suspenseful financial events.

Ans. b

Sol. A suspense account is used to temporarily hold erroneous entries until they are identified and corrected.

40. If a company overstates its revenue by Rs. 10,000 in the books, what would be the rectification entry to correct this error?

- (a) Debit Revenue by Rs. 10,000; Credit Cash by Rs. 10,000
- (b) Debit Revenue by Rs. 10,000; Credit Accounts Receivable by Rs. 10,000
- (c) Debit Revenue by Rs. 10,000; Credit Expenses by Rs. 10,000
- (d) Debit Revenue by Rs. 10,000; Credit Retained Earnings by Rs. 10,000

Ans. a

Sol. To correct the overstatement of revenue, you need to reduce the revenue by debiting it and decrease an asset (like cash) by crediting it.



41. Which financial evaluation method calculates the rate at which the present value of cash flows equals the initial investment?

- (a) Net Present Value (NPV)
- (b) Internal Rate of Return (IRR)
- (c) Accounting Rate of Return (ARR)
- (d) Nominal Rate

Ans. b

Sol. Internal Rate of Return (IRR) calculates the rate at which the present value of cash flows equals the initial investment.

42. What does Corporate Social Responsibility (CSR) primarily focus on?

- (a) Maximizing shareholder wealth
- (b) Minimizing operational costs
- (c) Meeting legal requirements
- (d) Ethical and philanthropic efforts beyond legal obligations

Ans. d

Sol. Corporate Social Responsibility (CSR) primarily focuses on ethical and philanthropic efforts beyond legal obligations to make a positive impact on society.

43. Which of the following topics typically does not involve numerical calculations related to annuities?

- (a) Time Value of Money
- (b) Net Present Value (NPV)
- (c) Accounting Rate of Return (ARR)
- (d) Internal Rate of Return (IRR)

Ans. c

Sol. Accounting Rate of Return (ARR) is a financial evaluation method that does not involve numerical calculations related to annuities.

44. The nominal rate of interest:

- (a) Reflects the actual interest rate charged on a loan.
- (b) Does not account for inflation.
- (c) Represents the real purchasing power of money.
- (d) Remains constant over time.

Ans. b

Sol. The nominal rate of interest does not account for inflation and represents the stated or observed rate without adjusting for changes in purchasing power.

45. Accounting Standard 1 (AS-1) defines:



- (a) Rules for cash flow statement preparation.
- (b) Disclosure of related-party transactions.
- (c) Principles for depreciation calculation.
- (d) Disclosure of accounting policies and practices.

Ans. d

Sol. Accounting Standard 1 (AS-1) defines the disclosure of accounting policies and practices followed by an entity in the preparation and presentation of financial statements.

46. Statement I: Accounting Standard 5 (AS-5) deals with the recognition and measurement of provisions and contingent liabilities.

Statement II: Provisions are recognized when there is a present obligation, and it is probable that an outflow of resources will be required to settle the obligation.

Statement III: Contingent liabilities are potential obligations that may or may not become actual liabilities.

Which of the following options is correct?

- (a) Statement I and II are correct.
- (b) Statement II and III are correct.
- (c) Statement I and III are correct.
- (d) All three statements are correct.

Ans. a

Sol. Statement I is correct. AS-5 deals with provisions and contingent liabilities. Statement II is correct as it explains the criteria for recognizing provisions. Statement III is incorrect as it doesn't fully capture the definition of contingent liabilities.

47. A machinery was purchased for INR 2,00,000, and its estimated useful life is 5 years. Calculate the annual depreciation using the Straight-Line method.

- (a) INR 20,000
- (b) INR 40,000
- (c) INR 50,000
- (d) INR 10,000

Ans. b

Annual Depreciation = Cost of Machinery – Scrap Value / Useful Life
= 2,00,000 – 0 / 5 = 40,000

48. Which depreciation method is also known as the "Reducing Balance Method"?

- (a) Straight-line method
- (b) Written-down value method
- (c) Sum-of-the-years-digits method



(d) Unit of production method

Ans. b

Sol. The Written-Down Value method is also called the "Reducing Balance Method" because it calculates depreciation based on the reducing book value of the asset.

