

## MOODY' S

- (1) Which is a primary component of a company's operating cycle?
- a. Cash.
  - b. **Inventory.**
  - c. Plant and equipment.
  - d. Shareholder's equity.
- (2) What is free cash flow?
- a. Net cash available after depreciation and amortisation.
  - b. Net cash generated from sales without associated costs.
  - c. Net cash before interest, taxes, depreciation and amortisation.
  - d. **Net cash remaining after spending to maintain or expand assets.**
- (3) What type of opinion does an auditor provide when it disagrees with the information and/or conclusions in a company's financial report?
- a. **Adverse.**
  - b. Strong.
  - c. Qualified.
  - d. Unqualified.
- (4) In which of its corporate documents is a company's lending limit set put?
- a. Articles of Association.
  - b. Commencement Certificate.
  - c. **Corporate Resolution.**
  - d. Memorandum of Association.
- (5) Which type of risk can arise from the way a loan is structured? I
- a. Group.
  - b. **Deal-specific.**
  - c. Documentation.
  - d. Other stakeholders.
- (6) Special Mention Accounts were introduced as a new asset category between which two categories?
- a. Doubtful and Loss.
  - b. Standard and Doubtful.
  - c. Sub-standard and Doubtful.
  - d. **Standard and Sub-standard.**
- (7) How does earnings'before interest, taxes, depreciation and amortisation (EBITDA) differ from cash flow?
- a. It excludes net sales.
  - b. It includes interest and taxes.
  - c. **It excludes the cost to replace assets.**
  - d. It includes changes to working capital.
- (8) Under Indian Account Standards (IND AS 1), what information is it permissible to disclose only in the notes to account?
- a. Par value per share.
  - b. Restriction on the distribution of dividend.
  - c. Shares in the entity held by the entity or its subsidiary or associates.
  - d. **Aggregate number and class of shares allotted as fully paid up by bonus shares.**
- (9) Under what circumstances would a company typically seek external debt financing?
- a. When it is cash rich.
  - b. When its structure allows for new equity investors.

- c. When equity holders are willing to take on additional risk.
- d. When existing owners are unwilling to dilute their ownership interest.**

10) What type of transactions would require further investigation in a cash credit account?

- a. Debits for salaries.
- b. Credits for sales turnover.
- c. Debits of round figure sums.**
- d. Debits for frequent suppliers.

(11) What information in a credit agency report can help a bank assess a company's management integrity?

- a. Opinion about the company management.**
- b. Information about the financial performance.
- c. How freely the management shares information.
- d. Details on covenant compliance for the bank loans.

(12) What is the fundamental function of credit administration?

- a. To monitor the customer's business and financial performance.**
- b. To work closely with relationship managers in approving credit facilities for clients.
- c. To obtain information from the customer to enable the monitoring of credit facilities.
- d. To focus on the operational details that make sanctioned credit facilities available to the borrower.

(13) Which component within a deal structure reflects the nature of the credit purpose being / financed?

- a. covenant.**
- b. Guarantee.
- c. Pricing.
- d. Tenor.

(14) ATE Ltd. recently purchased machinery at a cost of INR 2,00,000 with a disposal value of INR 20,000. The company uses straight-line depreciation and estimates the machinery will have a useful life of 10 years. What is the first-year depreciation charge for this machinery?

- a. INR 2,000
- b. INR 18,000**
- c. INR 20,000
- d. INR 22,000

(15) Which is a major risk for a business in the mature stage of its life cycle?

- a. Failure to re a debt.
- b. Filing for bankruptcy.
- c. Merger With a competitor
- d. Inability to invest in new products.**

(16) Which type of business will have the highest client concentration risk?

- a. A business reliant on a single client.**
- b. A business reliant on clients from a single industry.
- c. A business reliant on a very large number of clients.
- d. A business reliant on clients from a broad number of industries.

(17) Which organisational structure can inhibit management's ability to take decisions thus adversely affecting the company's performance and credit risk? -

- a. A pyramidal structure.
- b. A centralised decision-making process.**

- c. A structure that has distinct divisions between different functions.
- d. A structure in which roles and responsibilities are clearly documented.

