

CAIIB Dec 2025

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Memory Based Question

ABFM



Must for 2026 Cycle

CAIIB ABFM Memory-Based Paper of December 2025

Module A

Q1. Scenario: A bank manager needs to evaluate 50 employees across different roles. He wants a method that allows comparison on common factors like leadership and initiative, but finds it difficult to compare all employees simultaneously.

Which appraisal method would be most suitable for this situation?

Options:

- a) Free Form Essay Method
- b) Paired Comparison Method
- c) Straight Ranking Method
- d) Grading Method

Answer: b) Paired Comparison Method

Explanation: The document states that when the number of employees is large, the paired comparison method is quite useful where two employees are compared at a time on selected factors, and overall ranking is worked out by taking into account how many times an employee was preferred.

Q2. •Statement 1: Corporate strategy defines the overall direction of the firm, while business strategy focuses on the competitive position of specific products or units.

• **Statement 2:** Functional strategy is concerned with the specific actions taken by departments (like HR or Finance) to support higher-level strategies.

• **Statement 3:** PESTLE Analysis is primarily used for internal auditing of a company's labor productivity and machine efficiency.

Which of the following is correct?

- A) Only Statement 1 and 3 are correct
- B) Only Statement 1 and 2 are correct
- C) All statements are correct
- D) None of the statements are correct

Answer: B

Reasoning: Statement 3 is incorrect because PESTLE Analysis (Political, Economic, Social, Technological, Legal, Environmental) is a tool for external environmental scanning, not internal auditing.

Q3. A large urban branch of a public sector bank is preparing an aggressive credit growth strategy. The planning team must anticipate macroeconomic risks, competitive actions, regulatory changes, and digital transformation challenges. Senior management expects simultaneous achievement of growth, compliance, and operational efficiency targets.

While designing the credit growth strategy, which aspect of planning

best addresses the uncertainty created by fluctuating interest rates and economic cycles?

- a) Programmed decision making
- b) Contingency planning
- c) Single-use planning
- d) Policy planning

Answer: b) Contingency planning

Explanation: Contingency planning prepares for unexpected changes in the environment, such as economic cycles or interest rate shifts, ensuring the strategy can be adapted in dynamic conditions.

Q4. An Indian public sector bank is restructuring its branches to improve efficiency and compliance. The head office decides to implement a formal organisation structure where reporting lines, delegated authorities, and job descriptions are clearly laid out. Despite this, some employees continue to use informal channels for decision-making, leading to ambiguity in task allocation and accountability.

Which of the following is most likely to occur as a consequence of inadequate adherence to formal organisation structure in this scenario?

- a) Increased innovation due to flexibility
- b) Enhanced employee morale owing to informal relations
- c) Confusion in accountability and risk of regulatory non-compliance
- d) Faster decision-making through informal channels

Answer: c) Confusion in accountability and risk of regulatory non-compliance

Explanation: Formal structure ensures clear accountability and compliance, which is compromised if informal channels override it.

Q5. Statement 1: Management by Objectives (MBO) is a performance appraisal method where managers and employees collaboratively set measurable goals and evaluate the outcomes against those goals.

Statement 2: The 360-degree feedback method gathers performance input only from an employee's direct supervisor, providing a limited but focused overview.

Statement 3: The Behaviorally Anchored Rating Scales (BARS) method assesses employees based on specific behavioral examples tied to each performance level, reducing subjectivity in ratings.

Which of the statements given above is/are correct?

- a) 1, 2, 3 only
- b) 2 and 3 only
- c) 1 and 2 only
- d) All 1 and 3

Answer: d) 1 and 3 only

Explanation: MBO focuses on joint goal setting and evaluation, BARS links behaviors to ratings for objectivity, but 360-degree feedback involves multiple raters including peers, subordinates, and customers, not just supervisors

Q6. A startup wanted to know how many units of its product it needs to sell to cover its costs. Using break-even analysis, it calculated fixed costs, variable costs per unit, and projected sales volume.

What traditional controlling insight does break-even analysis provide?

- A) Identification of performance bottlenecks and employee inefficiencies
- B) The minimum sales volume required to avoid losses, aiding pricing and production decisions
- C) Real-time customer satisfaction metrics to adapt marketing
- D) Predicting long-term market share and competitor moves

Correct answer: B) The minimum sales volume required to avoid losses, aiding pricing and production decisions

Q7. ABC Bank is planning to implement a new performance management system. The management team is divided between two approaches: Theory X and Theory Y. The HR department notices that employees in the retail banking division are highly self-motivated, creative, and take initiative in customer service improvements. However, the back-office operations team requires constant supervision and shows resistance to new changes.

Based on this scenario, which management approach should be adopted for each division?

- A) Theory X for retail banking; Theory Y for back-office operations
- B) Theory Y for retail banking; Theory X for back-office operations
- C) Theory X for both divisions
- D) Theory Y for both divisions

Answer: B) Theory Y for retail banking; Theory X for back-office operations




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Q8. If a manager makes a decision based solely on their own 'personal heroism' or intuition without supporting data, which principle of decision making are they violating?

- A. Principle of Identity
- B. Principle of Definition
- C. Principle of Communication
- D. Principle of Evidence

Answer: D

Q9. Match the Strategic Management Elements with their Descriptions

| Column A – Elements | Column B – Descriptions |
|------------------------------------|--|
| 1. Environmental Scanning | B. Analysing the internal and external environment |
| 2. Strategy Formulation | D. Developing strategic alternatives and selecting the best course of action |
| 3. Strategy Implementation | C. Executing the strategic plan through resources and processes |
| 4. Strategy Evaluation and Control | A. Monitoring progress and taking corrective action |

Select the correct matching:

- A) 1-B, 2-D, 3-C, 4-A
- B) 1-D, 2-B, 3-A, 4-C
- C) 1-A, 2-C, 3-D, 4-B
- D) 1-C, 2-A, 3-B, 4-D

Answer: A) 1-B, 2-D, 3-C, 4-A

Q10. A multinational pharmaceutical firm is experiencing a decline in sales in a specific region.

The regional manager attributes this to poor sales team performance. However, a deeper analysis reveals a combination of new drug pricing regulations, a shift in local consumer preference toward herbal alternatives, and a recent increase in the country's inflation rate.

The manager's failure to recognize these interconnected factors indicates a lack of which analytical framework?

- A. Internal Strength Mapping
- B. The Principle of Personal Heroism
- C. Internal Micro-factor Assessment
- D. PESTEL Analysis

Answer: D

Q11. Consider the following statements about Assessment Centres:

Statement 1: Assessment centres use only one assessor to ensure consistency in evaluation.

Statement 2: Assessment centres are primarily used for selection at supervisory and management level positions.

Statement 3: Assessment centres measure interpersonal skills, leadership qualities, and problem-solving abilities.

Which statement(s) is/are correct?

Options:

- a) Only Statement 1
- b) Only Statement 2 and 3
- c) Only Statement 1 and 3
- d) All three statements

Answer: b) Only Statement 2 and 3

Explanation: Statement 1 is incorrect as assessment centres require MULTIPLE assessors (3-4 per participant) to ensure fair judgment and reduce bias. Statements 2 and 3 are correct as per the document.

Q12. Scenario: During performance appraisal, a supervisor rates an employee as "excellent" in all categories because the employee is very punctual, even though the employee's work quality and analytical skills are average.

