CAIIB Early Bird Pack 2025-26

Working Capital Finance

1. A company with Total Current Assets of ₹370 Lacs and Current Liabilities (excluding bank borrowings) of ₹150 Lacs is assessed under the Tandon Committee's methodologies. If the bank shifts its lending policy from the First Method to the Second Method, what would be the primary financial implication for the borrower regarding their contribution and the resulting current ratio?

margin

A) The borrower's contribution decreases, and the final current ratio improves to exactly 1.17:1.

B) The borrower's contribution increases significantly, and the final current ratio is pushed to a healthier 1.33:1.

C) The borrower's contribution remains unchanged, but the bank's financing portion decreases, resulting in a current ratio of 1.25:1.

D) The bank's financing increases, which allows the borrower to reduce their contribution and improve liquidity.

M-I, II, ~~III~~

WCG – margin

25% of WCG

25% of TCA

1.17:1

1.33:1

margin ↑

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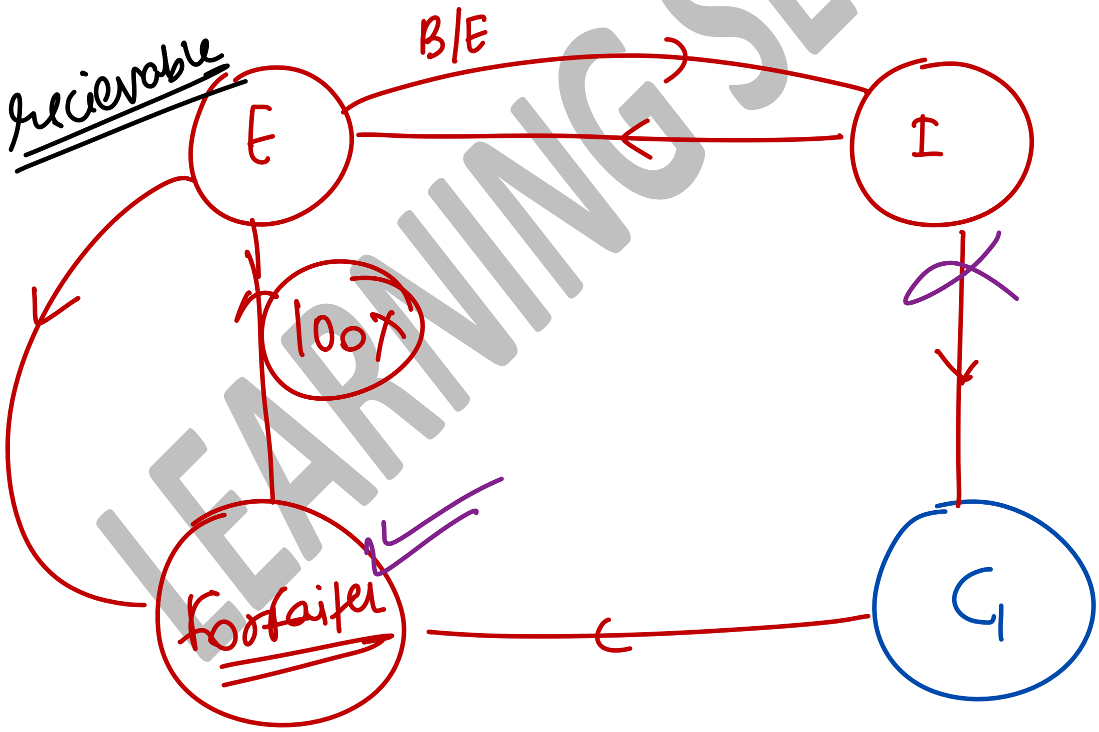
2. An Indian exporter of heavy industrial machinery secures a large contract with a buyer in a developing country, with payment terms spread over three years. The exporter wants to receive *100*% of the payment immediately to fund new projects and completely eliminate the risk of the foreign buyer defaulting. Which financial instrument is specifically designed to meet these needs?

A) Recourse Factoring

B) Forfaiting

C) A Deferred Payment Guarantee (DPG) issued by the exporter's bank.