(18) In what type of security charge are goods and raw materials commonly pledged as assets?

- a. Assignment.
- b. Hypothecation.**
- c. Lien.
- d. Mortgage.

(19) Which increases a supplier's bargaining power?

- a. Low-switching costs.
- b. Standardised products.
- c. Ability to integrate forward.**
- d. Large sales to a single buyer.

(20) What action is taken during the resolve future financing step of a loan restructure?

- a. Identify the key stakeholders.
- b. Re-evaluate risk versus reward**
- c. Manage change by creating incentives
- d. Determine what is required to fix the business

(21) How can a business's key performance objectives be used to assess the effectiveness of its organisational structure and staff responsibilities?

- a. Through identifying the employee responsible for each objecth/e.
- b. By determining whether there have been any recent changes in the management.
- c. By benchmarking the business's performance objectives against those of peer / organisations.**
- d. By determining whether each business objective is allocated to an appropriate and specified senior manager.

(22) In what type of feasibility assessment is a project's maximum debt to equity ratio reviewed?

- a. Cost of project.
- b Economic viability.
- C. Means of finance.**
- d. Technical viability.

(23) Which describes the absolute priority rule with respect to payments made to creditors at default?

- a. Subordinated debt is paid before insolvency-related costs.
- b. Available funds are paid first to the lowest ranked class until the borrower's obligations are fully satisfied.
- c. Available funds are paid first to the highest ranked class until the borrower's obligations are / fully satisfied.**
- d. Distributions to each ranked class are paid out proportionately based on its percentage in the company's capital structure.

(24) What Would describe a non-fund-based facility?

- a. A facility that is lower risk than a fund-based facility.
- b. A credit facility that incurs a monetary obligation when draw down occurs.
- c. A facility that is similar to a fund-based facility in terms of how it is recorded in a bank's books.
- d. A facility that may result in a funded obligation if the customer fails to settle any payments due.**

(25) Under the matching principle, when should an expense incurred to generate revenue be recorded ?

- a. **When the revenue is earned.**
- b. When the expense is paid out.
- c. By the company's fiscal year end.
- d. By the end of the current calendar year.

(26) Which existing market condition can act as a key barrier to entry for a business that wants to expand into a new market?

- a. Slow market growth.
- b. Product standardisation.
- c. Expensive local manpower.
- d. **Well-established competitor.**

(27) A note in the auditor's report for TGH Ltd. indicates that an asset reserve was credited LNR 50,000, instead of expensed, as a result of creative accounting. What effect will this entry have on TGH Ltd.'s financial statements?

- a. **Profit will be overstated.**
- b. Liabilities will be overstated.
- c. Liabilities will be understated.
- d. Shareholder's equity will be understated.

(28) At which stage of a business's life cycle is it considered the most risky for credit approval?

- a. **Start-up.**
- b. Adolescence.
- c. Growth.
- d. Maturity.

(29) What can be reasonably understood if a business has a current ratio of less than 1.00?

- a. The business is liquid and solvent,
- b. Financial risk is low and favourable.
- c. The business has sufficient current assets to meet current obligations within the next operating period.
- d. **The business has insufficient current assets to meet current obligations within the next operating period.**

(30) What type of credit rating will most likely cause a borrower's credit score to be adjusted downward because of an expected downturn in the borrower's industry?

- a. Single risk rating.
- b. Facility risk rating.
- c. **point-in-time rating.**
- d. through the cycle rating.

(31) For how many days can an account remain continuously in excess of the sanctioned limit before it is considered out of order?

- a. 30
- b. 60
- c. **90**
- d. 120

(32) How do a business's operating expenses affect the level of its cash flow?

- a. Operating expenses do not affect cash flow.
- b. Lower operating expenses result in lower cash flow.
- c. **Lower operating expenses result in higher cash flow.**
- d. Higher operating expenses result in higher cash flow.