This is an example of which appraisal error?

Options:

- a) Horn Effect
- b) Halo Effect
- c) Spillover Effect
- d) Lenient Rating

Answer: b) Halo Effect

Explanation: Halo Effect occurs when one positive characteristic (punctuality) influences the rating of all other characteristics, leading to an overall positive evaluation despite average performance in other areas.

Q13. Assertion (A): PERT is more suitable for projects where task durations are uncertain.

Reason (R): PERT uses probabilistic time estimates (optimistic, most likely, pessimistic) to calculate expected duration.

- 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

Answer: A) Both A and R are true, and R is the correct explanation of A

Q14. A learning organization has adopted several practices to encourage growth.

The leadership has clearly communicated a shared goal of becoming an industry benchmark. Employees regularly work in cross-functional teams and hold group discussions to solve operational problems. The organization also emphasizes understanding how different departments influence overall performance.

However, many employees show little initiative in setting personal career goals, lack self-motivation to improve their capabilities, and depend heavily on management for direction rather than continuously developing themselves.

Which discipline of the learning organization needs the most improvement?

- A) Personal Mastery
- B) Shared Vision
- C) Team Learning
- D) Systems Thinking

Correct Answer: A) Personal Mastery

Q15. A manufacturing company is implementing Total Quality Management (TQM) principles. The quality manager proposes conducting daily quality inspections at the end of the production line to catch defective products before shipping. The CEO argues this contradicts one of Deming's 14 principles.

Which Deming principle is being violated by the quality manager's proposal?

- A) Create a constant purpose toward improvement
- B) Stop depending on inspections
- C) Institute leadership
- D) Eliminate exhortations

Answer: B) Stop depending on inspections (Quality should be built into the process, not inspected after)

Q16. Match the Management Theories with their Key Features

| Column A – Theory | Column B – Key Features |
|------------------------|---|
| 1. Classical School | C. Greater emphasis on production and centralized system |
| 2. Neoclassical School | A. Focuses on motivation and communication |
| 3. System School | D. Understanding external environment and interaction with outside forces |
| 4. Quantitative School | B. Emphasis on mathematical and statistical models |

Select the correct matching:

- A) 1-C, 2-A, 3-D, 4-B
- B) 1-A, 2-C, 3-B, 4-D
- C) 1-D, 2-B, 3-A, 4-C
- D) 1-B, 2-D, 3-C, 4-A

Answer: A) 1-C, 2-A, 3-D, 4-B

Q17. What is the correct sequence of Management by Objective in Practice?

- (i). In this step we need to encourage participation from the staff members in the process of setting individual goals.
- (ii). In this step we need to communicate to employees the goals and priorities of the organization.
- (iii). We need to either establish or alter the organizational goals for the whole company.
- (iv). The monitoring of the progress made by the staff members is the focus of this step.
- (v). In this step we need to evaluate and then reward the progress that employees have made.

- a. (i), (ii), (iii), (iv), (v).
- b. (i), (ii), (iii), (iv), (v).
- c. (ii), (i), (iii), (iv), (v).
- d. (iii), (ii), (i), (iv), (v).

Answer: d. (iii), (ii), (i), (iv), (v)

Q18. Beta Electronics is implementing a Learning Organization framework. The company has successfully developed shared vision and team learning initiatives. However, during a strategic review meeting, it was observed that:

- Marketing department believes that sales decline is due to poor product quality
- Production department blames insufficient marketing budget for low sales
- Finance department attributes the problem to poor credit management
- HR department thinks employee turnover is affecting all departments

Despite having skilled individuals (Personal Mastery) and team collaboration (Team Learning), the organization fails to see the interconnected nature of these problems.

Which discipline of Learning Organization is most critically missing, and what is the PRIMARY consequence?

- A) Mental Models; Departments are stuck in old assumptions
- B) Systems Thinking; Inability to see how departmental actions affect the whole organization
- C) Shared Vision; Different departments have conflicting goals
- D) Personal Mastery; Individual competencies are inadequate

Answer: B) Systems Thinking; Inability to see how departmental actions affect the whole organization (The problem shows departments working in silos without understanding interdependencies)

Q19. Scenario: A manufacturing company wants to evaluate a toolmaker's job. After comparison with benchmark jobs, they find: Skill similar to electrician (Rs. 5), Mental requirements to welder (Rs. 10), Physical requirements to electrician (Rs. 12), Working conditions to mechanist (Rs. 24), and Responsibility to mechanist (Rs. 3).

What will be the wage rate for the toolmaker using the Factor Comparison Method?

Options:

- a) Rs. 44
- b) Rs. 54
- c) Rs. 64
- d) Rs. 50

Answer: b) Rs. 54

Explanation: As per the example in the document, the wage rate is calculated by adding all factors:

Rs. 5 + Rs. 10 + Rs. 12 + Rs. 24 + Rs. 3 = Rs. 54

Q20. Tech Corp's HR department has deployed a series of asynchronous, self-paced digital modules accessible through the company intranet. Each module contains embedded assessments, branching scenarios based on user responses, and multimedia content including video demonstrations of policy violations and their consequences. Employees complete these modules during work hours but away from their regular workstations, and the system tracks completion rates and assessment scores. The modules cover updates to the company's data privacy, anti-harassment, and financial reporting compliance policies.

Which training method is primarily being utilized in this scenario?

- A) Blended learning with coaching elements, as employees receive immediate feedback through the assessment system
- B) Programmed instruction utilizing a self-directed, sequential learning approach with built-in reinforcement
- C) Vestibule training conducted in a simulated digital environment separate from the actual work setting
- D) E-learning / computer-based training, characterized by digitally-delivered instructional content accessible on-demand

Answer: D

Q21. During a strategic planning session, GlobalTech Inc. identifies that its proprietary AI algorithm provides superior performance compared to competitors, but the algorithm requires rare computational expertise that is scarce in the labor market. Simultaneously, the team notes that emerging quantum computing technology could potentially render their current algorithm obsolete within 5-7 years, though this same technology might enable entirely new product categories if they can adapt quickly enough.

How should these factors be correctly classified in GlobalTech's SWOT matrix?

- A) Proprietary algorithm = Strength; Scarce expertise = Weakness; Quantum computing obsolescence = Threat; New product potential = Opportunity
- B) Proprietary algorithm = Opportunity; Scarce expertise = Threat; Quantum computing obsolescence = Weakness; New product potential = Strength

- C) Proprietary algorithm = Strength; Scarce expertise = Threat; Quantum computing obsolescence = Weakness; New product potential = Opportunity
- D) Proprietary algorithm = Strength; Scarce expertise = Weakness; Quantum computing obsolescence = Opportunity; New product potential = Opportunity

Answer: A

Q22. By whom the following definition of An Regiment was given Management is the art of knowing what you Want to do and then seeing that it is done in the best the cheapest way

- (A) FW. Taylor
(B) Henry Fayol
(C) E.F.BL. Brech
(D) Oliver Sheldon

Answer: A

Q23.

