QA 700000 - 35000 = 665000

# CAIIB Early Bird Pack 2025 - 2026

#### **ANALYSIS OF FINANCIAL STATEMENTS**

1. A company with current liabilities of ₹8,00,000 and a quick ratio (A) of 0.875 decides to write off 10% of its accounts receivable, which currently stand at ₹3,50,000, as uncollectible bad debts. How does this accounting adjustment impact the company's immediate liquidity position as measured by the revised quick ratio, and what does it signify?

(A) The quick ratio improves to 0.92, indicating a stronger liquidity position.

(B) The quick ratio remains unchanged at 0.875 because the write-off is a non-cash event.

The quick ratio deteriorates to 0.83, suggesting an increase in the company's short-term liquidity risk.

The quick ratio decreases to 0.75, as the write-off reduces both quick assets and current liabilities.

- 2. A manufacturing firm purchases a highly specialized machine for long-term use in its production process, recording it at its acquisition price of ₹50 lakh. Despite market fluctuations causing the machine's resale value to increase to ₹60 lakh a year later, the company's balance sheet continues to show the asset at its depreciated original value. This adherence to recording assets at their purchase price and not accounting for unrealized gains is a direct application of which fundamental accounting concept?
- A) The Going-Concern Concept, because the asset is intended for long-term use.
- The Cost Concept, as it dictates that assets are generally recorded at their acquisition cost.
- C) The Money Measurement Concept, as the transaction was expressed in monetary terms.
- The Conservation Concept, because it prevents the anticipation of profits.

- 3. A financial analyst is comparing a company's Fund Flow Statement and Cash Flow Statement to understand its financial dynamics. The company reported a significant net profit for the year but its cash balance declined. Which statement best explains a key conceptual difference that could lead to this situation?
- (A) The <u>Fund Flow Statement</u> is based on cash accounting, while the Cash Flow Statement is based on accrual accounting, causing the discrepancy.
  - B) The Fund Flow Statement focuses on the movement of working capital and includes non-cash items like depreciation as a source of funds, whereas the Cash Flow Statement tracks only the movement of actual cash.
  - C) The Cash Flow Statement includes changes in working capital as applications of funds, while the Fund Flow Statement treats them as sources.
  - D) The Fund Flow Statement analyzes short-term cash changes, while the Cash Flow Statement is used for long-term financial planning.

4. A company has a Profit After Tax (PAT) of ₹9,50,000, depreciation of ₹3,00,000, and annual interest on its term loans of ₹2,50,000. Its total debt service obligation for the year includes this interest plus an annual installment of ₹5,00,000. If the company takes an additional loan that increases its annual interest by ₹50,000 and its annual installment by ₹1,50,000, what is the resulting DSCR and what does it imply for the lender?

The DSCR decreases from 2.0 to 1.5, indicating a slightly higher but still acceptable risk.

The DSCR increases from 1.76 to 2.1, making the company a more attractive borrower.

The DSCR decreases from 1.76 to 1.43, indicating a significantly reduced debt servicing ability and a higher risk profile for the lender.

D) The DSCR remains unchanged because the increase in debt is matched by an increase in assets.

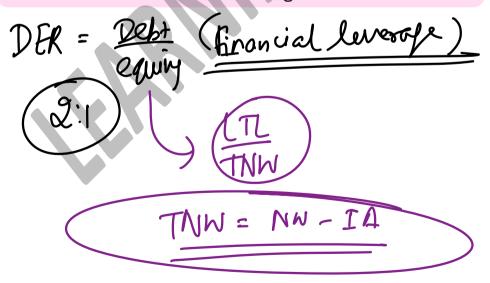
5. A startup in the competitive food delivery sector submits projected financial statements to a bank to secure a loan. The projections show revenue growing from ₹20 lakh to ₹1 crore in three years and profit margins increasing from 10% to 30%. From the bank's perspective, what is the most critical step in evaluating the viability of these projections?

A) Ensuring the projected balance sheet is correctly formatted in the vertical form as prescribed by the Companies Act.

B) Verifying that the projected profit after tax (PAT) is sufficient to cover the proposed loan installments.



- C) Critically examining the underlying assumptions for sales growth and margin expansion and comparing them against industry trends and past performance.
- D) Calculating the projected Debt-Equity ratio to ensure it remains below the 2:1 benchmark throughout the loan tenure.