(33) What process for addressing non-performing assets is timely, transparent and outside of legal proceedings?

- a. Joint lenders' forum.
- b. Strategic debt restructuring.
- c. Corporate debt restructuring.**
- d. Scheme for sustainable structuring of stressed assets.

(34) What is the likely impact on cash flow and financial risk of improved inventory turnover?

- a. Cash flow will increase, reducing financial risk.**
- b. Cash flow will increase, increasing financial risk.
- c. Cash flow will decrease, reducing financial risk.
- d. Cash flow will decrease, increasing financial risk.

(35) According to the contingent claims model, default occurs when what variable is less than the value of a firm's liabilities?

- a. The firm's gross profit.
- b. The firm's shareholders' equity.
- c. The firm's market value of assets.**
- d. The firm's net book value of assets.

(36) What type of credit covenant requires the borrower to provide updates to the lender at certain intervals?

- a. Affirmative.
- b. Enhancement.
- c. information.**
- d. Restrictive.

(37) What external factors outside of a business's control can affect its liquidity levels?

- a. Credit and lending policy.
- b. Facility and loan structure.
- c. Industry and business risk.**
- d. Management and key persons' risk.

(38) Which party issues a letter of credit in a goods and services transaction?

- a. Applicant
- b. Bank.**
- c. Beneficiary.
- d. Seller.

(39) In what type of letter of credit is payment delayed until a specified future date?

- a. Contract.
- b. Demand.
- c. Sight.
- d. UsanCe.**

(40) What should a lender consider when using projections in the credit risk assessment process?

- a. Select assumptions that will confirm the desired results.
- b. Avoid the tendency to include information on price trends.
- c. Understand that past projections and results have no impact on forecast assumptions.
- d. Set assumptions based on past performance, management performance, and the external /environment.**

(41) Which risk driver refers to the average time it takes a business to collect its sales in cash?

- a. Sales growth.
- b. Gross margin.
- c. Accounts payable days.

**d. Accounts receivable days.**

(42) What can be reasonably assumed when a business's debt to tangible worth ratio is higher than 1.00?

- a. Gearing is low.
- b. Creditors support assets more than the owners**
- c. Financial risk is unfavourable.
- d. The owners support assets more than creditors.

(43) Which factor is unlikely to affect a business's ability to penetrate a market with high entry barriers?

- a. Capital available to the business.
- b. Level of skill of the business's workforce.**
- c. Uniqueness of products sold by the business.
- d. Government regulation affecting the business's industry

(44) Under what condition is a customer permitted to draw under an export bill discounting / facility?

- a. The loan period is no more than 180 days.
- b. The customer has obtained an ECGC post-shipment policy.
- c. The customer provides evidence that the goods have been shipped.**
- d. The source of repayment is an export bill drawn under a letter of credit

(45) Companies handling hazardous products that pose risk to the environment must have an insurance policy equal to the paid-up capital of the company. What type of expense is covered by this insurance?

- a. Court fines.
- b. clean-up costs.
- c. Property damage.
- d. Victim compensation.**

(46) Which cash flow category typically includes interest expenses?

- a. Loan activities.
- b. Operating activities.**
- c. Expansion activities.
- d. Consolidating activities.

(47) What is the main purpose of conducting a competitive analysis during the loan pricing decision process?

- a. To calculate the lowest lending rate the bank is willing to apply to the loan
- b. To determine the probability of loss based on the competitor's rate pricing
- c. To persuade the relevant committee to approve a lending rate lower than those of competitors.
- d. To determine whether the lending rate should be adjusted based on the ceiling established**

(48) Which method for valuation of capital assets is based on observation of the cash flows generated by similar assets?

- a. Market method.
- b. Income method.**
- c. Net book method.
- d. Depreciated replacement cost method.

(49) Which is the most effective type of covenant in a credit agreement?

- a. Balance sheet.
- b. Cash flow.
- c. Event-based.**
- d. Non-financial.

(50) What is a key characteristic of the economy in India?

a. Downward movements in the economy have little impact on the banking industry.