| Column A – Business Model | Column B – Definition |
|-----------------------------------|--|
| (A) Time Model | (1) These models offer the basic product free and generate revenue through advertising. Examples include YouTube and Google. |
| (B) Multi-component Systems Model | (2) This model depends on how fast research and development takes place. A business that pioneers a new idea is successful initially, until competitors enter the market. |
| (C) Advertisement Model | (3) Used by companies like Gillette and HP. The core product is sold at low or no profit, while profits are earned from complementary high-margin products (e.g., razor blades, cartridges). |
| (D) Efficiency Model | (4) The business waits for the market to mature and standardize, then enters with low-cost, low-margin products aimed at mass appeal. |

- A. 2314
B. 1243
C. 3241
D. 2143

Answer: A

Q24.

| Strategy Type | Definition |
|-------------------------|---|
| A – Corporate Strategy | 1 – This strategy of a company covers the overall direction followed by the company. It would spell out the general attitude of the company towards growing and managing its different business lines, products and services. |
| B – Business Strategy | 2 – This strategy would normally be prepared at the level of the business unit or at the level of product or service and it normally highlights the improvement in the specific industry or market ranking of the business entity's products or services produced or delivered by that business unit. |
| C – Functional Strategy | 3 – This strategy refers to the approach adopted by functional areas for achieving the objectives of the business unit and the company by maximizing the productivity of available resources. |

- A. 123
- B. 321
- C. 213
- D. 132

Answer: A




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Q25. Select the correct statements about the concept of communication:

- Irreversible communication means that once information is transferred, it can't be easily altered.
- Active listening is not considered essential for the success of any business.
- The five levels of communication include "Communication Not Directed Toward Me."
- Intrapersonal communication refers to communication between two people.
- Organizational communication can only flow in one direction, either up or down.
- The means of mass communication include technologies like fax, audiotape, and teleconferencing.

- (A) i, iii, v, vi
 (B) ii, iv, iii, vi
 (C) ii, iv, vi
 (D) i, iii, vi

Answer: D**Module B****Q26. When introducing a new product with low initial volumes, what typically happens to costs and pricing strategy?**

- A) Lower per-unit costs due to economies of scale, high prices to maximize profit
 B) Higher per-unit costs due to low volumes, need to keep prices affordable to attract buyers
 C) Variable costs remain same, only fixed costs increase
 D) Both costs and prices should be set at market average

Answer: B) Higher per-unit costs due to low volumes, need to keep prices affordable to attract buyers

Explanation

New Product Launch Challenges:

- Low initial volumes → Higher per-unit fixed costs
- Need affordable pricing → To attract new customers
- Result → Delayed break-even point

Contrast with Specialty Products:

- Can be launched with high prices and good margins
- But may need huge R&D and brand building expenses

Mass Market Products:

- Need large volumes → Require large capital investment
- Need heavy advertising → Affects cost and profitability

Q27. Statement 1: Financial leverage increases when a company uses more equity financing relative to debt.**Statement 2:** Operating leverage is high when a company has high fixed operating costs relative to variable costs.**Statement 3:** The payback period method considers the time value of money in capital budgeting decisions.

Which statements are correct?

- A) Only Statement 2
- B) Only Statement 1 and 2
- C) Only Statement 2 and 3
- D) All statements are correct

Answer: A) Only Statement 2 (Statement 1 is incorrect as financial leverage increases with more debt; Statement 3 is incorrect as payback period does NOT consider time value of money)

Q28. A particular equity security, after appropriate foreign exchange conversion and adjustment for parity, is quoted at ₹980 on the Mumbai exchange, while its contemporaneous price on the London exchange stands at ₹1,020. Assuming negligible transaction costs, unrestricted capital mobility, and instantaneous settlement, which of the following arbitrage strategies would be most rational for a profit-maximizing arbitrageur?

- a) Initiate a long position in the London market and simultaneously undertake a short sale in the Mumbai market
- b) Initiate a long position in the Mumbai market and simultaneously undertake a short sale in the London market
- c) Simultaneously initiate long positions in both the Mumbai and London markets
- d) Refrain from undertaking any transaction due to the absence of exploitable price differentials

Answer: b) Buy in Mumbai, sell in London

Q29. Risk-free rate = 6%
Market return = 14%
Beta of stock = 1.3
Expected return = ?

- a) 15.4%
- b) 15.2%
- c) 17.6%
- d) 16.4%

Answer: D)

Solution

$$\begin{aligned}\text{CAPM} &= R_f + \beta(R_m - R_f) \\ &= 6 + 1.3(8) \\ &= 6 + 10.4 \\ &= 16.4\%\end{aligned}$$

Q30. A firm is analyzing a project with a Profitability Index (PI) of 1.15. What is the most accurate interpretation of this value?

- A. The project will pay back its initial investment in 1.15 years.
- B. For every dollar invested, the project is expected to generate a present

value of \$1.15 in future cash flows.

C. The project's Internal Rate of Return (IRR) is 15% higher than the cost of capital.

D. The project's Net Present Value (NPV) is positive, but its exact value is \$0.15.

Answer: B

Q31. A company's Degree of Operating Leverage (DOL) is 3.0 and its Degree of Financial Leverage (DFL) is 2.0. If the company anticipates a 10% increase in sales, what will be the resulting percentage increase in Earnings Per Share (EPS)?

A. 20%

B. 50%

C. 60%

D. 30%

Answer: C

Q32. According to the Arbitrage Pricing Theory (APT), the expected return of a security is determined by its sensitivity to several macroeconomic factors. How does this differ fundamentally from the Capital Asset Pricing Model (CAPM)?

A. CAPM uses multiple factors to explain risk, whereas APT relies on a single factor (the market portfolio).

B. APT assumes that all investors are rational and risk-averse, while CAPM does not.

C. APT is used exclusively for bond valuation, whereas CAPM is used for equity valuation.

D. APT posits that an asset's risk and return are influenced by various systematic factors, while CAPM attributes all systematic risk to a single market factor.

Answer: D

Q33. Which statement accurately distinguishes between a Sunk Cost and a Relevant Cost in a capital budgeting decision?

A. A sunk cost is a future expenditure required for the project, while a relevant cost is a past expenditure that cannot be recovered.

B. Both sunk costs and relevant costs are considered in the Accounting Rate of Return (ARR) but not in Discounted Cash Flow (DCF) methods.

C. A relevant cost is a future cash flow that will differ between alternatives, while a sunk cost is a past expense that is unrecoverable and should be ignored.

D. Sunk costs are always included in the Net Present Value (NPV) calculation, whereas relevant costs are excluded.

Answer: C

34. Which of the following financial instruments is a defining characteristic of a Prime Mortgage?

- A. A loan-to-value (LTV) ratio exceeding 100%, meaning the loan is for more than the property's value.
- B. A requirement for the borrower to purchase mortgage insurance regardless of the down payment size.
- C. The loan is granted to a borrower with a high credit score and a strong financial history.
- D. An adjustable interest rate that changes periodically with a market index.

Answer: C

Q35. A financial manager is evaluating two mutually exclusive projects. Project A has a higher Net Present Value (NPV), while Project B has a higher Internal Rate of Return (IRR). Assuming the company's primary goal is to maximize shareholder wealth, which project should be chosen and why?

- A. The project with the shorter payback period should be chosen to minimize risk.
- B. Project B, because a higher IRR always indicates a more profitable project.
- C. Project A, because NPV measures the absolute increase in firm value, which is directly aligned with shareholder wealth maximization.
- D. Neither project should be chosen until the crossover rate is calculated to resolve the conflict.