- 6. A company's balance sheet includes investments in the shares of other companies. Some of these investments are in publicly listed companies and are actively traded on the stock exchange, while others are in a private, unlisted subsidiary. How should these two types of investments be classified on the balance sheet according to the provided text?
- A) All investments, whether quoted or not, are classified as Non-Current Assets.
- B) Quoted investments are treated as Current Assets, while non-quoted investments are classified as Non-Current Assets.
- C) All investments are classified as Current Assets as they can be sold if needed.
- D) Quoted investments are Intangible Assets, and non-quoted investments are Fixed Assets.

- 7. An analyst wants to compare the cost structure of a cement manufacturing company against its main competitor. At the same time, the analyst also wants to evaluate the growth pattern of the company's own sales and profits over the last five years. Which combination of analytical techniques would be most appropriate for these two distinct objectives?
- A) For comparison with the competitor use <u>Trend Analysis</u>, and for evaluating its own growth use Ratio Analysis.
- B) For comparison with the competitor use Common Size Analysis, and for evaluating its own growth use Trend Analysis.
- C) For both purposes, use <u>Funds Flow Analysis</u> to see how each company manages its working capital.
- D) For both purposes, use Ratio Analysis as it is the most comprehensive technique.

- 8. The board of directors and a group of potential equity investors are analyzing a company's profitability. The directors are concerned with how efficiently the company's total capital (both debt and equity) is being used to generate profits. The investors, however, are primarily interested in the return being generated specifically on their own funds. Which pair of profitability ratios should the directors and investors respectively focus on?
- A) Directors should focus on Return on Equity (ROE), while investors should focus on Return on Investment (ROI).
- B) Both groups should focus on the Net Profit Ratio as it shows the ultimate profitability.
- C) Directors should focus on Return on Investment (ROI/ROCE), while investors should focus on Return on Equity (ROE).
- D) Directors should focus on the Gross Profit Ratio, while investors should focus on the Net Profit Ratio.

9. A retail company has an Operating Profit of ₹3,00,000. During the year, it also sold an old, fully depreciated warehouse for a gain of ₹50,000 and earned ₹20,000 as interest on its bank fixed deposits. According to the structure of the Profit and Loss account provided, what is the company's Profit Before Interest and Taxes (PBIT/EBIT)?

A) ₹3,00,000

EBIT=

most mosni t

B) ₹3,70,000

C) ₹3,50,000

**D)** ₹2,30,000

- 10. In preparing a Cash Flow Statement, a company must classify the financial payment of dividends and the payment of interest on a term loan into their respective activity categories. Based on the components described in the document, what are the correct classifications for these two cash outflows?
- A) Both dividend and interest payments are classified under Operating Activities.
- B) Dividend payment is a Financing Activity, while interest payment is an Investing Activity.
- Dividend payment is a Financing Activity, and interest payment on borrowings is also considered a Financing Activity.
- Both dividend and interest payments are classified under Financing Activities.



- 11. A company's funds flow analysis reveals that its long-term uses of funds (e.g., purchase of fixed assets) significantly exceed its long-term sources (e.g., share capital, retained earnings). To cover this deficit, the company has heavily relied on short-term bank overdrafts. What critical financial issue does this situation indicate?
- A) A healthy investment strategy, using available credit to fuel growth.
- B) A funds diversion issue, where short-term funds are being used to finance long-term needs, creating a potential liquidity crisis.
- C) An efficient use of working capital, as short-term sources are cheaper than long-term capital.
- D) A strong cash flow from operations that can easily cover the short-term borrowings.

- 12. Regarding the legal requirements for financial statements for non-banking companies in India, a student claims that the formats for both the Balance Sheet and the Profit & Loss Account are rigidly prescribed by the Companies Act. Is this claim entirely accurate according to the provided text?
- A) Yes, the formats for both statements are strictly prescribed by the Companies Act.
- B) No, the format is prescribed for the Profit & Loss Account, but companies can choose any format for the Balance Sheet.
- C) No, the format for the Balance Sheet is prescribed by the Companies Act, but a specific format for the Profit & Loss Account is not, although specific information must be disclosed.
- D) No, neither format is prescribed; companies only need to follow the general principles of accounting.

13. A company reports sales of ₹20,00,000 and a gross profit of (൧ഀഀ ₹6,00,000 for the year. Its inventory at the beginning of the year was ₹2,00,000, and at the end of the year, it was ₹3,00,000. What is the company's Stock Turnover Ratio, and what does it measure?

= 20-6 A) 8 times, measuring how quickly the company collects cash from its sales.