**b. Taxation policies cause businesses to be less transparent in their financial reporting.**

c. Demonetisation of high denomination currency notes has negatively affected small businesses.

d. Opportunistic decisions that influence monetary policy can negatively affect a business's financial performance.

51) Why does a special purpose vehicle expose a lender to more risk than conventional financing?

a. The loan has no security guaranteed.

b. The sponsor has no established track record.

c. The sponsor is the only party liable for the loan.

**d. The loan is repaid only from the project's cash flows.**

(52) Which credit monitoring arrangement (CMA) form is no longer relevant in formulating projections for a company under the assessed bank finance method?

a. Funds flow statement.

b. Profit and loss statement.

**c. Computation of maximum permissible bank financing.**

d. Comparative statement of current assets and liabilities.

(53) What is an example of an administrative expense in dealing With a problem loan?

a. Litigation restructuring costs.

**b. Increased frequency of audits.**

c. Costs to train new employees.

d. Loss of management control of the company.

(54) What is one feature of hypothecation that makes it different from a pledge?

a. The charge is created against movable property.

b. The charge is created against immovable property.

c. Ownership of the property transfers to the creditor.

**d. Ownership of the property remains with the borrower.**

(55) When determining a company's management risk, what details should be assessed before meeting with the company's management?

a. The competitors' performance.

b. The company's goal planning process.

**c. The company's most recent annual report.**

d. The economic outlook for the next couple of years.

(56) Which indicates that a business is a dominant employer?

a. It consistently outperforms the competition.

**b. It employs most of the available workforce in the market.**

c. It has the highest output of a particular product in the market.

d. it has the longest history and strongest ties within the community.

(57) Which describes the flow of items in the trading cycle?

**a. Cash -> inventory -> product -> sales -> trade receivable.**

b. Cash -> product -> inventory -> sales -> trade receivable.

c. Inventory -> sales -> product -> trade receivable -> cash.

d. Product -> inventory -> sales -> trade receivable -> cash.

(58) Which item is evaluated more substantively when determining the amount

of financing available to a company under the assessed bank finance method as compared to the maximum permissible bank finance method?

- a. **Liquidity.**
- b. Trade payables.
- c. Long-term assets.
- d. Excess borrowings.

(59) At what stage of a new asset purchase would a company's operating cash flow be most affected?

- a. **When saving for the down payment prior to the purchase.**
- b. When the purchase is made entirely with borrowed funds.
- c. When the purchase is directly offset by the sale of an old asset.
- d. When financing costs and revenues increase after the purchase.

(60) What Is the first step for a management team" In order to achieve results through the efforts of others?

- a. **Set the strategic direction.**
- b. Source the necessary resources. I
- c. Incentivise the organisation in an effective manner.
- d. Manage the critical business operations on a daily and long-term basis.

(61) What is the primary purpose of the loan pricing process? I

- a. To assess the probability of loss in the event of default.
- b. To calculate the profitability of the loan transaction for the bank.
- c. **To determine appropriate interest rate and fees in line with the risk assumed.**
- d. To support the lender's position in the negotiation process with the borrower.

(62) Which element in the development of a business plan would indicate a high degree of management risk?

- a. Set business objectives are easy to meet.
- b. Reports on progress implementation are often late.
- c. **No consultation with stakeholders in setting up the plan.**
- d. Finalisation of the business plan only a few days before the start date.

(63) What is one benefit of cash accounting?

- a. **It provides a cash-flow-based statement of profit and loss.**
- b. it records cash and non-cash components of a transaction.
- c. it records all transactions of a particular accounting period.
- d. it gives a complete view of the financial status of a business.

(64) What type of non-fund-based lending facility would a buyer of goods and services use to guarantee a one-time payment?

- a. Export credit.
- b. **Letter of credit.**
- c. Overdraft.
- d. Term loan.

(65) What effect does the number of a company's trade receivable days have on its cash flow?