Answer: C

Q36. Under Activity Based Costing (ABC) method of costing, any factor that causes a change in the cost of activity, is called

- a) Cost driver.
- b) Cost coefficient.
- c) Cost multiplier.
- d) Cost pool.

Answer: A

Q37. Statement 1: Financial leverage originates from the presence of fixed operating costs in a firm's cost structure.

Statement 2: Combined leverage captures the extent to which earnings per share (EPS) respond to variations in the level of sales revenue.

Statement 3: The Degree of Combined Leverage (DCL) is mathematically expressed as the product of the Degree of Operating Leverage (DOL) and the Degree of Financial Leverage (DFL).

Which of the above statements is/are correct?

- a) Statements 1 and 2 only
- b) Statements 1 and 3 only

- c) Statements 2 and 3 only
- d) All statements are correct

Answer: c) Statements 2 and 3 only

Q38. CVP Profitability Decision

- Company produces 1,20,000 units.
- Sales = ₹60,00,000
- Variable Cost = 65% of sales
- Fixed Cost = ₹6,00,000
- Find Contribution, P/V Ratio, Profit.

Which is correct?

- A. P/V = 35%, Profit = 15L
- B. P/V = 40%, Profit = 21L
- C. P/V = 45%, Profit = 12L
- D. Profit Negative

Answer: A

Solution:

- Variable Cost = 65% of 60,00,000 = 39,00,000
- Contribution = Sales – VC = 60,00,000 – 39,00,000 = 21,00,000
- P/V Ratio = Contribution ÷ Sales = 21,00,000 / 60,00,000 = 35%
- Profit = Contribution – Fixed Cost = 21,00,000 – 6,00,000 = ₹15,00,000

Q39. When applying APT to corporate risk analysis, an analyst identifies several macroeconomic factors. Which of the following would be considered a "factor sensitivity" (or factor beta) in the APT linear model?

- A) The total expected return of the market portfolio.
- B) The specific unsystematic risk associated with a company's internal management.
- C) The degree to which an individual security's return changes in response to a 1% change in a specific factor, such as the industrial production index.
- D) The Hurdle Rate set by a Venture Capital firm for a new startup.

Answer: C Insight: In APT, each security has its own sensitivity (beta) to various factors.

Q40. A company has the following details:

- Sales = ₹25 lakh (Selling price = ₹100 per unit)
- Variable cost = 40% of sales
- Fixed cost = ₹9 lakh
- Borrowings = ₹8 lakh at an interest rate of 9% per annum
- Equity capital = ₹10 lakh

Required:

Calculate the Interest Coverage Ratio (ICR).

Options:

- a) 5.44
- b) 6.55
- c) 6.99
- d) 8.33

Answer: D

Q41. Assertion (A): The Interest Coverage Ratio (ICR) is a critical metric for a firm's financial risk analysis.

Reasoning (R): A higher ICR indicates that a company is more capable of meeting its interest obligations from its operating profit, thereby reducing its default risk.

- 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.

Correct Answer: A

Q42. Which capital budgeting technique explicitly assumes intermediate cash flows are reinvested at the firm's cost of capital (discount rate), avoiding the unrealistic high-rate assumption of IRR?

- a) IRR
- b) Payback Period
- c) NPV
- d) ARR
- f) Profitability Index

Answer: c) NPV



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Q43.

- a) IRR (reinvests at computed IRR)
- b) Payback Period (ignores cash flows post-recovery, no reinvestment)
- c) NPV (discounts at cost of capital)
- d) ARR (uses accounting profits, no explicit reinvestment)
- e) MIRR (positive flows reinvested at specified reinvestment rate, often cost of capital, but addresses IRR flaw differently)
- f) Profitability Index (ratios PV of inflows to outflows using discount rate, but not primary standalone technique for reinvestment focus)

Answer: A

Q44. A firm is analyzing its financial risk and capital structure. It has a high Degree of Operating Leverage (DOL) and a high Degree of Financial Leverage (DFL). If the company wants to assess its total risk and the minimum return required by Venture Capitalists (VC), which concepts should it focus on?

- A) Only the Gross Profit Ratio and the Asset Liability valuation.
- B) The Combined Leverage (DCL) to see the total risk, and the Hurdle Rate, which represents the minimum IRR required by VC investors.
- C) The Business Responsibility and Sustainability Reporting (BRSR) and the strike price of warrants.
- D) The opportunity cost of Green Bonds and the ISO 14008 standard.

Correct Answer: B

Explanation: Combined Leverage (DCL) is the product of operating and financial leverage, representing total risk. In VC terminology, the Hurdle Rate is defined as the minimum IRR

Q45. Consider the following statements:

- 1. Financial leverage magnifies EPS when EBIT exceeds fixed financial costs.
- 2. Degree of Financial Leverage (DFL) is independent of capital structure.
- 3. Higher financial leverage increases variability of shareholders' returns.

Which of the above statements is/are correct?

- a) 1 and 2 only
- b) 1 and 3 only
- c) 2 and 3 only
- d) 1, 2 and 3

Answer: b)

DFL depends on capital structure → Statement 2 is false

Q46. XYZ Corporation is evaluating two projects with the following financial details:

Project Alpha: Initial Investment ₹50 lakhs, Annual cash inflows ₹15 lakhs for 5 years

Project Beta: Initial Investment ₹60 lakhs, Annual cash inflows ₹18 lakhs for 5 years The company uses a discount rate of 10% for capital budgeting decisions.

Which project should the company choose based on the Net Present Value (NPV) method?

- A) Project Alpha (NPV \approx ₹6.86 lakhs)
- B) Project Beta (NPV \approx ₹8.24 lakhs)
- C) Both projects have equal NPV
- D) Neither project should be accepted

Answer: B) Project Beta (NPV \approx ₹8.24 lakhs)

Q47. Change in any one of the factors of CVP analysis, i.e., the cost, volume and price, may result in changing the ____?

- i) breakeven point.
 - iii) payback period.
 - ii) quality of products.
 - iv) investment decision.
- a) (i), (ii), (iii) and (iv).
 - b) (i), (ii) and (iii) only.
 - c) (ii), (iii) and (iv) only.
 - d) (i), (ii) and (iv) only.

Answer: D

Q48. Consider the following statements about Relevant Cost Concept:

Statement 1: Sunk costs are costs that have already been incurred and cannot be recovered, hence they are irrelevant for decision-making.

Statement 2: Opportunity cost represents the benefit foregone from the next best alternative and should always be considered in decision-making.

Statement 3: Allocated common costs that will continue regardless of the decision are relevant costs.

Which statement(s) is/are correct?

- A) Only Statements 1 and 2 are correct
- B) Only Statement 1 is correct
- C) All three statements are correct
- D) Only Statements 1 and 3 are correct

Correct Answer: A) Only Statements 1 and 2 are correct

Statement 1: TRUE ✓

Sunk costs are past costs that cannot be changed by any current or future decision.

Examples include money already spent on machinery, research already conducted, or rent already paid. Since they won't change regardless of the decision, they are IRRELEVANT and should be ignored.

Statement 2: TRUE ✓

Opportunity cost is the value of the next best alternative foregone. It represents what you give up when you choose one option over another. It is always RELEVANT because it represents the real economic cost of a decision.

Example: If you use factory space for Production A, you give up the opportunity

to rent it out for ₹5 lakhs - this ₹5 lakhs is an opportunity cost.

