

# JAIIB November 2025 AFM Memory-Based MCQs Kit



## JAIIB Paper 3 AFM

**Q1.** A manufacturing entity adopted a new accounting treatment for revenue recognition during the year, which altered the timing but not the quantum of revenue recognised over the contract life. Prior-period figures were restated to ensure comparability. Management disclosed the rationale, transitional impact, and reconciliation of reported profits. Auditors accepted the change after confirming consistency with notified standards. The board debated whether this adjustment affected distributable profits or merely presentation. From a standards-compliance perspective, the change is best characterised as:

- A. Correction of a prior period error
- B. Change in accounting policy requiring retrospective application
- C. Change in accounting estimate requiring prospective application
- D. Extraordinary item requiring separate disclosure

**Q2.** A firm recorded the purchase of machinery by debiting repairs expense and crediting bank. The error was discovered after the trial balance tallied. Management considered passing a single journal entry without disturbing earlier ledgers. The concern was whether such rectification would affect profit computation and capital employed. The accountant analysed whether the error involved principle, omission, or commission.

Which rectification approach is most appropriate?

- A. Debit Machinery; Credit Repairs Expense
- B. Debit Machinery; Credit Suspense Account
- C. Debit Repairs Expense; Credit Machinery
- D. Debit Profit and Loss; Credit Machinery

**Q3.** While reconciling bank balances, a company noticed that cheques issued but not presented, interest credited directly by bank, and a dishonoured cheque were treated inconsistently. The cash book balance exceeded the pass book balance despite no cash shortage. Management wanted to understand whether reconciliation is a corrective or explanatory statement and how timing differences affect reliability of balances.

Which adjustment explains the difference most accurately?

- A. Outstanding cheques reduce cash book balance
- B. Direct credits increase cash book balance
- C. Dishonoured cheques increase pass book balance
- D. Timing differences do not affect reconciliation necessity

**Q4.** An accountant failed to post a credit purchase to the supplier's account but recorded it in the purchases book. The trial balance did not agree, and a suspense account was opened. At

year-end, the error was detected before finalisation. Management questioned whether the suspense balance impacts profit or merely balances arithmetic inconsistency.

Which statement is correct?

- A. Suspense account balance affects profit directly
- B. Error affects only balance sheet positioning
- C. Error affects both profit and liabilities
- D. Error affects neither profit nor liabilities

**Q5.** At year-end, outstanding wages, prepaid insurance, accrued interest, and depreciation were identified. Management debated whether these adjustments distort current profitability or improve measurement accuracy. The finance head emphasised matching principle and true-and-fair view rather than cash flows.

These entries are primarily intended to:

- A. Defer recognition of income
- B. Align cash flows with profitability
- C. Match costs and revenues of the period
- D. Adjust capital structure

**Q6.** A company using Written Down Value method purchased an asset mid-year. Depreciation was charged for half the year. Management compared profits with a firm using straight-line method and noted accelerated expense recognition in early years. The CFO analysed long-term profit neutrality of depreciation methods.

Which implication is most accurate?

- A. WDV results in lower total depreciation
- B. WDV shifts expense recognition earlier
- C. WDV increases asset life
- D. WDV violates consistency principle

**Q7.** A trading firm computed cost of goods sold by adjusting opening stock, purchases, carriage inward, and closing stock. Purchase returns and abnormal losses were treated differently. Management reviewed whether inclusion of non-operating items distorted gross margin analysis.

Which treatment is correct?



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- A. Abnormal losses included in COGS
- B. Purchase returns deducted from purchases
- C. Carriage outward included in COGS
- D. Closing stock excluded from computation

**Q8.** Shares were forfeited for non-payment of allotment money after receipt of application money. Later, the shares were reissued at a discount permissible under law. Management examined whether capital reserve arises and how forfeiture amount is treated.

Which entry is correct on reissue?

- A. Debit Bank; Credit Share Capital; Credit Capital Reserve
- B. Debit Bank; Debit Forfeited Shares; Credit Share Capital
- C. Debit Forfeited Shares; Credit Bank
- D. Debit Capital Reserve; Credit Share Capital

**Q9.** A company issued bonus shares by capitalising free reserves. Shareholders questioned whether wealth increased or merely reclassified. The market price adjusted downward proportionately after issue.

Bonus issue primarily results in:

- A. Increase in net worth
- B. Increase in market capitalisation
- C. Reallocation within shareholders' funds
- D. Increase in distributable profits

**Q10.** A firm issued non-voting shares to strategic investors. Dividend was fixed but control remained unchanged. Management evaluated impact on EPS, ownership dilution, and governance.

Which inference is most accurate?

- A. Voting power diluted
- B. EPS always increases
- C. Control remains with equity holders
- D. Dividend becomes discretionary

**Q11.** An analyst observed high P/E ratio for a company despite moderate earnings growth. Management argued that market expectations and risk perception influence valuation beyond accounting profits.

A high P/E ratio most likely reflects:

- A. Poor profitability
- B. Higher growth expectations

- C. Higher dividend payout
- D. Lower business risk only

**Q12.** Using CAPM, a project's cost of equity was estimated using risk-free rate, beta, and market premium. Management debated reliability of beta in volatile markets.