49. A vehicle was purchased for INR 5,00,000 and has an estimated useful life of 8 years. Using the Sum-of-the-Years-Digits method, what is the depreciation expense for the third year?

(a) INR 31,250

(b) INR 75,000

(c) INR 62,500

(d) INR 50,000

Ans. a

Sol. The Sum-of-the-Years-Digits method allocates depreciation based on a fraction of the total years' digits.

In the third year, the fraction is $(3/36)$,

and the depreciation is $(\text{Cost} - \text{Accumulated Depreciation Year 2}) * (3/36)$
 $= (5,00,000 - 1,25,000) * (3/36) = \text{INR } 31,250.$

50. Statement I: Statutory audits are conducted to ensure compliance with financial regulations and laws.

Statement II: Statutory audits are not required for publicly traded companies.

Statement III: The primary objective of a statutory audit is to detect fraud and irregularities.

Which of the following options is correct?

(a) Statement I and II are correct.

(b) Statement II and III are correct.

(c) Statement I and III are correct.

(d) Statement I and II are correct.

Ans. c

Sol. Statement I is correct as statutory audits are conducted to ensure compliance with financial regulations and laws. Statement II is incorrect because publicly traded companies often require statutory audits.

Statement III is correct as one of the objectives of a statutory audit is to detect fraud and irregularities.

51. One of the disadvantages of computerized accounting is that it can lead to _____ errors if data entry is not accurate, which may not be immediately apparent.

(a) Calculation



- (b) Logical
- (c) Systematic
- (d) Mechanical

Ans. b

Sol. One of the disadvantages of computerized accounting is that it can lead to logical errors if data entry is not accurate, and these errors may not be immediately apparent.

52. In the Financial Statement of Abhinav & Co, Following information is given:

Debtors	50
PP expenses	15
stock	120
Bank OD	120
Creditors	40
cash	20
Expenses payable	10

Calculate Current Ratio

- (a) 1.10
- (b) 1.35
- (c) 1.21
- (d) 1.61

Ans. c

Current Ratio = Current Assets/ Current Liabilities

= Debtors + PP Exp + Stock + Cash / Bank OD + Creditors + Expenses Payable

= 50 + 15 + 120 + 20 / 120 + 40 + 10

= 1.21

53. The term "sweat equity" refers to shares issued by a company as compensation for _____.

- (a) Purchasing goods and services
- (b) Payment of dividends
- (c) Providing labor or services
- (d) Obtaining a bank loan

Ans. c

Sol. "Sweat equity" refers to shares issued by a company as compensation for providing labor or services, often instead of cash.



54. In the context of foreign exchange trading, TOM refers to the _____ rate, which is settled _____.

- (a) Same day; on the next business day
- (b) Spot; on the same day
- (c) Next day; on the same day
- (d) Spot; on the next business day

Ans. d

Sol. In the context of foreign exchange trading, TOM refers to the Spot rate, which is settled on the next business day.

55. The following data is given: Fixed cost = ₹12000 Selling price = ₹12 per unit Variable cost = ₹ 9 per unit . Calculate PV Ratio?

- (a) 10%
- (b) 20%
- (c) 25%
- (d) 30%

Ans. c

PV ratio = $\frac{\text{Selling Price per unit} - \text{Variable Cost per unit}}{\text{Sales}} \times 100$

$$= \frac{12 - 9}{12} \times 100$$

$$= 25\%$$

56. A swap agreement involves the exchange of _____ between two parties.

- (a) Goods and Services
- (b) Currencies
- (c) Stocks and Bonds
- (d) Legal Documents

Ans. b

Sol. A swap agreement typically involves the exchange of currencies between two parties.

57. XYZ Ltd. is a manufacturing company that produces electronic gadgets. They have recently introduced a new product line and are concerned about the cost structure. After conducting a cost analysis, they find that the cost of production has increased significantly due to rising raw material prices. As a bank's financial analyst, what advice would you offer to XYZ Ltd. to manage their cost effectively?

- (a) Reduce the selling price of the new product to attract more customers.
- (b) Explore alternative suppliers for raw materials to reduce costs.
- (c) Decrease the advertising budget to save on expenses.
- (d) Increase the production volume to spread fixed costs.