Statement 3: FALSE X

Allocated common costs that will continue regardless of the decision are IRRELEVANT, not relevant.

For example, head office rent allocated to different departments will continue even if one department is closed. Only AVOIDABLE costs are relevant.

Q49. You have applied the NPV method to analyze the feasibility of a project involving huge cash flows. The GDP growth rate is falling in the country and AI is disrupting lot of traditional businesses. Hence your boss has asked you to build in the adjustment of risk and uncertainty in the calculation. He wants you to build in assuming all the variables move in the same directions at the same time. Which of the following will you adopt?

- a) Sensitivity analysis.
- b) Simulation analysis.
- c) Scenario analysis.
- d) Hillier model.

Answer: C

Q50. Statement 1: ABC allocates overhead costs based on activities that drive costs, providing more accurate product costing than traditional methods.

Statement 2: In ABC, cost driver is the factor that causes the cost of an activity to increase or decrease.

Statement 3: ABC is particularly useful for companies with diverse products that consume resources in different proportions.

Which of the following is correct?

- A. Only Statement 1 is correct
- B. Only Statements 1 and 2 are correct
- C. All three statements are correct
- D. Only Statement 2 and 3 are correct

Correct Answer: C) All three statements are correct

Statement 1: TRUE ✓ ABC assigns overhead costs based on actual activities and their consumption, rather than using arbitrary allocation bases like direct labor hours. This provides more accurate product costs, especially when products use different amounts of overhead resources.

Statement 2: TRUE ✓ A cost driver is any factor that causes a change in the cost of an activity. Examples: • Machine hours drive electricity cost Statement

Statement 3: TRUE ✓

- Number of setups drive setup cost ABC is most beneficial when:
- Number of purchase orders drive purchasing department cost
- Products are diverse (different sizes, complexity, volumes)
- Products consume resources differently

- Overhead costs are significant
- Traditional costing gives distorted product costs

Q51. If risk free interest rate in US 3% in India 9%, SPOT USD = 83 Rs. then calculate 2nd year forward rate of USD?

- a. 93.
- b. 100.
- c. 108.
- d. 95.

Answer: A

Q52. A Ltd. wants to expand its production capacity to meet growing market demand. However, the company lacks the necessary capital to invest in new machinery, factory and workforce expansion. Traditional funding methods, such as internal reserves are just not adequate. The finance manager of the company gives out the following requirements for the funding?

- i) The loan is required for a period of 7 years and cash flows generated from the project will be used to repay the loan.
- ii) The company is ready to give its tangible assets as collateral.
- iii) The loan should not be convertible into equity.

- a) Term loan.
- b) Working capital loan.
- c) Bonds.
- d) Debentures.

Ans – A) Term loans



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Module C

Q53. A multinational corporation based in the USA buys components from a supplier in Japan, with payment of JPY 100 million due in 90 days. The corporation is concerned that the USD will weaken against the JPY. What is this exposure an example of?

- A. Home Currency risk
- B. Transaction Exposure
- C. Economic Exposure
- D. Translation Exposure

Answer: B

Q54. An investment banker is advising a company on a potential merger. The primary strategic goal is to acquire a key supplier to gain control over the supply chain and reduce costs. What type of merger is this?

- A. Vertical Merger
- B. Conglomerate Merger
- C. Market Extension Merger
- D. Horizontal Merger

Answer: A

Q55. What is the primary purpose of using a 'Certainty Equivalent Coefficient' when evaluating a risky cash flow in capital budgeting?

- A. To convert a risky or uncertain future cash flow into its equivalent risk-free cash flow.
- B. To increase the discount rate to account for the riskiness of the cash flow.
- C. To determine the break-even point of the project in terms of sales volume.
- D. To calculate the probability that the project's actual return will be less than the expected return.

Answer: A

Q56. Using the dividend discount model, specifically the H-Model for two-stage growth, requires estimating a short-term supernormal growth rate (g_1) and a long-term stable growth rate (g_2). What is the core assumption of the H-Model regarding the transition between these two rates?

- A. The growth rate is the average of g_1 and g_2 for the entire life of the company.
- B. The growth rate declines in a linear fashion from the initial high rate to the stable rate over the first stage.
- C. The growth rate follows an exponential decay curve from the high rate to the terminal rate.
- D. The growth rate abruptly drops from g_1 to g_2 after a fixed number of years.

Answer: B

TOPIC Case Study: ABC Ltd

ABC Ltd has issued paid-up capital of ₹10,000 lakhs, consisting of ₹100 lakh equity shares of ₹10 each, fully paid up.

- ABC Ltd has not issued any debentures.
- Shares are trading at ₹100 per share.

Q57. Calculate the P/E multiple of ABC Ltd.

- A) 100
- B) 50
- C) 5
- D) None of the above

Correct Answer: C) 5

P/E Multiple

- Market Price per Share = ₹100
- EPS = ₹20
- P/E = $100 \div 20 = 5$

Q58. Calculate the P/B ratio of ABC Ltd.

- A) 0.6
- B) 1.1
- C) 10.0
- D) 5.0

Correct Answer: A) 0.6

P/B Ratio

- Face Value per Share = ₹10
- ROE = 12%
- Earnings per Share = ₹20
- Book Value per Share = $\text{EPS} \div \text{ROE} = 20 \div 0.12 \approx ₹167$
- P/B = $100 \div 167 \approx 0.6$

Q59. Calculate the P/Sales multiple of ABC Ltd.

- A) 0.10
- B) 0.20
- C) 0.25
- D) 0.30

Correct Answer: B) 0.20

P/Sales Multiple

- Market Capitalisation = 100 lakh shares \times ₹100 = ₹10,000 lakh = ₹100 crore
- Sales = ₹500 crore
- P/Sales = $100 \div 500 = 0.20$

Q60. Calculate the EV / EBITDA multiple of ABC Ltd.

- A) 7.80
- B) 5.90
- C) 6.00
- D) 7.70

Correct Answer: A) 7.80

EV / EBITDA Multiple

- Enterprise Value (EV) = ₹350 crore
- EBITDA = ₹50 crore
- $EV / EBITDA = 350 \div 50 = 7.0 \approx 7.0$
- Closest option provided = 7.80

Q61. Calculate the EV / Book Value multiple of ABC Ltd.

- A) 0.50
- B) 1.00
- C) 1.50
- D) 2.00

Correct Answer: D) 2.00

EV / Book Value Multiple

- Book Value of Equity = $\text{Market Cap} \div P/B = 100 \div 0.6 \approx ₹167 \text{ crore}$
- Enterprise Value = ₹350 crore
- $EV / \text{Book Value} = 350 \div 167 \approx 2.1$

Q62. Change in any one of the factors of CVP analysis, i.e., the cost, volume and price, may result in changing the_____?

- i) breakeven point.
- ii) payback period.
- iii) quality of products.
- iv) investment decision.

Find Correct options

- a) (i), (ii), (iii) and (iv).
- b) i), (ii) and (iii) only.
- c) (ii), (iii) and (iv) only.
- d) i), (ii) and (iv) only.

Answer: D

Q63. In an all-equity merger, synergy value is BEST measured as:

- a) Difference between post-merger EPS and pre-merger EPS
- b) Market value of acquirer minus book value of target
- c) Increase in combined firm value minus sum of standalone values
- d) Reduction in weighted average cost of capital

Answer: c

Q64. Assertion (A): In most DCF valuations, terminal value forms a major portion of firm value.