- a. Number of trade receivable days does not affect cash flow.
- b. Stable trade receivable days results in increased cash flow.
- c. **A decrease in trade receivable days results in increased cash flow. .**
- d. An increase in trade receivable days results in increased cash flow.

(66) What strategy should a company use to ensure that it can still meet its financial obligations despite the occurrence of an unexpected event such as fire?

- a. Undertake a business impact analysis.



- b. Split operations between more than one site.
- c. Obtain insurance that meets statutory requirements.
- d. **Obtain insurance coverage that covers loss of business income.**

(67) What is the primary purpose of setting up internal triggers for credit risk monitoring?

- a. **To provide early warning signals of deteriorating credit risk.**
- b. To identify breaches of contractually agreed upon covenants.
- c. To flag an issue when financial statements are ready for review.
- d. To replace contractual covenants for borrowers with high credit standing.

(68) What is the most effective measure of a business's operating efficiency?

- a. Increase in sales.
- b. increase in profits.
- c. Absolute level of operating expenses.
- d. **Trends in operating expenses as a percentage of sales.**

(69) Which marks the end of a company's operating cycle?

- a. **Receipt of cash.**
- b. Conclusion of sales.
- c. Purchase of inventory.
- d. Collection of trade receivables.

(70) Under what circumstances might weak succession planning affect a borrower's credit risk when a key management member leaves unexpectedly?

- a. The nominated successor lacks management integrity.
- b. **The nominated successor has not completed all required training.**
- c. The nominated successor cannot take up the position for a few weeks.
- d. Details of the nominated successor were not provided to the borrower's bank.

(71) What is meant by the term "excess borrowings" under the Tandon Committee approach to lending?

- a. The amount borrowed exceeds current liabilities.
- b. The liquidity level exceeds the minimum required.
- c. The maximum permissible bank borrowings exceed current assets.
- d. **The minimum required net working capital exceeds the actual amount.**

(72) Which is an [example of a liquidity early warning signal?

- a. Rising corporate bond prices.
- b. Non-consolidation of subsidiaries' accounts.
- c. **Frequent overdrafts that are covered in a few days.**
- d. A large cheque that is returned for insufficient funds.

(73) Which is an indication of market overcapacity?

- a. **Too much product.**
- b. High product prices.
- c. Large output from a dominant business.
- d. The business is unable to meet demands.

(74) If the stock auditor discovers discrepancies during the audit, what should they do next?

- a. **Seek clarification from the borrower.**
- b. Raise them immediately with the bank.
- c. Report them in their report on the audit.
- d. Make recommendations on follow-up actions in their report.

(75) An increase in which item will increase a borrower's debt service coverage ratio?

- a. Loan interest.
- b. Loan collateral.
- c. Cash flow from operations.**
- d. Scheduled principal repayment.

(76) What should a company implement to minimise the impact of an unexpected event on the business's cash flow?

- a. Hedge against the foreign exchange and interest rate risks.
- b. Insurance to cover the impact of external events such as fire, flood and earthquake.
- c. A business continuity plan that enables operations to continue with minimal disruptions.**
- d. Requirements to escalate Issues to senior management and hold a crisis management meeting when the event occurs.

(77) What is the basic function of credit monitoring?

- a. To ensure the borrower continues to be a good credit risk.**
- b. To ensure the borrower is operating within the credit limits.
- c. To determine if the credit facilities are being used for the intended purpose.
- d. To determine what actions should be taken where there is a cause for concern.

(78) What role do projections play in the financial risk assessment process?

- a. Confirm future ability to repay.
- b. Estimate cash inflows and outflows.
- c. Determine likelihood of future liquidity and solvency.**
- d. Forecast minimum rate for the lender's return on assets.

(79) Which factor affecting the cost of funds will lead to a surplus to the lender if positive?

- a. Profit margin.**
- b. Risk premium.
- c. Term of funds.
- d. Cost of capital.

(80) Which source of external information about a company's past behaviour can be used to assess its management integrity?