Which component captures systematic risk?

- A. Risk-free rate
- B. Market risk premium
- C. Beta coefficient
- D. Expected return

**Q13.** A lender assessed DSCR before sanctioning a term loan. Cash profits were stable, but repayment obligations increased due to ballooning instalments.

DSCR primarily measures:

- A. Profitability
- B. Liquidity
- C. Long-term solvency
- D. Market valuation

**Q14.** A firm showed strong current ratio but frequent cash shortages. Inventory dominated current assets, and receivables turnover slowed.

This situation indicates:

- A. Strong liquidity
- B. Window dressing
- C. Poor working capital quality
- D. Excess profitability

**Q15.** An individual invested in an ordinary annuity with equal payments at period end. Another opted for annuity due. Total investment was identical.

Which statement is correct?

- A. Ordinary annuity has higher future value
- B. Annuity due has higher present value
- C. Both have equal time value impact
- D. Timing does not affect valuation

The advertisement is for Oliveboard's JAIB May 2026 AFM Master Batch. It features a blue and red color scheme. At the top left is the Oliveboard logo. At the top right is a red button labeled 'Hinglish'. Below the logo, the text 'JAIB May 2026' is in large red font, followed by 'AFM Master Batch' in black, and 'Concept + Questions' in smaller black font. To the right of this text is a photo of Dr. Pradyumna Sir, an AFM Expert with 15+ years of experience. Below the text, a red banner says '500+ Most Imp. Qs'. Below this is a 'Highlights' section with four white boxes: '110+ Live Sessions', 'Unit-Wise Coverage of All Modules', 'Exam Specific MCQs & Case Studies', and '10 Full - Length RBWM Mock Test'. At the bottom is a green 'Enroll Now' button.

**Q16.** A borrower chose EMI structure with fixed instalments. Initial payments were interest-heavy, reducing principal slowly.

This pattern arises because:

- A. Interest is calculated on original principal
- B. Interest declines slower than principal
- C. EMI structure front-loads interest
- D. Principal repayment is deferred contractually

**Q17.** A bond with longer maturity showed higher duration despite same coupon rate. Management analysed sensitivity to interest rate changes.

Higher duration implies:

- A. Lower price volatility
- B. Higher interest rate sensitivity
- C. Higher coupon certainty
- D. Shorter payback period

**Q18.** A firm computed cost of capital using dividend growth model. Growth assumptions were debated.

Cost of equity increases if:

- A. Dividend payout increases
- B. Growth rate decreases
- C. Market price increases
- D. Risk-free rate decreases

**Q19.** A capital project showed positive NPV but IRR marginally below hurdle rate. Management debated acceptance.

Which decision is theoretically sound?

- A. Reject due to lower IRR
- B. Accept due to positive NPV
- C. Reject due to conflict
- D. Delay until IRR improves

**Q20.** In batch costing, overheads were absorbed based on machine hours. Idle time increased unexpectedly.

Idle time should be treated as:

- A. Product cost
- B. Period cost
- C. Abnormal loss
- D. Selling expense

**Q21.** At break-even point, contribution equals fixed cost. Sales increased beyond BEP.

Beyond BEP, profit equals:

- A. Fixed cost
- B. Contribution
- C. Contribution minus fixed cost
- D. Sales minus variable cost

**Q22.** Standard costing revealed favourable material price variance but adverse usage variance.

Overall material cost variance is:

- A. Always favourable
- B. Always adverse
- C. Net effect of both variances
- D. Independent of standards

**Q23.** A suspense account balance remained at year-end due to unidentified error. Financial statements were prepared.

Correct treatment is to:

- A. Transfer to capital reserve
- B. Show as asset or liability
- C. Adjust against profits
- D. Ignore until next year

**Q24.** While preparing BRS, a cheque deposited but not credited by bank was identified.

This causes:

- A. Cash book balance to be lower
- B. Pass book balance to be higher
- C. No difference
- D. Temporary difference requiring adjustment

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**Q25.** A firm changed depreciation method to better reflect asset usage. Profit increased.

This change should be treated as:

- A. Accounting policy change
- B. Accounting estimate change
- C. Prior period error
- D. Extraordinary item

**Q26.** A company prepared its final accounts and discovered that wages of ₹1,80,000 related to March were paid in April. During the year, wages paid as per cash book amounted to ₹21,40,000. Factory overhead absorption was based on actual wages. Management debated whether omission of accrual would distort inventory valuation and operating profit. The accountant analysed the impact on trading account, profit and loss account, and balance sheet simultaneously before passing the adjusting entry.

Which journal entry correctly records the adjustment?

- A. Debit Wages ₹1,80,000; Credit Cash ₹1,80,000
- B. Debit Outstanding Wages ₹1,80,000; Credit Wages ₹1,80,000
- C. Debit Wages ₹1,80,000; Credit Outstanding Wages ₹1,80,000
- D. Debit Factory Overhead ₹1,80,000; Credit Wages ₹1,80,000

**Q27.** A trader purchased goods worth ₹4,50,000 on credit but erroneously debited purchases account by ₹5,40,000 and credited supplier correctly. The trial balance tallied due to an independent error. Later, management required rectification without reopening books. The accountant assessed the net impact on gross profit and liabilities before passing a correcting entry.