Reason (R): Terminal value captures the present value of cash flows beyond the explicit forecast period.

Choose the correct answer:

- 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

Answer: A

Q65. A financial analyst is comparing two companies in the same industry:

- Company X: P/E ratio = 18, P/B ratio = 3.2, EV/EBITDA = 12
- Company Y: P/E ratio = 25, P/B ratio = 2.1, EV/EBITDA = 10

Which of the following statements provides the MOST accurate interpretation?

- A) Company X is overvalued on all three metrics and should be avoided by investors
- B) Company Y has higher growth expectations (reflected in higher P/E) but lower asset intensity (reflected in lower P/B), making direct comparison difficult without additional context
- C) The lower EV/EBITDA of Company Y conclusively proves it is undervalued compared to Company X
- D) Company X's higher P/B ratio automatically indicates superior return on equity compared to Company Y

Answer: B

Q66. A company has just paid a dividend of ₹4 per share. The expected growth rate will decline linearly from an initial growth rate (G_a) of 20% to a normal growth rate (G_n) of 10% over a period of 6 years. The required rate of return (K_e) is 15%. Using the H-Model, find the intrinsic value (P_0) of the share.

Options:

- (a) ₹88
- (b) ₹100
- (c) ₹112
- (d) ₹124

Answer: C

Q67. Consider the following statements regarding WACC:

1. WACC increases when cost of debt decreases (keeping other factors constant).
2. WACC is the minimum required return to satisfy both shareholders and debt holders.
3. In DCF models, WACC is used as the discount rate for valuing free cash flow to the firm (FCFF).

Which are correct?

- a) 2 and 3
- b) 1 and 2
- c) 1 and 3
- d) All 1, 2, and 3

Correct Answer: a) 2 and 3

Weighted Average Cost of Capital (WACC)

✓ Explanation:

- Statement 1 (FALSE): $WACC = \text{weighted cost of equity} + \text{after-tax cost of debt}$. If cost of debt decreases, WACC usually falls (not rises), assuming other factors constant.
- Statement 2 (TRUE): WACC is indeed the minimum return required to keep both equity investors and lenders satisfied.
- Statement 3 (TRUE): In DCF, WACC is the discount rate used to value Free Cash Flow to the Firm (FCFF).

Q68. Function Activity

| Merger Type | Definition |
|-----------------------|---|
| x – Horizontal Merger | i – The two businesses that have recently merged are both operating in the same market sector. |
| y – Vertical Merger | ii – This type of merger takes place when two organizations that have a “buyer-seller” relationship come together to form a single entity. |
| z – Congeneric Merger | iii – The acquiring company and the company it is merging with are connected in some way, whether through fundamental technologies, industrial methods, or market segments. |
| t – Reverse Merger | iv – A reverse merger occurs when a smaller, unlisted company acquires a larger, publicly listed company. |

- A. 4321
- B. 3214
- C. 2134
- D. 1234

Answer: D**Q69. Regarding Corporate Valuation and Financial Multiples, consider these statements:**

- **Statement 1:** The Relative Value Model involves steps such as identifying comparable assets and choosing appropriate multiples like P/E, P/Book Value, and P/Sales.
- **Statement 2:** EV/EBITDA is a multiple used to determine the enterprise value relative to operating performance.
- **Statement 3:** Combined Leverage (DCL) is calculated by adding Operating Leverage (DOL) and Financial Leverage (DFL).

Which of the following is correct?

- A) Only Statement 1 is correct
- B) Only Statement 1 and 2 are correct

- C) Only Statement 2 and 3 are correct
D) All are correct

Answer: B

Reasoning: Statement 3 is incorrect because Combined Leverage is generally the product of Operating and Financial leverage, not the sum

Q70. A financial analyst is evaluating a high-growth firm using the Dividend Discount Model (DDM) H-Model. The firm currently pays a dividend of ₹10, which is expected to grow at an initial high rate of 15% before linearly declining over a 6-year period to a stable long-term growth rate of 5%. If the required rate of return is 10%, which of the following statements correctly captures the valuation approach and the impact of the growth transition?

- A) The H-Model is inappropriate here because it assumes a constant growth rate; a 3-Stage Model should be used instead to account for the linear decline.
B) The valuation must include the "H" factor, which represents half of the transition period; in this case, H = 3 years.
C) The terminal value is calculated at the end of year 6 using the 15% growth rate, then discounted back to the present.
D) The H-Model calculation will yield a value that accounts for both the stable growth component and the "extra" growth during the transition period.

Correct Answer: B

Source Insight: Shift 3 featured a numerical case study on the H-Model focusing on the linear decline of growth over time

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Q. RBI proposes a merger, expecting:

- Cost synergy of ₹1,200 crore
- Reduction in duplicate branches
- Improved capital adequacy
- Combined value expected = ₹46,000 crore
- Standalone values: A = ₹28,000 cr, B = ₹14,000 cr
- Exchange ratio considered on market value basis

Q71. What is the synergy value?

- a) ₹2,000 crore
- b) ₹6,000 crore
- c) ₹1,200 crore
- d) ₹4,000 crore

Answer: D

Combined = 46,000

Standalone = 28,000 + 14,000 = 42,000

Synergy = 46,000 – 42,000 = ₹4,000 cr

Q72. Assertion (A): In the valuation of a company for a potential merger, the EV/EBITDA multiple is often preferred over the P/E ratio when the companies being compared have significantly different capital structures.

Reasoning (R): Enterprise Value (EV) accounts for both debt and equity, and EBITDA measures the core operating performance before the impact of interest and taxes, making the multiple "capital structure neutral",.

- 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.

Correct Answer: A

Source Insight: EV/EBITDA was a recurring case study and numerical topic across shifts, used to evaluate company performance regardless of debt levels

Q73. A firm reports the following (₹ in crore):

- EBIT = 180
- Depreciation = 40
- Tax rate = 30%
- Capital Expenditure = 70
- Increase in Working Capital = 20

Calculate FCFF.

- a) 79
- b) 91
- c) 105
- d) 119

Answer: b)

$$\begin{aligned}\text{FCFF} &= \text{EBIT}(1-T) + \text{Dep} - \text{Capex} - \Delta\text{WC} \\ &= 180 \times 0.7 + 40 - 70 - 20 \\ &= 126 + 40 - 90 \\ &= 91\end{aligned}$$

Q74. MegaCorp Limited has 180 crore outstanding shares trading at ₹285 per share. The company has the following debt profile: Term Loans = ₹8,500 crores, Debentures = ₹4,200 crores, Commercial Paper = ₹1,800 crores. The company holds cash and marketable securities worth ₹3,200 crores. What is the Enterprise Value of MegaCorp (in ₹ crores)?

- A) ₹61,600
- B) ₹62,000
- C) ₹62,800
- D) ₹68,200

Answer: C

Q75. Statement I: Strategic missteps affect both the growth rate and the risk premium of a company.

Statement II: A higher risk premium increases discount rates, reducing intrinsic value.

Statement III: Strategic errors do not influence valuation since multiples are market-based.

Correct option:

- a) I and II only
- b) II and III only
- c) I and III only
- d) I, II and III

Answer: a) I and II only

Explanation: Strategic failures increase uncertainty (risk premium) and lower growth, reducing valuation. III is false.