- a. Discussions with management.
  - b. Details of dividends paid over the last five years.
  - c. Opinion about management included in credit agency reports.**
  - d. Account statements showing whether the company has met its obligations to the bank on time.
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1. What process for addressing non-performing assets is timely, transparent and outside of legal proceedings?

- a. Joint lenders' forum.
- b. Strategic debt restructuring.
- c. Corporate debt restructuring.**
- d. Scheme for sustainable structuring of stressed assets.

2. Which is a warning sign of cash flow manipulation using creative accounting?

- a. Receivables growing faster than sales.
- b. Converting trade receivables into notes.
- c. Stretching out the life of a depreciable asset
- d. Disclosure about timing of inventory purchases.**

3. What is the primary purpose of the loan pricing process?

- a. To assess the probability of loss in the event of default.

- b. To calculate the profitability of the loan transaction for the bank.
- c. To determine appropriate interest rate and fees in line with the risk assumed.**
- d. To support the lender's position in the negotiation process with the borrower.

4. What is the best course of action when the assumptions used to make projections for a business do not yield the desired results?

- a. Change the assumptions.
- b. Adjust the risk driver values.
- c. Accept the implications of the results.**
- d. Dismiss the implications of the results.

5. Under the cash budget method, what is the limit of bank borrowings as a percentage of the peak deficit?

- a. 5%
- b. 25%
- c. 80%
- d. 100%**

(6) What can a company do to finance a project through off-balance sheet financing?

- a. Liquidate fixed assets.
- b. Sell account receivables.
- c. Use cash from operations.
- d. Obtain a non-recourse loan.**

(7) In which condition can a local business perform well while the local economy is in recession?

- 3. Local competition is weak.
- b. The business has a high profit margin.
- c. The business sells high quality and durable products.
- d. The local economy of business's customers is thriving.**

(8) Special Mention Accounts were introduced as a new asset category between which two categories?

- a. Doubtful and Loss.
- b. Standard and Doubtful.
- c. Sub-standard and Doubtful.
- d. Standard and Sub-standard.**

(9) Which component of credit risk refers to the amount owed by a borrower at the time of default?

- a. Expected loss at default.
- b. Exposure at default.**
- c. Loss given default.
- d. Probability of default.

10. How is a business's seasonality determined?

- a. By analysing the buying power of its customer base.
- b. By gathering information about product demand throughout the year.
- c. By identifying a predictable pattern of business activity during a defined time period.**
- d. By conducting a historical analysis of obsolescence and the frequency of product line changes.

(11) Which increases a supplier's bargaining power?

- a. Low-switching costs.
- b. Standardised products.
- c. Ability to integrate forward.**

d. Large sales to a single buyer.

(12) Within what period, after a joint lenders' forum authorises an audit, must the audit be completed?

- a. 7 days.
- b. 15 days.
- c. **3 months.**
- d. 6 months.

(13) What is one of the objectives of periodic project monitoring?

- a. To ensure that the project is completed on time. V
- b. **To ensure that funds raised are used only for approved purposes.**
- c. To ensure that the required financing for justifiable cost overruns is obtained. :
- d. To review the financial performance of the borrower to ensure it remains creditworthy.

(14) Which item is evaluated more substantively when determining the amount of financing available to a company under the assessed bank finance method as compared to the maximum permissible bank finance method? '

- a. **Liquidity.**
- b. Trade payables.
- c. Long-term assets.
- d. Excess borrowings.

(15) What governing body for the Insolvency and Bankruptcy Code would set up accreditation for insolvency professionals and information utilities?

- a. Adjudicating Authority.
- b. Debt Recovery Tribunal.
- c. Insolvency Professional Agency.
- d. **insolvency and Bankruptcy Board of India.**

(16) Which activity of a borrower is an example of siphoning funds?

- a. Using short-term capital for long-term purposes.
- b. Routing funds through a bank other than the lender bank.
- c. Investing in other companies without the approval of lenders.
- d. **Using borrowed funds for purposes unrelated to the operations of the borrower.**

(17) How does sales volatility affect a business's reliance on debt?