Which rectification entry is appropriate?

- A. Debit Purchases ₹90,000; Credit Suspense ₹90,000
- B. Debit Supplier ₹90,000; Credit Purchases ₹90,000
- C. Debit Purchases ₹90,000; Credit Supplier ₹90,000
- D. Debit Purchases ₹90,000; Credit Profit and Loss ₹90,000

**Q28.** A firm's cash book showed a bank balance of ₹3,25,000, while the pass book showed ₹2,84,000. Cheques issued but not presented amounted to ₹55,000. Bank charges of ₹4,000 were not recorded in cash book. A direct credit of ₹18,000 was made by the bank for interest. Management reviewed reconciliation logic rather than arithmetic.

Which adjustment explains the difference?

- A. Add ₹55,000 and subtract ₹4,000 from cash book balance
- B. Subtract ₹55,000 and add ₹18,000 to cash book balance
- C. Add ₹18,000 and subtract ₹4,000 from cash book balance
- D. Subtract ₹55,000 and ₹4,000 from pass book balance



**Q29.** A machine costing ₹12,00,000 was purchased on 1st October. Depreciation is charged at 20% per annum under Written Down Value method. The company closes books on 31st March. Management compared depreciation impact with straight-line method and assessed tax implications.

What is the depreciation charge for the year?

- A. ₹1,20,000
- B. ₹2,40,000
- C. ₹1,00,000
- D. ₹60,000

**Q30.** A company forfeited 10,000 shares of ₹10 each for non-payment of allotment money of ₹3 per share. Application money of ₹5 per share had been received. The shares were later reissued at ₹8 fully paid. Management examined capital reserve impact and legal compliance.

Which journal entry records reissue correctly?

- A. Debit Bank ₹80,000; Debit Forfeited Shares ₹20,000; Credit Share Capital ₹1,00,000
- B. Debit Bank ₹80,000; Credit Share Capital ₹80,000
- C. Debit Bank ₹80,000; Credit Share Capital ₹1,00,000; Debit Capital Reserve ₹20,000
- D. Debit Forfeited Shares ₹30,000; Credit Share Capital ₹80,000

**Q31.** A company computed current ratio at 2.5:1. Current assets included inventory ₹9,00,000, receivables ₹6,00,000, cash ₹1,50,000. Current liabilities consisted of trade payables and short-term loans. Despite a strong ratio, liquidity stress persisted. Management analysed asset composition rather than ratio magnitude.

This situation primarily indicates:

- A. Excess working capital
- B. Window dressing of current assets
- C. High inventory holding risk
- D. Strong short-term solvency

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**Q32.** A firm reported EBIT of ₹18,00,000. Interest obligation was ₹4,50,000, principal repayment ₹3,00,000, and tax rate 30%. Management computed DSCR to evaluate repayment capacity under conservative assumptions.

DSCR is closest to:

- A. 1.40
- B. 1.67
- C. 2.00
- D. 2.33

**Q33.** A project requires an initial investment of ₹10,00,000 and generates annual cash inflows of ₹3,00,000 for 5 years. Cost of capital is 10%. Present value factor for annuity is 3.791. Management focused on wealth maximisation.

NPV of the project is:

- A. ₹1,37,300
- B. ₹3,79,100
- C. -₹2,08,700
- D. ₹0

**Q34.** A bond with face value ₹1,000 carries coupon rate 8% payable annually and has maturity of 10 years. Yield to maturity is 6%. Management compared price sensitivity with a similar bond of 5-year maturity.

Which bond has higher duration?

- A. 5-year bond
- B. 10-year bond
- C. Both equal
- D. Depends on coupon frequency

**Q35.** A manufacturing entity adopted standard costing and set material standard at 5 kg per unit at ₹20 per kg. Actual production was 1,000 units using 5,300 kg costing ₹1,11,300. Management evaluated whether efficiency or price control caused deviation. The variance analysis was linked with performance appraisal of procurement and production teams. The finance controller insisted on isolating causes before corrective action. Multiple interpretations were debated, requiring precise computation.

Material price variance is:

- A. ₹4,300 Adverse
- B. ₹1,300 Adverse
- C. ₹4,300 Favourable
- D. ₹1,300 Favourable

**Q36.** A trader omitted posting of a sales return of ₹48,000 from returns inward book. Trial balance differed and suspense account was opened. The error was found after final accounts were prepared. Management assessed whether profit adjustment was required.

Which rectification entry is correct?

- A. Debit Sales Returns; Credit Suspense
- B. Debit Profit and Loss; Credit Suspense
- C. Debit Sales; Credit Sales Returns
- D. Debit Suspense; Credit Sales Returns

**Q37.** A batch of 200 units incurred material cost ₹80,000, labour ₹40,000, and overhead absorbed at 60% of labour cost. During inspection, 10 units were found defective and scrapped as abnormal loss. Management evaluated cost per unit.