B) 6.67 times, measuring the efficiency of the company's **25** utilization.

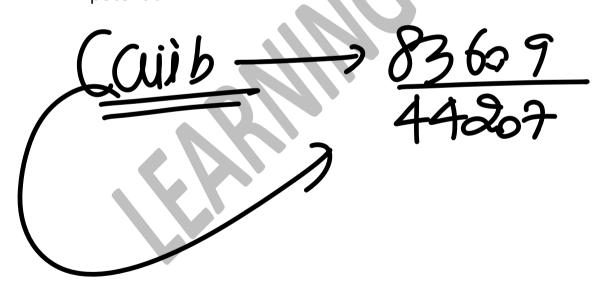
C) 5.6 times, measuring the efficiency of inventory management by showing how many times inventory is sold during a period.

D) 4.67 times, measuring the company's ability to cover its short-term liabilities.

816

- 14. A software company completes a project and issues an invoice to a client in March, the last month of the accounting year. The client, however, pays the invoice in April of the next accounting year. Under which accounting concepts should the company recognize the revenue in March and match the project's expenses to that same period?
- A) Realisation Concept for recognizing revenue and Matching Concept for aligning expenses.
- B) Cash Flow Concept for revenue and Cost Concept for expenses.
- C) Entity Concept for recognizing revenue and Going-Concern Concept for expenses.
- D) Accounting Period Concept for both revenue and expenses.

- 15. A bank analyst is reviewing a retail chain's financial statements and notices that its profit margins are consistently falling while its inventory levels are rising year after year. According to the document, the identification of such issues serves which primary purpose of financial statement analysis?
- A) Assessing the company's credit requirements to determine an accurate loan amount.
- B) Examining the company's funds flow to ensure loans were not diverted.
- C) Detecting danger signals that point towards weak demand or poor stock management.
- D) Projecting future performance to estimate the company's earnings potential.



- 16. A company has current liabilities of ₹6,00,000 and a current ratio of 1.5. To improve its factory, the company uses ₹1,50,000 of its cash balance to purchase new machinery (a fixed asset). How does this transaction affect the company's current ratio and its underlying short-term solvency?
- A) The current ratio improves to 1.75 as a non-productive asset (cash) is converted into a productive one (machinery).
- B) The current ratio remains at 1.5 because the total assets of the company do not change.
- C) The current ratio deteriorates to 1.25, weakening the company's ability to cover its short-term obligations.
- D) The transaction has no impact on the current ratio, but it improves the Debt-Equity ratio.

- 17. When analyzing a company's balance sheet, a financial trainee is confused by the inclusion of "Debit balance of P&L account" and "Preliminary expenses" under the Assets section. Under which specific category of assets should these items be classified?
- A) Current Assets, because they represent short-term receivables.
- B) Non-Current Assets, as they are long-term in nature.
- C) Fixed Assets, because they are essential for starting the business.
- D) Intangible Assets, as they have no physical presence and represent deferred costs or losses.

- 18. A company has long-term liabilities of ₹12,00,000 and a Tangible Net Worth (TNW) of ₹5,00,000. It plans to issue new equity shares worth ₹3,00,000 to the public. How will this capital infusion affect its Debt-Equity ratio?
- A) The ratio will increase to 3:1, indicating higher risk.
- B) The ratio will remain unchanged at 2.4:1.
- C) The ratio will decrease to 1.5:1, indicating a stronger solvency position.
- D) The ratio will decrease to 2:1, moving closer to the ideal benchmark.

19. A company's net profit for the year is ₹4,00,000. The company also recorded depreciation of ₹50,000. During the year, its trade debtors increased by ₹20,000 and its trade creditors increased by ₹30,000. Using the indirect method, what is the company's net cash flow from operating activities?

- A) ₹4,00,000
- B) ₹5,00,000
- **C)** ₹4,60,000
- **D)** ₹3,40,000

- 20. In a Fund Flow Statement, a company shows an "Increase in Working Capital" of ₹1,00,000 and a "Decrease in Working Capital" of ₹50,000. How are these two items correctly classified within the Statement of Sources and Application of Funds?
- A) Increase in Working Capital is a Source of Funds, and Decrease in Working Capital is an Application of Funds.
- B) Both an increase and decrease in Working Capital are treated as Sources of Funds.
- C) Increase in Working Capital is an Application of Funds, and Decrease in Working Capital is a Source of Funds.
- D) These items are only shown in the Schedule of Changes in Working Capital and do not appear in the final statement of sources and applications.