D) A Letter of Credit (L*C)* with a usance period of three years.



3. A bank is presented with a bill of exchange for discounting. The bill includes a clause stating it is "Without Recourse," and it is not drawn under a Letter of Credit. According to the RBI guidelines mentioned in the document, how should the bank proceed with this request?

A) The bank should readily discount the bill as the "Without Recourse" clause protects it from any legal action.

Ans

B) The bank should reject the bill because the practice of drawing bills with 'Without Recourse' clauses is to be discouraged, as it increases the bank's risk.

C) The bank can discount the bill, provided it is a Usance Bill, as the credit period allows for risk mitigation.

D) The bank must refer the bill to the RBI for special approval since it is a non-standard instrument.

4. A small enterprise projects an annual turnover of ₹4.8 crore and approaches a bank for working capital finance under the Nayak Committee method. According to this method, what is the precise relationship between the total working capital requirement, the maximum loan the bank will sanction, and the mandatory contribution from the business owner?

A) The bank will sanction 25% of the turnover (₹1.2 crore) as a loan, with no mandatory contribution from the owner.

B) The total working capital requirement is assessed at 20% of turnover (₹96 lakh), all of which is financed by the bank.

C) The total working capital requirement is 25% of turnover (₹1.2 crore), of which the bank finances 20% of turnover (₹96 lakh), and the owner must contribute the remaining 5% (₹24 lakh).

D) The owner must contribute 25% of the total working capital requirement, and the bank will finance the remaining 75%.

Nayak PATO

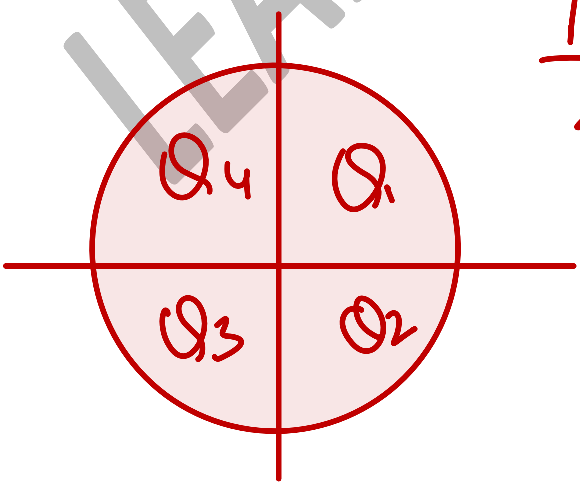
20 lac

$\frac{100\%}{4} = 25\%$

4 lac 16 lac

5% margin

20%



5. A large steel factory is purchasing new machinery worth ₹50 lakh from a supplier. The factory can only pay 10% of the cost upfront and needs to pay the remaining amount in installments over the next five years. The supplier is unwilling to grant this credit without a bank's assurance. Which non-fund-based facility is specifically designed for this type of transaction?

A) Performance Guarantee

B) Letter of Credit (LC)

C) Financial Guarantee

NFB → No direct outlay of funds

D) Deferred Payment Guarantee (DPG)

6. A corporate entity wishes to issue Commercial Paper (CP) to diversify its short-term borrowings. Its last audited balance sheet shows a tangible net worth of ₹5 crore. To be eligible to issue CP, and assuming it plans to issue over ₹1000 crore, what specific credit rating requirements must it fulfill according to the guidelines?

A) It must obtain a minimum credit rating of A3 from any one SEBI-registered credit rating agency.

Ans

B) It must be rated by at least two agencies, and the issuance will be governed by the conditions of the lower of the two ratings. A3

C) It must obtain a top rating of A1 from at least two agencies, and the higher rating will apply.

D) It is exempt from credit rating requirements as its tangible net worth is above the ₹4 crore threshold.

7. A manufacturing business currently has a working capital cycle of 2 months, calculated based on 2 months of production time and a 1-month credit period to customers, offset by a 1-month credit period from its suppliers. If the company successfully negotiates with its suppliers to extend their credit period to 2 months, what will be the direct impact on its working capital cycle and its financing needs?

A) The cycle will lengthen to 3 months, increasing the need for working capital.