Ans. b

Sol. To manage costs effectively, XYZ Ltd. should explore alternative suppliers for raw materials to reduce costs. This can help mitigate the impact of rising raw material prices without compromising on product quality.

58. Calculate 'Liquidity Ratio' from the following information:

Current liabilities = Rs. 90000

Current assets = Rs. 120,000

Inventories = Rs. 20,000

Advance tax = Rs. 5,000

Prepaid expenses = Rs. 5,000

(a) 1:2

(b) 1:1

(c) 2:1

(d) 1:3

Ans. b

Liquidity ratio = Quick Assets / Current Liabilities

Quick Assets = Current Assets - Inventories - Advance Tax - PE

= 1,20,000 - 20,000 - 5,000 - 5,000 = 90,000

= LR = 90,000 / 90,000

= 1:1

59. X Ltd., has a current ratio of 3.5 : 1 and quick ratio of 2 : 1. If excess of current assets over quick assets represented by inventories is Rs. 24,000, calculate current liabilities and current assets.

(a) 16000, 56000

(b) 28000, 98000

(c) 32000, 112000

(d) 20000, 75000

Ans. a

Current Ratio = Current Assets / Current Liabilities

= CA / CL = 3.5:1

CA = 3.5 CL ---- (1)

Quick Ratio = Quick Assets / current liabilities

CA - Inventories / CL = 2:1

2CL = CA - 24000 ---- (2)

From equation 1 & 2

2 CL = 3.5CL - 24000

1.5 CL = 24000

CL = 16000

CA = 3.5 CL

= 3.5 * 16000 = 56000



60. ABC Traders, a retail company, prepares its trading account for the year 2022. They had opening stock worth Rs. 50,000, made purchases worth Rs. 2,00,000, and closing stock worth Rs. 30,000. Calculate their Gross Profit.

- (a) Rs. 2,20,000
- (b) Rs. 1,50,000
- (c) Rs. 70,000
- (d) Rs. 80,000

Ans. a

Sol. Gross Profit is calculated as (Opening Stock + Purchases) - Closing Stock.

Therefore, Gross Profit = (50,000 + 2,00,000) - 30,000 = Rs. 2,20,000.

61. If current market price of share is Rs. 70 and EPS is Rs. 8 then Price Earning ratio will be

- (a) 8.15
- (b) 8.25
- (c) 8.35
- (d) 8.75

Ans. d

62. JK Manufacturing, a company specializing in custom furniture, is facing challenges in pricing its products competitively while maintaining profitability. As a bank's financial analyst, what cost management strategies would you recommend to JK Manufacturing to balance competitiveness and profitability?

- (a) Increase the profit margin by raising prices significantly.
- (b) Reduce the quality of materials used in furniture production.
- (c) Implement cost-effective manufacturing processes.
- (d) Outsource production to lower-cost countries.

Ans. b

63. MNO Traders is a wholesale distributor of electronic gadgets. During the year 2022, they had opening stock worth Rs. 1,20,000, made purchases worth Rs. 5,00,000, and closing stock worth Rs. 2,00,000. Calculate their Cost of Goods Sold (COGS).

- (a) Rs. 3,20,000
- (b) Rs. 4,20,000
- (c) Rs. 4,80,000
- (d) Rs. 7,00,000

Ans. b

64. What does a current ratio of 2:1 signify for a company?



- (a) The company has excessive liquidity.
- (b) The company is at risk of insolvency.
- (c) The company's assets are double its liabilities.
- (d) The company's profitability is high.

Ans. c

Sol. A current ratio of 2:1 means that the company's current assets are twice its current liabilities, indicating strong liquidity and the ability to meet short-term obligations.

65. Mrs. Patel, a loyal customer, has requested to close her fixed deposit account prematurely. She has a fixed deposit of INR 1,00,000 for one year with an interest rate of 6%. What will be the appropriate accounting entry when her FD is closed prematurely after six months?

- (a) Debit Mrs. Patel's account by INR 1,00,000 and credit the interest account.
- (b) Credit Mrs. Patel's account by INR 1,00,000 and debit the interest account.
- (c) Debit the interest account by INR 3,000 and credit Mrs. Patel's account by INR 97,000.
- (d) Debit the interest account by INR 1,000 and credit Mrs. Patel's account by INR 99,000.