Cost per good unit is closest to:

- A. ₹720
- B. ₹750
- C. ₹800
- D. ₹840

**Q38.** A company reported EPS of ₹6 and market price ₹150. Earnings are expected to grow at 10%. Risk perception increased due to market volatility. Management examined valuation implications.

Current P/E ratio is:

- A. 15
- B. 20
- C. 25
- D. 30

**Q39.** A borrower takes a loan of ₹10,00,000 at 12% p.a. for 5 years with monthly EMI. Management compared total interest under EMI versus straight-line repayment.

EMI structure results in:

- A. Constant interest and principal
- B. Declining interest and constant principal
- C. Front-loaded interest component
- D. Deferred interest payment



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**Q40.** An ordinary annuity pays ₹50,000 annually for 6 years at 8%. PV factor is 4.623. Management compared with annuity due for retirement planning.

Present value of ordinary annuity is:

- A. ₹2,31,150
- B. ₹2,50,000
- C. ₹3,00,000
- D. ₹2,70,000

**Q41.** A firm capitalised reserves to issue bonus shares in 1:2 ratio. Paid-up capital before bonus was ₹60,00,000. Management analysed balance sheet impact.

Amount capitalised is:

- A. ₹20,00,000
- B. ₹30,00,000
- C. ₹40,00,000
- D. ₹60,00,000

**Q42.** A suspense account showed a debit balance of ₹12,000. Later, a purchase of ₹12,000 was omitted. Management reviewed profit correction.

Correct entry is:

- A. Debit Purchases; Credit Suspense
- B. Debit Suspense; Credit Purchases
- C. Debit Profit and Loss; Credit Suspense
- D. Debit Purchases; Credit Supplier

**Q43.** A firm computed BEP sales at ₹10,00,000. Contribution margin ratio was 40%. Management assessed fixed cost stability.

Fixed cost equals:

- A. ₹2,50,000
- B. ₹4,00,000
- C. ₹6,00,000
- D. ₹10,00,000

**Q44.** A company used CAPM with risk-free rate 6%, market return 14%, and beta 1.2. Management debated cost of equity sensitivity.

Cost of equity is:



- A. 12.0%
- B. 14.4%
- C. 15.6%
- D. 16.8%

**Q45.** A capital project requires ₹15,00,000 investment and generates uneven cash flows of ₹4,00,000, ₹5,00,000, ₹6,00,000, ₹5,00,000 over four years. Cost of capital is 10%. Present value factors are 0.909, 0.826, 0.751, and 0.683 respectively. Management debated acceptance despite IRR ambiguity. The focus remained on absolute value creation under capital rationing. The project also competed with another mutually exclusive proposal.

NPV of the project is closest to:

- A. ₹1,02,000
- B. ₹1,64,000
- C. -₹36,000
- D. ₹2,15,000

**Q46.** A company misclassified revenue expenditure as capital expenditure. Asset was depreciated over 5 years. Error discovered after two years. Management evaluated profit impact.

Error results in:

- A. Overstatement of profit initially
- B. Understatement of profit initially
- C. No impact on profit
- D. Overstatement of liability

**Q47.** A firm prepared BRS starting with pass book balance. Bank credited dividend directly. Management analysed adjustment direction.

Dividend credited by bank should be:

- A. Added to pass book balance
- B. Deducted from pass book balance
- C. Added to cash book balance
- D. Deducted from cash book balance

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**Q48.** A firm's cost of equity under dividend growth model increased. Market price declined while growth remained constant.

This indicates:

- A. Lower required return
- B. Higher required return
- C. No change in  $K_o$
- D. Error in valuation

**Q49.** A manufacturing unit set labour standard at 2 hours per unit at ₹50 per hour. Actual production was 1,000 units using 1,800 hours at ₹55 per hour.

Labour cost variance is:

- A. ₹10,000 Adverse
- B. ₹20,000 Favourable
- C. ₹15,000 Adverse
- D. ₹5,000 Favourable

**Q50.** An adjusting entry for prepaid insurance of ₹36,000 covering 12 months was ignored for 3 months already expired. Management assessed misstatement.

Correct adjustment is:

- A. Debit Insurance Expense ₹9,000; Credit Prepaid Insurance ₹9,000
- B. Debit Prepaid Insurance ₹9,000; Credit Insurance Expense ₹9,000
- C. Debit Insurance Expense ₹36,000; Credit Cash ₹36,000
- D. Debit Profit and Loss ₹9,000; Credit Prepaid Insurance ₹9,000

**Q51.** A company revised the useful life of machinery after four years of usage. The original cost was ₹12,00,000, depreciated on straight-line basis over ten years with no residual value. After reassessment, remaining useful life was estimated at four years due to rapid technological change. Management wants to compute the revised annual depreciation charge applicable prospectively under applicable accounting principles.

What will be the revised annual depreciation from Year 5 onwards?