B) The cycle will shorten to 1 month, reducing the amount of working capital needed.

C) The cycle remains unchanged at 2 months, as supplier credit is a liability and does not affect the asset cycle.

D) The cycle will shorten to 1.5 months, causing a moderate decrease in working capital needs.

8. A machinery company sells a machine worth ₹10 lakh to a buyer, offering a 90-day credit period. The seller needs immediate cash but also wants a formal, negotiable instrument that confirms the buyer's obligation to pay on a future date, which the seller's bank can then finance. What is the most appropriate financing mechanism for the bank to use in this situation?

A) Purchasing a Demand Bill, as this provides immediate cash to the seller.

B) Discounting a Usance Bill, as this provides immediate cash against a bill with a future payment date.

C) Providing finance against book debts after applying a 20% margin.

D) Issuing a Letter of Credit on behalf of the seller to guarantee payment from the buyer.

Demand Bill → Purchase

Usance Bill → Discount

LC B/E → Negotiate

9. When assessing working capital needs, banks employ different methods based on the nature of the business. For which of the following business types would the Cash Budget Method be the most suitable and strategically effective assessment tool?

A) A large, established retail chain with stable, predictable sales throughout the year.

B) A small enterprise with a projected annual turnover of ₹3 crore that does not maintain detailed financial records.

C) A film production house where expenses are incurred steadily over a long production period, but revenue is received only after the film's release.

D) A company that wants its financing to be based on a fixed percentage of its Total Current Assets.

10. A bank is considering issuing a Bank Guarantee (BG) of ₹10 crore on behalf of a stock broker to be submitted to a major stock exchange as a margin requirement. According to the specific guidelines mentioned in the document for such guarantees, what is the minimum margin the bank must secure from the broker, and in what form?

A) A minimum margin of 25% (₹2.5 crore), all of which must be in the form of cash.

B) A minimum margin of 50% (₹5 crore), of which at least half, meaning ₹2.5 crore, must be in cash.

C) A minimum margin of 50% (₹5 crore), which can be in the form of cash or other approved securities.

D) No specific margin is required as long as the stock broker has a standard working capital limit with the bank.

Ans

Cash
FDR
approved

Type → FG

Total → 6cr

EOQ = 1cr

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LC/year $\frac{6}{1} = 6$ LCs

freq = $\frac{12}{6} = 2$m

11. A manufacturing firm has an annual consumption of imported raw materials worth ₹6 crore. To achieve cost efficiency, it places orders in batches of ₹1 crore (EOQ). The time from opening an LC to the shipment of goods (lead time) is 10 days, the sea transit time is 20 days, and the supplier provides a credit period (usance) of 6 months. What is the total Letter of Credit (LC) limit the company requires?