- a. Volatility does not affect reliance on debt or financial risk.
- b. Less volatility reduces reliance on debt, increasing financial risk.
- c. **Less volatility reduces reliance on debt, decreasing financial risk.**
- d. More volatility reduces reliance on debt, while maintaining financial risk.

(18) What part of the loan pricing process sets an interest rate floor, below which the loan is financially undesirable?

- a. **Cost analysis.**
- b. Loan structuring.
- c. Loan accounting.
- d. Competitive analysis.

(19) What term refers to the amount that a lender expects to be outstanding at the time of default?

- a. Expected default loss.
- b. **Exposure at default.**
- c. Loss given default.
- d. Probability of default.

(20) What is the order of quality of financial statements from lowest to

highest?

- a. Audited, reviewed, positive assurance, prepared.
- b. Positive assurance, prepared, reviewed, audited.
- c. Prepared, reviewed, audited, positive assurance.**
- d. Reviewed, positive assurance, prepared, audited.

(21) What should a lender consider when using projections in the credit risk assessment process?

- a. Select assumptions that will confirm the desired results.
- b. Avoid the tendency to include information on price trends.
- c. Understand that past projections and results have no impact on forecast assumptions.
- d. Set assumptions based on past performance, management performance, and the external environment.**

(22) What is the most important reason for a lender to monitor pending business-altering laws during a credit risk assessment?

- a. To ensure informed decisions on future loan requests.
- b. To determine the laws' impact on future operations and cash flow.**
- c. To understand how the political landscape will change in the future.
- d. To estimate the competition's performance compared to that of the borrower.

(23) What information does using the gearing ratio provide?

- a. Current assets to current liabilities.
- b. Net worth compared to total assets.
- c. How much cash is available to cover payments.
- d. The relative amount of funding provided by owners and creditors.**

(24) How should a customer's account activity be monitored to ensure end-use of funds?

- a. Review a percentage of all the transactions.
- b. Scrutinise all the transactions regardless of value.
- c. Review the transactions above a threshold amount.**
- d. Browse through the account and investigate any unusual transaction.

(25) Which part of the financial statements does the Uniform Credit Analysis primarily focus on?

- a. Balance Sheet.
- b. Cash Flow Statement.**
- c. Income Statement.
- d. Net Worth Statement.

(26) What is the impact of low market entry barriers on competition within an industry and the financial performance of businesses' operating within the industry?

- a. Increased competition, increased cash flow.
- b. Increased competition, decreased cash flow.**
- c. Decreased competition, decreased cash flow.
- d. Decreased competition, increased cash flow.

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(28) Titan Ltd. is a lumber exporter with annual sales of 1NR 750,000, 45 inventory days, 35 trade receivables days, and 40 trade payables days. What approximate amount of external financing will Titan Ltd. need to support its operating cycle?

a. INR 61,644 **b. INR 82,192** c. INR 102,740 d. INR 246,575

(29) What can be reasonably understood if a business has a current ratio of less than 1.00?

a. The business is liquid and solvent. b. Financial risk is low and favourable.

c. The business has sufficient current assets to meet current obligations within the next operating period.

**d. The business has insufficient Current assets to meet current obligations within the next operating period.**

(30) How does earnings before interest, taxes, depreciation and amortisation (EBITDA) differ from cash flow?

a. It excludes net sales.

b. It includes interest and taxes.

**c. It excludes the cost to replace assets.**

d. It includes changes to working capital.

(31) Based on the working capital information provided below, which of these companies has the highest level of business risk?

Company	A	B	C	D
Working Capital	5	2	10	10
Peers' Working Capital Cycle (Months)	4	3	5	10

a. Company A.

b. Company B.

**c. Company C.**

d. Company D.

(32) Which type of security can be used in a pledge charge?

a. Building.

**b. Finished goods.**

c. Heavy equipment.

d. Life insurance contract.

(33) What is a characteristic of a good business plan?

**a. Setting measurable goals.** b. Setting business objectives.

c. Being reactive to changing demand. d. Defining who is accountable to the plan.