- A. ₹1,20,000
- B. ₹1,50,000
- C. ₹2,00,000
- D. ₹3,00,000

**Q52.** A firm acquired office equipment costing ₹4,50,000. Payment was made partly in cash ₹1,50,000, partly through cheque ₹2,00,000, and the balance was settled by acceptance of a bill payable. The accountant intends to pass a single compound journal entry strictly in accordance

with debit and credit rules.

Which journal entry correctly records the transaction?

- A. Equipment Dr ₹4,50,000; To Cash ₹1,50,000; To Bank ₹2,00,000; To Bills Payable ₹1,00,000
- B. Equipment Dr ₹3,50,000; To Cash ₹1,50,000; To Bank ₹2,00,000
- C. Cash Dr ₹1,50,000; Bank Dr ₹2,00,000; Equipment Cr ₹3,50,000
- D. Equipment Dr ₹4,50,000; To Capital ₹4,50,000

**Q53.** On 31 March, a firm's cash book showed a bank balance of ₹2,40,000. Cheques issued but not yet presented amounted to ₹38,000. Cheques deposited but not credited were ₹52,000. Bank charges of ₹4,000 were not recorded in cash book, while interest of ₹12,000 was directly credited by the bank. What is the balance as per pass book?

- A. ₹2,58,000
- B. ₹2,46,000
- C. ₹2,34,000
- D. ₹2,30,000

**Q54.** Furniture costing ₹1,20,000 was wrongly debited to purchases account. Additionally, sales return of ₹40,000 was incorrectly posted to sales. Both errors were discovered after the trial balance but before preparation of final accounts. Management analysed whether profits were overstated or understated before rectification. What is the net effect on profit due to these errors?

- A. Overstated by ₹80,000
- B. Understated by ₹80,000
- C. Overstated by ₹1,60,000
- D. No effect on profit

**Q55.** A trial balance difference of ₹9,600 was temporarily placed in suspense account on the debit side. Subsequently, wages were undercast by ₹4,000, sales were overcast by ₹3,000, and purchase returns of ₹2,600 were completely omitted from books. After rectifying all identified



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errors, management reviewed the suspense account position.  
What will be the balance remaining in suspense account?

- A. Nil
- B. ₹200 Dr
- C. ₹200 Cr
- D. ₹400 Dr

**Q56.** Rent of ₹72,000 was paid for one year ending 30 June. Salaries outstanding at year-end amounted to ₹28,000. Insurance prepaid was ₹6,000. Depreciation of ₹40,000 was not recorded. Management examined whether adjustments materially affect profitability and compliance with matching principle.  
What is the net effect on the Profit and Loss Account?

- A. Decrease ₹62,000
- B. Decrease ₹94,000
- C. Increase ₹34,000
- D. Decrease ₹100,000

**Q57.** Machinery costing ₹5,00,000 was purchased on 1 April and depreciated at 20% using written down value method. On 1 October of the third year, an additional machine costing ₹1,00,000 was acquired. Depreciation is charged proportionately. Management evaluated closing book value for reporting.  
What is the book value at the end of Year 3?

- A. ₹2,56,000
- B. ₹2,72,000
- C. ₹2,88,000
- D. ₹3,00,000

**Q58.** Opening stock amounted to ₹2,80,000. Purchases during the year were ₹9,40,000. Carriage inward was ₹36,000. Purchase returns totalled ₹60,000. Closing stock was valued at ₹3,20,000. Abnormal loss of ₹40,000 occurred during transit.  
What is the correct cost of goods sold?

- A. ₹8,36,000
- B. ₹8,96,000
- C. ₹9,36,000
- D. ₹9,76,000

**Q59.** A company issued 10,000 shares of ₹10 each at par. Application money ₹3 and allotment money ₹4 per share were received. Final call of ₹3 per share was not paid, leading to forfeiture. Management analysed the accounting treatment for forfeiture.  
What amount is credited to forfeited shares account?



- A. ₹30,000
- B. ₹40,000
- C. ₹70,000
- D. ₹1,00,000

**Q60.** The forfeited shares in the previous case were subsequently reissued at ₹8 per share as fully paid. The company evaluated compliance with legal limits on discount and determination of capital reserve arising from the transaction.

What amount is transferred to capital reserve?

- A. ₹10,000
- B. ₹20,000
- C. ₹30,000
- D. ₹40,000

**Q61.** A company has paid-up equity capital of ₹8 crore and free reserves of ₹12 crore. It announces a bonus issue in the ratio of one share for every four shares held. Management analysed the impact on shareholders' funds and reserve balances.

What amount will be capitalised for issuing bonus shares?

- A. ₹1.6 crore
- B. ₹2.0 crore
- C. ₹3.2 crore
- D. ₹4.0 crore

**Q62.** A company with 10,00,000 equity shares issued 2,00,000 non-voting shares carrying fixed dividend. Profit available for equity shareholders remained unchanged. Management examined immediate impact on earnings per share and control structure.

What is the immediate impact on EPS?

- A. EPS increases
- B. EPS decreases
- C. EPS remains unchanged
- D. EPS becomes irrelevant

**Q63.** Market price of a company's share is ₹180 and earnings per share is ₹9. Analysts evaluated valuation relative to industry peers and growth expectations.