Ans. d

Sol. When a fixed deposit is closed prematurely, the interest earned is calculated and debited from the interest account, and the remaining principal is credited to the customer's account.

66. Mr. Khan, a corporate client, has made a payment of INR 2,50,000 to your bank for his outstanding loan. What will be the appropriate accounting entry to record this payment?

- (a) Debit Mr. Khan's account by INR 2,50,000 and credit the loan account.
- (b) Credit Mr. Khan's account by INR 2,50,000 and debit the loan account.
- (c) Debit the loan account by INR 2,50,000 and credit Mr. Khan's account.
- (d) No accounting entry is required for loan payments.

Ans. a

Sol. When a customer makes a payment towards their loan, the bank should debit the customer's account (reducing their balance) and credit the loan account (reducing the outstanding loan amount).

67. Statement I: Statutory audits are conducted by external auditors who are independent of the organization being audited.

Statement II: The primary purpose of a statutory audit is to detect and prevent fraud within the organization.



Statement III: The auditors' report, issued after a statutory audit, provides an opinion on the financial statements' accuracy and compliance with relevant laws and regulations.

- (a) Statement I is true, and Statements II and III are false.
- (b) Statement II is true, and Statements I and III are false.
- (c) Statement I and III are true, and Statement II is false.
- (d) All three statements are true.

Ans. c

Sol. Statement I is true. Statutory audits are indeed conducted by external auditors who are independent of the organization being audited.

Statement II is false. While statutory audits may help in detecting fraud, their primary purpose is to express an opinion on the financial statements' accuracy and compliance with laws and regulations.

Statement III is true. The auditors' report issued after a statutory audit provides an opinion on the financial statements' accuracy and compliance with relevant laws and regulations.

68. Statement I: The frequency of statutory audits is determined by the organization's management.

Statement II: Statutory auditors are responsible for preparing the financial statements of the organization.

Statement III: The scope of a statutory audit includes reviewing internal controls and compliance with accounting standards.

- (a) Statement I is true, and Statements II and III are false.
- (b) Statement II is true, and Statements I and III are false.
- (c) Statement III is true, and Statements I and II are false.
- (d) Statement I is false, and Statements II and III are true.

Ans. c

Sol. Statement I is false. The frequency of statutory audits is not determined by the organization's management but is typically mandated by regulatory authorities.

Statement II is false. Statutory auditors do not prepare the financial statements of the organization; they review and audit the financial statements prepared by the organization's management.

Statement III is true. The scope of a statutory audit includes reviewing internal controls and compliance with accounting standards, in addition to verifying the accuracy of financial statements.

69. Statement I: The primary objective of a statutory audit is to provide management with recommendations for improving operational efficiency.

Statement II: Statutory auditors are required to be Chartered Accountants by law.



Statement III: The auditors' report issued after a statutory audit is a public document and can be accessed by anyone.

- (a) Statement I is true, and Statements II and III are false.
- (b) Statement II is true, and Statements I and III are false.
- (c) Statement III is true, and Statements I and II are false.
- (d) Statement I is false, and Statements II and III are true.

Ans. c

Sol. Statement I is false. The primary objective of a statutory audit is not to provide management with recommendations for improving operational efficiency but to express an opinion on the accuracy of financial statements and compliance with relevant laws and regulations.

Statement II is false. While Chartered Accountants often perform statutory audits, it is not a legal requirement for all statutory auditors to be Chartered Accountants.

Statement III is true. The auditors' report issued after a statutory audit is a public document and can be accessed by anyone interested in reviewing the organization's financial performance and compliance.

70. Assertion (a): Absorption costing includes both variable and fixed manufacturing costs in the cost of a product.

Reason (R): It is essential for calculating the break-even point accurately.

- (a) Both A and R are true, and R is the correct explanation of A.
- (b) Both A and R are true, but R is not the correct explanation of A.
- (c) A is true, but R is false.
- (d) A is false, but R is true.

Ans. a

Sol. Both statements A and R are correct. Absorption costing indeed includes both variable and fixed manufacturing costs in the cost of a product. This is essential for calculating the break-even point accurately because it considers all costs associated with production.