Q76. Tech Global Inc., a diversified technology conglomerate, is considering two restructuring options for its cloud services division:

Option A: Distribute shares of the cloud services division directly to existing Tech Global shareholders proportionately, creating a completely independent publicly-traded company.

Option B: Sell 25% of the cloud services division to public investors through an IPO while retaining 75% ownership and continuing to consolidate its financial results.

Which corporate restructuring strategies do Options A and B represent, respectively?

- A) Spin-off; Equity carve-out
- B) Split-up ; Equity carve-out
- C) Equity carve-out; Spin-off

D) Spin-off; Split-up

Answer A

Q77. Auto Manufacture Ltd. owns a highly profitable electric vehicle (EV) battery division valued internally at ₹15,000 crores. The company is considering an equity carve-out where it would sell 30% of the battery division through an IPO.

Which of the following is NOT a typical advantage of pursuing an equity carve-out rather than a complete spin-off?

- A) AutoManufacture can raise capital from the IPO proceeds while maintaining strategic control over the battery division
- B) The market valuation achieved through the IPO can help establish a clearer value for the battery division
- C) AutoManufacture completely eliminates its financial liability and risk exposure related to the battery division
- D) The partial listing can create a currency (publicly-traded shares) for future acquisitions by the battery division

Answer: C

Q78. In 2024, Unilever (headquartered in the UK/Netherlands) acquired a controlling stake in Wellbeing Nutrition, an Indian health supplement company, for approximately \$50 million.

How would this transaction be classified from the perspectives of India, the UK, and a neutral observer in Singapore?

- A) India: Inbound; UK: Outbound; Singapore: Cross-border
- B) India: Outbound; UK: Inbound; Singapore: Domestic
- C) India: Inbound; UK: Inbound; Singapore: Cross-border
- D) India: Outbound; UK: Outbound; Singapore: Inbound

Answer: A

Q79. Which of the following statements is/are correct?

- 1. ISO 14008 deals with monetary valuation of environmental impacts
- 2. ISO 14007 relates to environmental cost accounting
- 3. ISO 14097 focuses on climate change finance alignment

- a) 1 and 3 only
- b) 2 and 3 only
- c) 1 only
- d) 1, 2 and 3

Answer: A

Q80. Which statement accurately describes the relationship between Warrants and Call Options?

- A. The value of a warrant is independent of the underlying stock's volatility, unlike a call option.
- B. Warrants typically have a much shorter maturity (less than one year) compared to call options.
- C. Exercising warrants results in the creation of new shares and dilutes existing shareholders' equity, whereas exercising call options does not.
- D. Warrants are issued by exchanges like the CBOE, while options are issued directly by the company.

Answer: C

Q81. As per the guidelines of the Alternate Investment Fund Regulations, an individual investor who possesses net tangible assets worth at least Rs. --___ (given in whole numbers) crore, is considered an angel investor?

- A. 5 CR
- B. 7 CR
- C. 12 CR
- D. 2 CR

Answer: D

Q82. AI uses computer _____ to conceptualize objects and _____ to move them?

- a) Sensors, Robotics.
- b) Artificial Intelligence, Logic.
- c) Vision, Robotics.
- d) Vision, Sensors.

Answer: C

Q83. Assertion (A): Venture capital investment generally has a defined exit strategy.

Reason (R): Venture capitalists aim to realize gains through IPO or strategic sale.

Choose the correct answer:

- 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

Answer: A

Q84. A large commercial bank is reviewing its portfolio to ensure compliance with Priority Sector Lending (PSL) norms for Renewable Energy. The bank has extended a loan of ₹400 crore to a specific project. Based on the technical requirements consider the following statements regarding PSL limits:

- **Statement 1:** The limit for bank loans to borrowers for purposes like solar-based power generators and biomass-based power generators is ₹30 crore.
- **Statement 2:** For individual households, the loan limit under PSL for renewable energy is ₹10 lakh per borrower.
- **Statement 3:** In the specific case of a bank with an advance portfolio of ₹15,000 crore, the interest income of ₹1,600 crore must be excluded when calculating the present value of the portfolio for risk adjustment.

Which of the statements are correct?

- A) Only Statement 1
- B) Only Statement 1 and 2
- C) Only Statement 2 and 3
- D) only statement 2

Answer: D

Why Statement 3 is clearly wrong:

- PSL compliance is based on Adjusted Net Bank Credit (ANBC) or credit equivalent of off-balance sheet exposure not present value calculations
- Interest income exclusion has no role in PSL computation

Q85. A large Indian infrastructure company issues Masala Bonds worth ₹10 billion in London. The rupee sharply depreciates by 15% against the issuing currency between pricing and maturity, while the company's rupee revenues remain flat. Which of the following best captures the economic risk outcome for the issuer?

- A. A The issuer's debt service burden in rupee terms rises, because coupon and principal are paid in foreign currency whose value increased against the rupee.
- B. B There is no material impact on the issuer's debt service, because Masala Bonds are always hedged through mandatory currency swaps.
- C. C The issuer benefits from depreciation because the bond's face value is reset downward when the rupee weakens to keep investors whole.
- D. D The issuer's debt service burden in rupee terms falls, because Masala Bonds are rupee-denominated and foreign investors fully bear the currency risk.

Answer: D

The correct option is D.

The issuer's debt service burden in rupee terms falls, because Masala Bonds are rupee-denominated and foreign investors fully bear the currency risk.

Q86. Which of the following statements best describes a strategic rationale for a (corporate spin-off) and what is a common financial impact immediately following the spin-off?

- A. A spin-off is used to sell a subsidiary to a competitor in order to raise capital; it usually results in an immediate increase in the debt ratio of the parent company.
- B. A spin-off is used to separate a high-growth business from a mature parent to unlock value; the market often rewards the move with higher valuations for both entities due to improved strategic focus.
- C. A spin-off occurs when a firm merges with another company in a different sector; this often leads to cost synergies and improved economies of scale.
- D. A spin-off involves the liquidation of a loss-making division to improve short-term profitability and often leads to a downgrade in the company's credit rating.

Answer: B



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Q87. Which of the following statements correctly differentiates the Zero Growth and Constant Growth Dividend discount Models ?

- A. The Zero Growth model assumes dividends grow at a constant rate, whereas the Constant Growth model assumes no dividend growth.
- B. The Zero Growth model values a stock using the present -value of perpetually constant dividends, while the Constant Growth model accounts for dividends growing at a fixed rate
- C. The Zero Growth model is used Only for companies with increasing dividends, whereas the Constant Growth model applies t o companies with stable dividends.
- D. Both models use the same formula and yield identical stock valuations.

Answer: B

Q88. Match the merger types with their correct description:

A. Horizontal Merger

B. Vertical Merger

C. Conglomerate Merger

D. Congeneric Merger

- 1. Between unrelated industries, for diversification.
- 2. Between companies in the same industry producing similar products.
- 3. Between supplier and manufacturer in the same supply chain.
- 4. Between firms in related industries with complementary products.

Options:

- a) A-2, B-3, C-1, D-4
- b) A-3, B-2, C-4, D-1
- c) A-4, B-2, C-1, D-3
- d) A-2, B-1, C-3, D-4

Answer: a) A-2, B-3, C-1, D-4

Q89. Statement 1: Masala Bonds are rupee-denominated bonds issued overseas, with currency risk borne by foreign investors.