What is the price—earnings ratio?

- A. 15
- B. 18
- C. 20
- D. 22

**Q64.** Risk-free rate is 6%, expected market return is 14%, and beta of the security is 1.25. Management used CAPM to estimate cost of equity for capital budgeting decisions. What is the cost of equity?

- A. 14.0%
- B. 15.0%
- C. 16.0%
- D. 16.5%

**Q65.** A project generates net operating income of ₹7.2 crore. Annual interest obligation is ₹2.4 crore and principal repayment is ₹2.4 crore. Management assessed repayment capacity conservatively.

What is the Debt Service Coverage Ratio?

- A. 1.20
- B. 1.33
- C. 1.50
- D. 1.80

**Q66.** A firm reported current assets of ₹15 lakh and current liabilities of ₹6 lakh. Subsequently, inventory worth ₹3 lakh was purchased entirely on short-term credit. Management reviewed whether liquidity position improved or deteriorated due to this transaction.

What is the revised current ratio?


- A. 1.50 : 1
- B. 1.67 : 1
- C. 2.00 : 1
- D. 2.25 : 1

**Q67.** An investor contributes ₹50,000 at the end of each year for five years at an interest rate of 10%. The present value annuity factor is 3.791. Management compared future retirement benefits under different savings structures.


What is the present value of the ordinary annuity?

- A. ₹1,75,000
- B. ₹1,89,550

- C. ₹2,10,000
- D. ₹2,50,000

  
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**Q68.** Under the same conditions as above, the investor contributes at the beginning of each year instead of the end. The interest rate remains unchanged. Management examined the timing effect on valuation.

What is the present value of the annuity due?

- A. ₹1,89,550
- B. ₹2,08,505
- C. ₹2,25,000
- D. ₹2,50,000

**Q69.** A borrower avails a housing loan of ₹20,00,000 at 9% per annum for 15 years under EMI system. Management analysed why initial EMIs consist largely of interest component rather than principal repayment.

Which explanation is most appropriate?

- A. Interest rate is variable
- B. Interest is computed on outstanding principal
- C. Principal repayment is contractually deferred
- D. EMI amount changes annually

**Q70.** Two bonds carry identical coupon rates and yield to maturity, but one matures in four years while the other matures in eight years. Management evaluated sensitivity to interest rate movements for portfolio risk management.

Which bond has higher duration?

- A. 4-year bond
- B. 8-year bond
- C. Both have equal duration
- D. Depends only on coupon rate

**Q71.** A company's capital structure consists of equity of ₹40 lakh costing 15% and debt of ₹60 lakh costing 10%. Corporate tax rate is 30%. Management computed weighted average cost of

capital to evaluate investment proposals.  
What is the overall cost of capital?

- A. 9.6%
- B. 10.2%
- C. 11.1%
- D. 12.0%

**Q72.** A project requires an initial investment of ₹10 lakh and generates cash inflows of ₹3 lakh annually for five years. Discount rate is 10%. Present value annuity factor is 3.791. Management focused on absolute value creation.  
What is the net present value of the project?

- A. –₹1.63 lakh
- B. ₹0
- C. ₹1.37 lakh
- D. ₹3.79 lakh

**Q73.** Project A yields an NPV of ₹2 lakh but its internal rate of return is 14%, whereas the firm's cost of capital is 15%. Management debated acceptance under conflicting indicators.  
What is the correct decision?

- A. Accept due to positive NPV
- B. Reject due to IRR being lower than cost of capital
- C. Accept only if risk-adjusted
- D. Defer decision

**Q74.** A production batch of 500 units incurred material cost of ₹1,50,000 and labour cost of ₹75,000. Overheads are absorbed at 60% of labour cost. Management evaluated unit cost for pricing decisions.  
What is the cost per unit?

- A. ₹360
- B. ₹375
- C. ₹390
- D. ₹540

**Q75.** A product sells for ₹200 per unit with variable cost of ₹140 per unit. Fixed costs are ₹6,00,000. Management set standard output equal to break-even level to analyse operating risk and margin of safety.  
What is the break-even quantity in units?

- A. 8,000
- B. 9,000



- C. 10,000
- D. 12,000

**Q76.** An individual earned salary income in India, rental income from a house property situated abroad, and capital gains from sale of shares listed on an Indian stock exchange. He stayed in India for 190 days during the previous year but had been working overseas for several years prior. The assessing officer examined his stay pattern, prior residential history, and nature of income streams to determine taxability. The issue was not rate of tax but inclusion of income within the tax base.

Which principle primarily governs the scope of taxable income in this case?

- A. Place of accrual alone
- B. Source-based taxation only
- C. Residential status of the assessee
- D. Nature of income earned

**Q77.** A taxpayer invested in life insurance, paid tuition fees for children, contributed to provident fund, and claimed deductions for medical insurance and interest on education loan. During scrutiny, it was observed that some payments were made in cash while others were paid after the due date. The officer examined not the quantum, but eligibility and sequencing of deductions across sections.

Which conceptual framework governs allowability of such deductions?

