20 Recollected Questions in Accounting and Finance for Bankers (AFB) For JAIIB 2022 Examination

KEY HIGHLIGHTS

- Most likely to be Asked Questions
- Recollected from the Previous 5 Years
- Thoroughly Curated by Industry Experts
- 20 Questions with Solutions
- Based on the Latest Pattern for 2022 Exam

PART V

Accounting & Finance for Bankers (AFB) – Part V

Q1. A purchase invoice is recorded in the Purchases Day Book as Rs. 18,500, without taking account of 10% of that amount offered as trade discount.
(a) Excess credit Rs. 1,850
(b) Excess debit Rs. 1,850
(c) Excess debit Rs. 3,700
(d) No impact
Ans: (d)
Explanation:
The amount entered in the Purchases Day Book is incorrect as trade discount is never entered in the books. However, it is the incorrect amount that will appear in both the debits in the Purchases account and the credit in the supplier's account. Although the amount is incorrect because the same amount has been entered as both a debit and a credit there will be no impact on the Trial Balance, i.e. it will continue to be in balance.

Q2. A sales invoice for Rs. 21,000 has been posted to the Customer's account as Rs. 12,000.
(a) Excess credit Rs. 12,000
(b) Excess debit Rs. 12,000
(c) Excess credit Rs. 9,000
(d) Excess debit Rs. 9,000
Ans: (c)
Explanation:
The sales invoice will have been posted to the debit of the customer's account. As the amount is Rs. 9,000 less than the amount that will appear in the Sales account credit balance, it follows that the Trial Balance will show an excess credit of Rs. 9,000 .

Q3. A Credit Note for Rs. 2,400 received from a supplier has been posted to the credit of the supplier's account.
(a) Excess credit Rs. 2,400
(b) Excess credit Rs. 4,800
(c) Excess debit Rs. 2,400
(d) Excess debit Rs. 4,800
Ans: (b)
Explanation:
Credit purchases will have been credited to the supplier's account. If the supplier sends a Credit Note indicating an amount that does not have to be paid, then there should be a debit to the supplier's account. If the debit of Rs. 1,200 had not been made then there would be an excess of credits of Rs. 1,200. Because the Rs. 1,200 was actually posted to the wrong side there is a double effect and the credits will exceed the debits by Rs. 2,400

Q4. The year-end balance in a Trade Receivable's account has been carried down as Rs. 14,800, instead of Rs. 18,400.

(a) Excess debit Rs. 3,600
(b) Excess credit Rs. 3,600
(c) Excess credit Rs. 7,200
(d) No impact

Ans: (b)

Explanation:

Trade Receivable balances are listed as debits in the Trial Balance. If figures are transposed so that Rs. 18,400 is listed as Rs. 14,800 then the debits are too low and there will be excess credits of Rs. 3,600.

Q5. The total of the Returns Outwards Day Book, amounting to Rs. 9,800, has been posted to the debit of the Purchases Returns account.

(a) Excess debit Rs. 9,800
(b) Excess debit Rs. 19,600
(c) Excess credit Rs. 19,600
(d) No impact

Ans: (b)

Explanation:

The total of Returns Outwards should be a credit with the individual debits made in the supplier's account. In this case the Rs. 9,800 returned has been entered on the wrong side, so doubling the effect of the error. This means that there will be an excess of credits of Rs. 19,600

Q6. The total sale made during the year is Rs 10 lacs, Opening stock of raw material is Rs 2 lacs, raw material purchased during the year is Rs 5 lacs and closing stock of raw material is Rs 1 lacs. If the manufacturing expenses is Rs 3 lacs the unit is in net profit of .

(a) Nil
(b) 100000
(c) 200000
(d) 300000

Ans: (b)

Directions: The debt equity ratio of X Ltd. is 0.5 : 1. Which of the following would increase/decrease or not change the debt equity ratio?

Q7. Further issue of equity shares

(a) Increase
(b) Decrease
(c) No change
(d) None of the above

Ans: (b)

Explanation:

The change in the ratio depends upon the original ratio. Let us assume that external funds are Rs. 5,00,000 and internal funds are Rs. 10,00,000.

Now we will analyze the effect of given transactions on debt equity ratio.

Assume that Rs. 1,00,000 worth of equity shares are issued.

This will increase the internal funds to Rs. 11,00,000.

The new ratio will be 0.45 : 1 (5,00,000/11,00,000).

Thus, it is clear that further issue of equity shares decreases the debt-equity ratio.

Q8. Cash received from debtors

(a) Increase

(b) Decrease

(c) No change

(d) None of the above

Ans: (c)

Explanation:

Cash received from debtors will leave the internal and external funds unchanged as this will only affect the composition of current assets.

Hence, the debt-equity ratio will remain unchanged.