Statement 2: Convertible debentures primarily mitigate immediate equity dilution for issuers, though investors face potential future dilution upon conversion.

Statement 3: Green bonds require proceeds to be allocated exclusively to eligible green projects, with tracked management and reporting.

Find correct statements

- a) 1 and 3 only
- b) 2 and 3 only
- c) 1 and 2 only
- d) 1, 2, and 3

Answer: D

Q90. Match the merger types with their correct description:

- A. Horizontal Merger
 - B. Vertical Merger
 - C. Conglomerate Merger
 - D. Congeneric Merger
1. Between unrelated industries, for diversification.
 2. Between companies in the same industry producing similar products.
 3. Between supplier and manufacturer in the same supply chain.
 4. Between firms in related industries with complementary products.

Options:

- a) A-2, B-3, C-1, D-4
- b) A-3, B-2, C-4, D-1
- c) A-4, B-2, C-1, D-3
- d) A-2, B-1, C-3, D-4

Answer: a) A-2, B-3, C-1, D-4

Q91. In the context of Venture Capital (VC) funding, the "Hurdle Rate" is best defined as:

- A) The maximum rate of interest a startup can pay to an Angel investor.
- B) The minimum Internal Rate of Return (IRR) required before a certain action or distribution occurs.
- C) The point where the Net Present Value (NPV) of a project becomes zero.
- D) The interest rate used to calculate the Weighted Average Cost of Capital (WACC).

Answer: B

Q92. A tech-driven startup is navigating the Startup India Action Plan while simultaneously finalizing its intellectual property strategy. Which of the following statements accurately describes their financial entitlements and the strategic planning components involved?

- A) The startup is entitled to a 50% rebate in patent registration fees and an 80% rebate in trademark filing; the key component of their planning must be the immediate maximization of CFAT (Cash Flow After Tax).
- B) The startup is entitled to an 80% rebate in patent registration fees and a 50% rebate in trademark filing; a key component of their planning involves setting objectives and determining the courses of action to achieve them in a risk-adjusted manner.
- C) The startup receives a 100% waiver on all IPO-related costs under the plan; planning is strictly limited to CVP (Cost-Volume-Profit) analysis.
- D) The entitlement includes a 50% rebate for both patents and trademarks; the key component of planning is the elimination of opportunity costs.

Answer: B

Q93. A Special Purpose Acquisition Company (SPAC) is considering a merger.

Investors are evaluating the advantages of the SPAC structure and the specifics of the warrants issued. Which of the following is true?

- A. SPACs are used to avoid CVP analysis; the strike price of warrants is fixed by the central bank.
- B. The primary advantage of a SPAC is the elimination of WACC; warrants are issued with no strike price.
- C. SPACs provide a faster route to public markets; the strike price of warrants issued by a SPAC is determined on a specific basis during the issuance process.
- D. SPACs are only beneficial for calculating the Return on Invested Capital (ROIC).

Correct Answer: C

Explanation: The sources highlight that SPACs have specific advantages (like speed to market) and that the strike price of warrants issued by them is a key technical factor

Q94. Match the startup funding sources (Column I) with their defining characteristics (Column II):

| Column I – Funding Source | Column II – Characteristics |
|---------------------------|--|
| 1 – Angel Investors | Q – High-net-worth individuals investing personal capital in early-stage startups, often providing mentorship alongside funding |
| 2 – Venture Capital (VC) | R – Institutional investors managing pooled funds, typically investing larger amounts in exchange for significant equity stakes and board representation |
| 3 – Crowdfunding | S – Raising small amounts of capital from a large number of people, typically via online platforms, often offering rewards or equity |
| 4 – Bootstrapping | P – Financing through personal savings, revenue reinvestment, and minimal external funding; maintains complete founder control |

- A) 1-Q, 2-R, 3-S, 4-P
- B) 1-R, 2-Q, 3-P, 4-S
- C) 1-Q, 2-S, 3-R, 4-P
- D) 1-P, 2-R, 3-Q, 4-S

Answer: A

Q95. Assertion (A): Seed funding typically involves smaller investment amounts compared to Series A funding and is used primarily for product development, market research, and building the initial team.

Reason (R): Seed-stage startups have higher risk profiles due to unproven business models and lack of revenue, which limits investor appetite for large capital commitments.

Which of the following is correct?

- 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

Answer: A

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Q96. Match the following?

| Analytics Type | Definition |
|----------------------------|--|
| A – Descriptive Analytics | 1 – This approach makes use of data on previous performance to make recommendations for how similar situations should be managed in the future. |
| B – Diagnostic Analytics | 2 – This is the practice of applying statistics to estimate and evaluate future outcomes by employing statistical models and techniques derived from machine learning. |
| C – Predictive Analytics | 3 – This type of analysis focuses on previous performance to understand which factors drive particular trends. |
| D – Prescriptive Analytics | 4 – This method involves the interpretation of historical data and key performance indicators to discover patterns and trends. |

- A. 1234
- B. 2341
- C. 4312
- D. 4321

Answer: D

Q97. Under Section 80-IAC, what is the maximum period within which an eligible startup can claim the 100% tax deduction on profits for any 3 consecutive assessment years?

- a) Within the first 3 years from the year of incorporation
- b) Within the first 5 years from the year of incorporation
- c) Within the first 7 years from the year of incorporation
- d) Within the first 10 years from the year of incorporation

Answer: D

Q98.Statement 1: Startup India Yatra focuses on Tier 2 & Tier 3 cities.

Statement 2: Incubator Grand Challenge recognizes incubators under Atal Innovation Mission.

Statement 3: WING programme provides SIDBI-supported women entrepreneurship training.

Statement 4: INSPIRE is meant for college graduates preparing innovative business plans.

Options:

- a) 1, 2 & 3 only
- b) 1 & 3 only
- c) 2, 3 & 4 only
- d) All 4

Answer: A

Q99. Statements:

1. Incubator must be a legal entity such as Society, Trust, Section 8 company, or statutory body.
2. It must have been operational for minimum 2 years and have 25-seat capacity.
3. At least 5 startups must be physically incubated at the time of application.
4. If incubator is NOT govt-supported, it must have been active for minimum 3 years, submitted 2 audited financials, and incubated 10 startups.
5. Incubator can use third-party private funds to distribute seed funding.

Options:

- A. 1, 2, 3 & 4 correct
- B. All statements are correct
- C. 1, 2 & 5 correct
- D. 1, 2, 4 & 5 correct

Answer: A**Q100. Which of the following statements about SPACs is/are correct?**

- a) A SPAC is a company formed to raise capital through an Initial Public Offering (IPO) for the purpose of acquiring or merging with an existing company.
- b) At the time of IPO, SPACs have no existing business operations or stated acquisition targets.
- c) SPACs are required to return money to investors if an acquisition is not completed within a specified time frame.
- d) SPACs must have a minimum of three years of operating history before going public.

Options

1. A, B, D
2. A, C
3. A, B, C
4. NONE OF THESE

Answer: C

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I just read Oliveboard's class notes of paid course. Nothing more. Thanks a lot



Bhawna Sethia

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I did all my revision from oliveboard mcq's video from youtube



Jayanth Parsi

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The lectures were really helpful in the exam point. Thanking afreen maadam ,Pradyumna sir and Rajeev sir for guidance..



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