- A. Matching principle
- B. Chapter-wise aggregation of income
- C. Conditions attached to Chapter VI-A provisions
- D. Gross total income computation

**Q78.** A company deducted tax at source on professional fees but failed to deposit the amount within the prescribed time. Simultaneously, it collected tax at source on sale of scrap but deposited it promptly. While computing disallowances and interest, the assessing officer distinguished between obligation to deduct, collect, and deposit.

What is the fundamental distinction between TDS and TCS highlighted here?

- A. Nature of income covered
- B. Responsibility for tax payment timing
- C. Point of tax incidence and collection
- D. Rate structure prescribed

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**Q79.** An enterprise reported accounting profit but showed lower taxable income due to timing differences arising from depreciation methods. While no permanent difference existed, deferred tax was recognised to reflect future tax consequences. Management debated whether this recognition impacted cash flows or merely accounting representation.

Deferred tax accounting primarily seeks to:

- A. Reduce current tax liability
- B. Align tax expense with accounting income
- C. Eliminate timing differences permanently
- D. Adjust tax rates retrospectively

**Q80.** A newly registered business under indirect taxation struggled to understand whether GST is a tax on manufacture, sale, or consumption. It observed seamless credit flow across states and stages, replacing multiple earlier levies. Management realised that tax incidence shifted subtly along the supply chain.

GST is best described as a tax on:

- A. Production of goods
- B. Sale of goods and services
- C. Supply and consumption
- D. Interstate trade only

**Q81.** A manufacturing firm compared financial accounting reports with internal cost statements. While profits appeared stable, management noticed variances in product-wise margins. Cost data was used for pricing, control, and decision-making rather than statutory reporting.

The primary purpose of cost accounting in this context is to:

- A. Comply with legal requirements
- B. Determine taxable income
- C. Support managerial decision-making
- D. Replace financial accounting

**Q82.** A company executed customised client orders, produced identical components in lots, undertook long-term infrastructure projects, and processed continuous chemical outputs. Management realised that applying a single costing method distorted cost attribution across operations.

Selection of costing method primarily depends on:

- A. Size of the organisation
- B. Nature of production process



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- C. Volume of output
- D. Level of automation

**Q83.** Standard costs were fixed for material and labour. During review, management focused not on total deviation but on identifying controllable inefficiencies across departments. Variances were analysed to assign responsibility rather than merely adjust books.

Variance analysis primarily facilitates:

- A. Profit determination
- B. Inventory valuation
- C. Performance evaluation and control
- D. Cost reduction automatically

**Q84.** A firm with high fixed costs analysed contribution margins to assess impact of sales volume changes. Management ignored fixed cost allocation and focused on incremental effects. Strategic decisions were based on short-term profitability rather than absorption cost.

This approach reflects the philosophy of:

- A. Absorption costing
- B. Standard costing
- C. Marginal costing
- D. Historical costing

**Q85.** An organisation prepared budgets annually but noticed that incremental budgeting perpetuated inefficiencies. Managers justified prior expenses without questioning relevance. To address this, each activity was evaluated afresh regardless of past allocations.

This budgeting philosophy is known as:

- A. Flexible budgeting
- B. Performance budgeting
- C. Zero-base budgeting
- D. Rolling budgeting

**Q86.** An individual stayed in India intermittently over several years, with periods of employment abroad and occasional business visits. Although he met basic stay conditions in the current year, his historical pattern influenced classification. The assessing officer carefully applied multiple tests before determining tax liability on foreign income.

This case illustrates that residential status determination is:

- A. Based only on current year stay
- B. Independent of prior years
- C. Dependent on cumulative conditions
- D. Relevant only for citizens

**Q87.** A company reported high accounting profits due to incentives and exemptions but paid minimal tax. To ensure a minimum contribution to revenue, an alternative tax mechanism was triggered based on book profits. Management recognised that this tax operated independently of normal provisions.

The conceptual purpose of this mechanism is to:

- A. Penalise profitable companies
- B. Replace income tax computation
- C. Ensure minimum tax outflow
- D. Eliminate exemptions

**Q88.** Deferred tax asset was recognised for carry-forward losses, while deferred tax liability arose from accelerated depreciation. Management assessed whether these balances represent actual receivables or obligations.

Deferred tax assets and liabilities arise due to:

- A. Permanent differences
- B. Timing differences
- C. Cash flow mismatches
- D. Tax rate changes

**Q89.** A registered dealer claimed input tax credit on various purchases. However, credit was denied on motor vehicles and certain personal-use items despite tax being paid. Management questioned fairness but accepted statutory restrictions.

This denial is primarily based on:

- A. Nature of supplier
- B. Time of supply rules
- C. Blocked credit provisions
- D. Valuation disputes

**Q90.** A firm used advanced costing tools integrating operational data, strategic objectives, and performance metrics. Cost information was no longer confined to factory floors but extended to value chain analysis.

This reflects the evolution towards:

- A. Financial accounting
- B. Traditional cost accounting
- C. Advanced cost and management accounting
- D. Budgetary accounting

**Q91.** A company absorbed overheads based on estimated activity levels. At year-end, actual output differed significantly, leading to mismatch between absorbed and actual overheads.