Q9. Sale of goods on cash basis

(a) Increase

(b) Decrease

(c) No change

(d) None of the above

Ans: (c)

Explanation:

This will also leave the ratio unchanged as sale of goods on cash basis neither affect Debt nor equity.

Q10. Redemption of debentures

(a) Increase

(b) Decrease

(c) No change

(d) None of the above

Ans: (b)

Explanation:

Assume that Rs. 1,00,000 debentures are redeemed.

This will decrease the long-term debt to Rs. 4,00,000.

The new ratio will be 0.4 : 1 (4,00,000/10,00,000).

Redemption of debentures will decrease the debit-equity ratio.

Q11. Purchase of goods on credit

(a) Increase

(b) Decrease

(c) No change

(d) None of the above

Ans: (c)

Explanation:

This will also leave the ratio unchanged as purchase of goods on credit neither affect Debt nor equity.

Q12. ABC Company just issued a bond with a Rs. 1,000 face value and a coupon rate of 8%. If the bond has a life of 20 years, pays annual coupons, and the yield to maturity is 7.5%, what will the bond sell for?

(a) Rs. 951

(b) Rs. 975

(c) Rs. 1,020

(d) Rs. 1,051

Ans: (b)

Q13. What is the market value of a bond that will pay a total of fifty semiannual coupons of Rs. 80 each over the remainder of its life? Assume the bond has a Rs. 1,000 face value and a 12% yield to maturity.

(a) Rs. 734.86

(b) Rs. 942.26

(c) Rs. 1,135.90

(d) Rs. 1,315.24

Ans: (a)

Q14. The amount of Term Loan installment is Rs.10000/ per month, monthly average interest on TL is Rs.5000/-. If the amount of Depreciation is Rs.30,000/- p.a. and PAT is Rs.2,70,000/-. What would be the DSCR ?

(a) 1

(b) 1.5

(c) 2

(d) 2.5

Ans: (c)

Explanation:

DSCR = (PAT + Depr + Annual Intt.) / Annual Intt + Annual Installment

= (270000 + 30000 + 60000) / 60000 + 12000

= 360000 / 180000

= 2

Direction (15-17): From the following information, calculate.
Inventory in the beginning = 18,000
Inventory at the end = 22,000
Net purchases = 46,000
Wages = 14,000
Revenue from operations = 80,000
Carriage inwards = 4,000

Q15. Cost of Revenue from Operations
(a) Rs. 20,000
(b) Rs. 40,000
(c) Rs. 60,000
(d) Rs. 80,000
Ans: (c)
Explanation:
Cost of Revenue from Operations = Inventory in the beginning + Net Purchases + Wages + Carriage inwards – Inventory at the end
= Rs. 18,000 + Rs. 46,000 + Rs. 14,000 + Rs. 4,000 – Rs. 22,000
= Rs. 60,000

Q16. Average Inventory
(a) Rs. 20,000
(b) Rs. 40,000
(c) Rs. 60,000
(d) Rs. 80,000
Ans: (a)
Explanation:
Average Inventory = (Inventory in the beginning + Inventory at the end) / 2
= (Rs. 18,000 + Rs. 22,000) / 2
= Rs. 20,000

Q17. Inventory Turnover Ratio
(a) 1 Time
(b) 2 Times
(c) 3 Times
(d) 4 Times
Ans: (c)
Explanation:
Inventory Turnover Ratio = Cost of Revenue from Operations / Average Inventory
= Rs. 60,000 / Rs. 20,000
= 3 Times

Directions (18-19): 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 .

Q18. Current liabilities
(a) Rs. 16,000
(b) Rs. 36,000
(c) Rs. 56,000
(d) Rs. 76,000
Ans: (a)
Explanation:
Current Ratio = 3.5:1
Quick Ratio = 2:1
Let Current liabilities = x
Current assets = 3.5x
and Quick assets = 2x
Inventories = Current assets – Quick assets
24,000 = 3.5x – 2x
24,000 = 1.5x
x = Rs.16,000
Current Liabilities = Rs.16,000

Q19. Current assets
(a) Rs. 16,000
(b) Rs. 36,000
(c) Rs. 56,000
(d) Rs. 76,000
Ans: (c)
Explanation:
Current Assets = 3.5x = 3.5 × Rs. 16,000 = Rs. 56,000.
Verification :
Current Ratio = Current assets : Current liabilities
= Rs. 56,000 : Rs. 16,000
= 3.5 : 1
Quick Ratio = Quick assets : Current liabilities
= Rs. 32,000 : Rs. 16,000
= 2 : 1

Q20. If gross profit on sale is 20% and cost of goods sold is 2,500, What will be amount of sales?
(a) Rs.2500
(b) Rs.2750
(c) Rs.3125
(d) Rs.3500
Ans: (c)
Explanation:
Sales = Cost of goods sold x 100/80
= 2500 x 100 / 80
= 3125
Generally 20% on Sales means 25% on Costs
25% on sales means 33.33 % on Costs