10 + 20 + 6M = 7M Total outstanding period

$\frac{7M}{2} = 3.5$ LCs

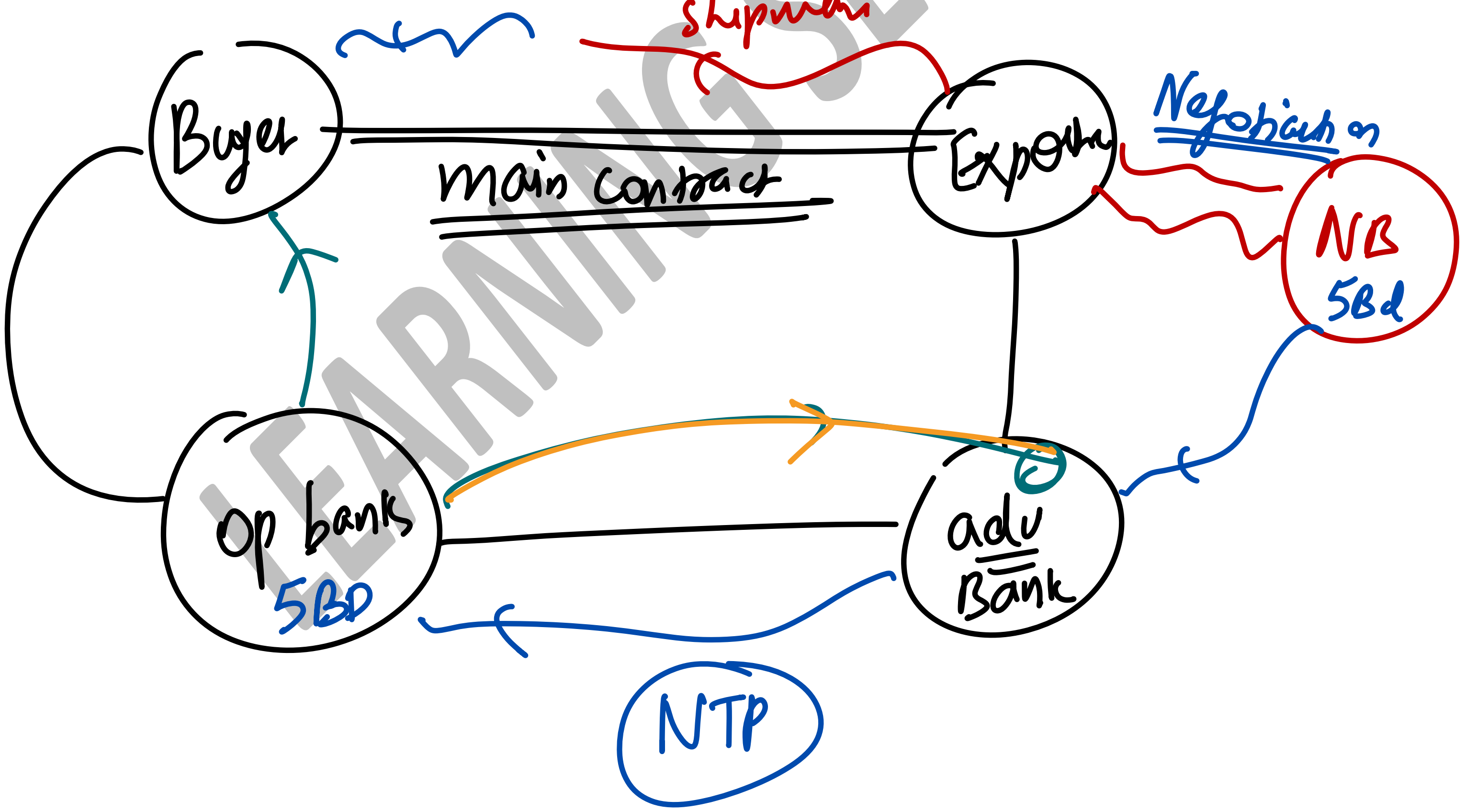
4x1

A) ₹1 crore, as that is the amount of each individual LC.

B) ₹6 crore, to cover the entire annual consumption.

C) ₹3.5 crore, based on the direct calculation of outstanding LCs.

D) ₹4 crore, after rounding up the number of outstanding LCs.



Imp.

Kite flying

12. According to RBI guidelines, banks must ensure that bill financing is restricted to genuine trade transactions and manage risk exposure appropriately. When a bill is discounted by Bank A under a Letter of Credit (LC) issued by Bank B, where does the primary credit risk exposure lie from Bank A's perspective?

A) The risk exposure remains entirely on the borrower (the seller who discounted the bill).

B) The risk is shared equally between the borrower and the LC-issuing bank (Bank *B)*.