Management debated whether to adjust inventory values or transfer differences to profit. Over- or under-absorption primarily arises due to:

- A. Errors in bookkeeping
- B. Use of predetermined rates
- C. Inefficient labour
- D. Poor supervision

**Q92.** An organisation implemented activity-based costing to allocate overheads more accurately. While cost visibility improved, implementation costs were high and data requirements extensive. Management evaluated whether benefits justified complexity. A major limitation of ABC is:

- A. Inaccuracy
- B. High implementation cost
- C. Ignoring overheads
- D. Regulatory non-acceptance

**Q93.** Management reduced material wastage, improved process efficiency, and redesigned products rather than merely cutting expenses. The objective was long-term competitiveness rather than short-term savings.

This approach best reflects:

- A. Cost control
- B. Cost allocation
- C. Cost reduction
- D. Cost absorption

**Q94.** A firm evaluated whether to manufacture a component internally or purchase it externally. Fixed costs remained unchanged, but variable costs differed. Management ignored sunk costs and focused on relevant costs only.

This decision framework is based on:

- A. Absorption costing
- B. Marginal costing
- C. Historical costing
- D. Standard costing

**Q95.** A division showed favourable cost variances but failed to meet strategic objectives. Another division exceeded budget but delivered higher long-term value. Management realised that variance analysis alone was insufficient for appraisal.

This highlights a limitation of:



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- A. Budgetary control
- B. Responsibility accounting
- C. Standard costing
- D. Financial accounting

**Q96.** A multinational enterprise applied Indian tax law to determine scope of income for expatriate employees. Although income was received abroad, taxability depended on both residence and accrual principles. Complex fact patterns required careful interpretation. This demonstrates that scope of total income is governed by:

- A. Citizenship alone
- B. Place of receipt only
- C. Combined residence and source rules
- D. Employer location

**Q97.** A firm operating under GST adjusted input credits across multiple tax periods. Some credits lapsed due to non-compliance by suppliers, while others were reversed due to non-payment within stipulated time. This situation underscores that ITC availability depends on:

- A. Buyer's intention
- B. Supplier compliance and conditions
- C. Invoice value only
- D. Nature of goods alone

**Q98.** Senior management used contribution analysis for shutdown decisions during a temporary downturn. Fixed costs continued regardless of production, but variable costs were avoidable. This reasoning aligns with which principle?

- A. Full cost recovery
- B. Marginal cost relevance
- C. Historical cost allocation
- D. Standard cost comparison

**Q99.** A company implemented responsibility accounting with cost, profit, and investment centres. While budgets were achieved, strategic alignment varied across units. Management refined performance metrics beyond mere variance reports. This reflects an evolution from:

- A. Budgetary control to strategic control
- B. Cost accounting to financial accounting
- C. Planning to controlling
- D. Centralisation to decentralisation

**Q100.** Budget variances were analysed across departments. Some managers achieved favourable variances by postponing essential expenditures, adversely affecting long-term outcomes. Senior leadership recognised the need for qualitative judgment in evaluation. This case highlights that budget variances should be interpreted:

- A. Mechanically
- B. In isolation
- C. With managerial context
- D. Only quantitatively

### Answer Key (JAIIB Paper 3 AFM)

Q1–Q25	Ans	Q26–Q50	Ans	Q51–Q75	Ans	Q76–Q100	Ans
Q1	B	Q26	C	Q51	C	Q76	C
Q2	A	Q27	C	Q52	A	Q77	C
Q3	B	Q28	C	Q53	C	Q78	C
Q4	B	Q29	A	Q54	A	Q79	B
Q5	C	Q30	A	Q55	B	Q80	C
Q6	B	Q31	C	Q56	B	Q81	C
Q7	B	Q32	B	Q57	B	Q82	B
Q8	B	Q33	A	Q58	B	Q83	C
Q9	A	Q34	B	Q59	C	Q84	C
Q10	C	Q35	B	Q60	C	Q85	C

Q11	C	Q36	D	Q61	B	Q86	C
Q12	C	Q37	B	Q62	C	Q87	C
Q13	C	Q38	C	Q63	C	Q88	B
Q14	C	Q39	C	Q64	C	Q89	C
Q15	B	Q40	A	Q65	C	Q90	C
Q16	C	Q41	B	Q66	C	Q91	B
Q17	B	Q42	A	Q67	B	Q92	B
Q18	B	Q43	B	Q68	B	Q93	C
Q19	B	Q44	C	Q69	B	Q94	B
Q20	C	Q45	B	Q70	B	Q95	A
Q21	C	Q46	A	Q71	B	Q96	C
Q22	C	Q47	C	Q72	C	Q97	B
Q23	B	Q48	B	Q73	B	Q98	B
Q24	D	Q49	D	Q74	D	Q99	A
Q25	C	Q50	A	Q75	C	Q100	C

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A big thank you to Oliveboard for your immense support throughout my preparation. Your video lectures, PDFs, and test series were incredibly helpful and played a major role in my success. Grateful for the guidance and quality content!



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



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



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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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