71. Assertion (a): Marginal costing treats fixed manufacturing overhead as a period cost.

Reason (R): It helps in assessing the impact of changes in production volumes on profit.

- (a) Both A and R are true, and R is the correct explanation of A.
- (b) Both A and R are true, but R is not the correct explanation of A.
- (c) A is true, but R is false.
- (d) A is false, but R is true.

Ans. a

Sol. Both statements A and R are correct. Marginal costing treats fixed manufacturing overhead as a period cost, and this treatment helps in



assessing the impact of changes in production volumes on profit. The period cost treatment of fixed overhead allows for clearer insights into cost-volume-profit relationships.

72. Assertion (A): Job costing is suitable for industries where each product or service is unique and custom-made.

Reason (R): Job costing assigns costs to specific jobs or projects, making it easy to determine the profitability of each job.

- (a) Both A and R are true, and R is the correct explanation of A.
- (b) Both A and R are true, but R is not the correct explanation of A.
- (c) A is true, but R is false.
- (d) A is false, but R is true.

Ans. a

Sol. Both statements A and R are correct. Job costing is indeed suitable for industries where each product or service is unique and custom-made, such as construction or specialized manufacturing. Job costing assigns costs to specific jobs or projects, allowing for the determination of the profitability of each job, which is particularly valuable in industries where customization is prevalent.

73. Mr. Kapoor, a customer of your bank, approached you with a discrepancy in his bank statement. He noticed that the bank statement shows a balance of INR 25,000, while his own records indicate a balance of INR 30,000 in his account. Upon further investigation, you discover the following:

Outstanding checks totaling INR 5,000 have not yet cleared.

The bank has charged a service fee of INR 500, which Mr. Kapoor was unaware of. What is the corrected balance in Mr. Kapoor's account after reconciling the bank statement?

- (a) INR 24,500
- (b) INR 34,500
- (c) INR 30,000
- (d) INR 24,000

Ans. b

Sol. To reconcile Mr. Kapoor's bank statement, you need to add back the outstanding checks and deduct the service fee charged by the bank.

The corrected balance is INR 30,000 (initial balance) + INR 5,000 (outstanding checks) - INR 500 (service fee)
= INR 34,500.



74. A sum of Rs.10000 has been debited to repairs account wrongly instead of the machinery a/c. The total of debit side of trial balance comes to Rs. 199000. What would be the total after rectification?

- (a) 199000
- (b) 200000
- (c) 1.80 lac
- (d) None of these

Ans. a

Current Entry :

Machinery A/c Dr. 10000
 To Bank A/c 10000

Wrong Entry :

Repair A/c Dr. 10000
 To Bank A/c 10000

Rectification Entry :

Machinery A/c Dr. 10000
 To Repair A/c 10000

So no change in debit side of trial balance

75. A machinery was purchased on 1st January 2014 for Rs. 100000.

Depreciation is provided at the rate of 20% p.a. by the diminishing balance method. Calculate the total amount of depreciation for 3 years.

- (a) 48800
- (b) 36000
- (c) 20000
- (d) 51200

Ans. a

Year 1

Dep = $100000 \times \frac{20}{100} = 20000$

Machine value at the end = $100000 - 20000 = 80000$

Year 2

Dep = $80000 \times \frac{20}{100} = 16000$

Machine value at the end = $80000 - 16000 = 64000$

Year 3

Dep = $64000 \times \frac{20}{100} = 12800$

Machine value at the end = $64000 - 12800 = 48800$

76. On 1st January, 2018, Abhinav & Co purchased a machinery by cheque for Rs. 400000. The estimated scrap value of the machinery is Rs. 60000.

Depreciation is provided @ 15% p.a. by diminishing balance method.

Calculate the value of machinery at the beginning of 3rd year.

- (a) 360000
- (b) 340000
- (c) 245650



(d) 289000

Ans. a

Year 1

Dep = $400000 * 15/100 = 60000$

Machine value at the end

$400000 - 60000 = 340000$

Year 2

Dep = $340000 * 15/100 = 51000$

Machine value at the end

$340000 - 51000 = 289000$

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