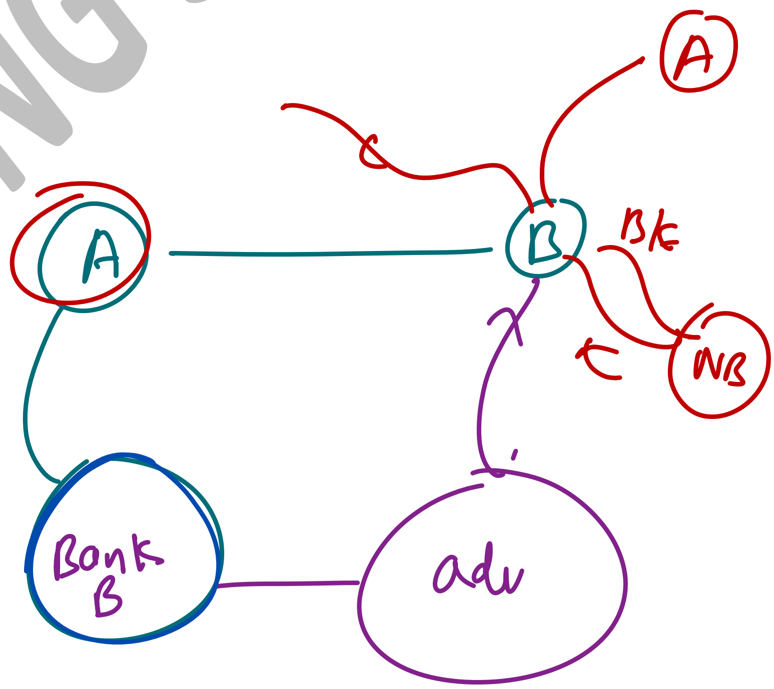
C) The risk exposure is treated as being on the LC-issuing bank (Bank *B)*, not on the borrower.

D) The risk exposure is transferred to the Reserve Bank of India, as it is a guaranteed transaction.

Bank A → Disc.

Bank B → issued LC

LC



13. A company that has never held any loan or credit facility with Bank X approaches it with a request to issue a large, unsecured Performance Guarantee for a construction contract. Based on the general precautions and safeguards for issuing guarantees, what should be Bank X's most likely course of action?

A) Issue the guarantee immediately, as it is a non-fund-based facility and does not involve an immediate cash outflow.

B) Issue the guarantee but charge a higher commission fee to compensate for the increased risk of dealing with an unknown customer.

Ans

C) Avoid issuing the guarantee because, normally, guarantees should not be issued to customers who do not enjoy credit facilities with the bank.

D) Agree to issue the guarantee, provided the customer opens a new current account with the bank.

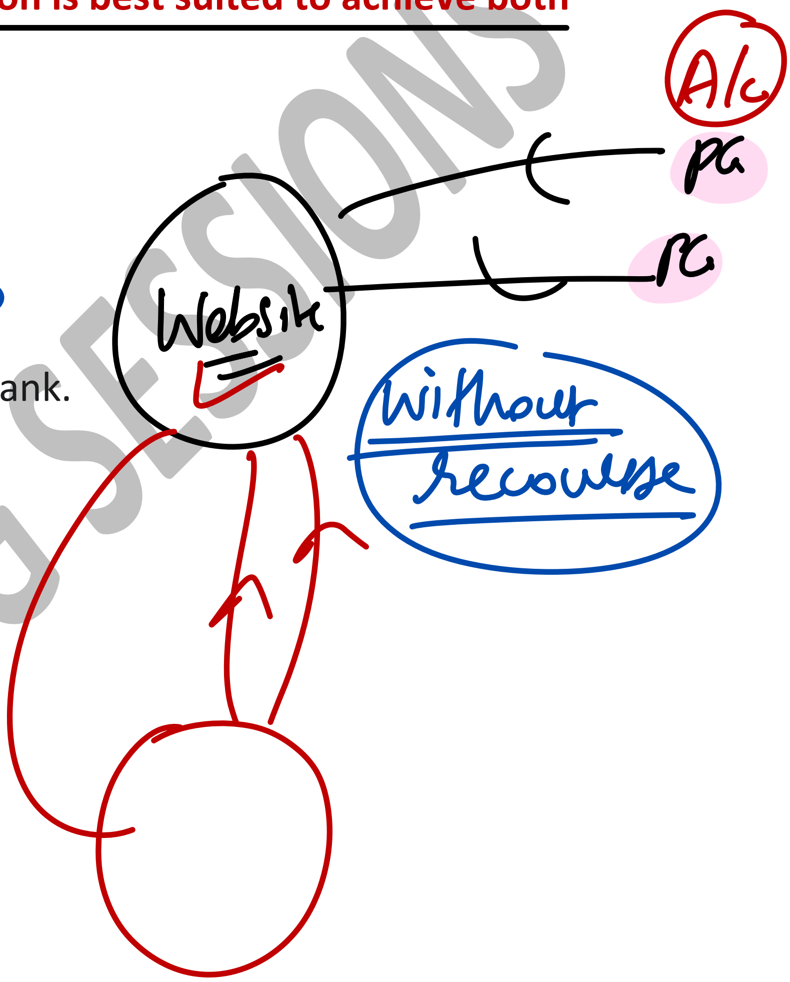
14. A growing e-commerce company has a large volume of accounts receivable but faces a constant cash crunch because it has to wait 30-60 days for payments from its payment gateway partners. The company wants to improve its cash flow but also wants to completely offload the risk of any potential defaults or non-payments. Which financing solution is best suited to achieve both objectives?

A) Invoice Discounting

B) Recourse Factoring

C) Non-Recourse Factoring

D) Co-acceptance of its bills by a bank.



15. A bank is assessing a borrower under the Tandon Committee guidelines and wants to ensure a minimum level of liquidity is maintained by the borrower post-financing. What is the minimum Current Ratio that the bank would typically require if it applies the Second Method of Lending for working capital assessment?

1.33 : 1

A) More than 1

B) At least 1.17 M-I

C) At least 1.33

D) At least 1.25

TCA → 800

CL (except BB) → 200 lacs

WCG = TCA − CL other than BB

= 800 − 200 = 600

MPBF-II → WCG − 25% of TCA

= 600 − 200 = 400

CR = $\frac{CA}{CL}$

CL

200 + 400 = 600

$$\boxed{= \frac{800}{600} = 1.33:1}$$

16. In a trade transaction, a purchaser is able to secure a longer credit period from a supplier because the purchaser's bank agrees to act as a guarantor on the Bill of Exchange drawn by the supplier. This non-fund-based facility assures the supplier of payment on the due date. Which facility is being described?

A) Bank Guarantee (BG)

B) Letter of Credit (L*C)*

C) Co-acceptance of Bills

D) Forfaiting

17. A company has issued Commercial Paper (CP) with a maturity date of October 2nd. As October 2nd is a national holiday, the company's treasurer plans to make the redemption payment on the next working day, October 3rd. According to the settlement rules for CP, is this course of action correct?

A) Yes, payment can always be made on the next working day if the maturity date is a holiday.

B) No, the payment must be made on the previous working day, which would be October 1st.

C) Yes, but the company must pay an extra day's interest to the investors for the delay.

D) No, the company must make special arrangements to pay on the holiday itself through electronic transfer.

18. A supplier has a contract with the Directorate General of Supplies & Disposal (DGS&D) for a project with an original delivery period of 24 months. The supplier's bank is issuing a Bank Guarantee as security for this contract. To comply with the special guidelines for DGS&D contracts, what should be the validity period of this guarantee?

A) Exactly 24 months, matching the delivery period perfectly.

B) 24 months, with a clause that it must be manually renewed six months before expiry.

C) At least 30 months, incorporating an automatic six-month extension beyond the original delivery period.

D) A standard period of 10 years, which is the maximum tenure for any bank guarantee.

19. When a bank discounts a bill for a seller that is drawn under a Letter of Credit (LC), the RBI guidelines specify how the risk should be treated. However, if the bank negotiates the bill "under reserve," what is the implication for risk exposure?

A) The risk exposure still shifts entirely to the LC-issuing bank.

B) The risk exposure is transferred to the seller's bank (the negotiating bank).

C) The risk exposure remains on the borrower (the seller).

D) The risk is nullified because "under reserve" negotiation is not permitted by the RBI.

20. A consultant is advising three different companies on the most suitable method for their banks to assess their working capital needs. The companies are: a seasonal agricultural business, a small manufacturing enterprise with a turnover of ₹4 crore and no detailed financial records, and a large, stable corporation with detailed financials. Which combination of assessment methods should the consultant recommend, respectively?

A) Tandon Committee, Cash Budget Method, Nayak Committee Method.

B) Cash Budget Method, Nayak Committee Method, Tandon Committee Method.

C) Nayak Committee Method, Tandon Committee Method, Cash Budget Method.

D) Tandon Committee for all three to ensure uniformity.