(34) When issuing a term loan, what source of information can be used to benchmark the cost of customized, non-standard equipment?

a. Suppliers' invoices.

**b. Other firms in the industry.**

c. Information available on the internet.

d. Comparisons with similar equipment.

(35) Which type of equity shares can be repaid at the discretion of the issuer?

a. Common stock.

b. Convertible preference shares.

c. Cumulative preference shares.

**d. Redeemable preference shares.**

(36) What is the most effective measure of a business's operating efficiency?

- a. increase in sales.
- b. Increase in profits.
- c. Absolute level of operating expenses.
- d. Trends in operating expenses as a percentage of sales.**

(37) What information in a credit agency report can help a bank assess a company's management integrity?

- a. Opinion about the company management.**
- b. Information about the financial performance.
- c. How freely the management shares information. -
- d. Details on covenant compliance for the bank loans.

(38) What is the likely impact on a company's cash flow if lack of oversight fails to spot non-compliance with regulatory reporting requirements?

- a. Imposition of a substantial fine.**
- b. Substantial reputational damage.
- c. Downgrading by a ratings agency.
- d. The reporting of incorrect financial results

(39) What would allow a positive view to be taken of management's ability to develop a robust and implementable business plan? -

- a. Plans are developed in a top-down manner.
- b. There is a well-defined and balanced planning process.
- c. Corrective actions are taken quickly where targets are not being met. .
- d. Plans are communicated to all relevant parties within the first month of the new financial year.**

(40) What strategy can management adopt to minimise the impact of work stoppages?

- a. Employ additional staff.
- b. Obtain appropriate insurance.
- c. Engage regularly with staff to ensure good labour relations.
- d. Hold sufficient stocks so that orders can be fulfilled if production is lost during the stoppage.**

(41) Which element in the development of a business plan would indicate a high degree of management risk?

- a. Set business objectives are easy to meet.
- b. Reports on progress implementation are often late.
- c. no consultation with stakeholders in setting up the plan.**
- d. Finalisation of the business plan only a few days before the start date.

(42) Which method for valuation of capital assets is based on observation of the cash flows generated by similar assets?

- a. Market method.
- b. Income method.**
- c. Net book method.
- d. Depreciated replacement cost method.

(43) What does a small short-term financing gap imply for a company requesting financing?

- a. Less financing is needed.**
- b. More financing is needed.
- c. Financing will be denied.
- d. Financing will be approved.

(44) What is the primary function of stock statements in the administration of fund-based working capital limits?

- a. To calculate drawing power.**
- b. To provide evidence that can be used in legal proceedings.
- c. To provide monthly movement in the level and quality of inventory and

receivables.

d. To indicate the aging profile of inventory and receivables for calculation of the eligible items.

(45) Which source of external information about a company's past behavior can be used to assess its management integrity?

a. Discussions with management.

b. Details of dividends paid over the last five years.

**c. Opinion about management included in credit agency reports.**

d. Account statements showing whether the company has met its obligations to the bank on time.

(46) Which describes the absolute priority rule with respect to payments made to creditors at default?

a. Subordinated debt is paid before insolvency-related costs.

b. Available funds are paid first to the lowest ranked class until the borrower's obligations are fully satisfied.

**c. Available funds are paid first to the highest ranked class until the borrower's obligations are fully satisfied.**

d. Distributions to each ranked class are paid out proportionately based on its percentage in the company's capital structure.

(47) Which Basel II guidelines-based ratings approach permits banks to use their own estimates for loss given default?

a. Standardised.

**b. Advanced internal ratings-based.**

c. Foundation internal ratings-based.

d. Capital requirement for credit risk.

(48) XYZ trucking company (XYZ) has recently entered into an arrangement with an online sales business to deliver their general consumer goods and expect that this partnership will improve their sales. XYZ has sought enhanced financing to support this new business. The transportation industry is in a decline due to a recession, and XYZ's most recent annual financial statement shows relatively weak sales performance. What is the next step in assessing XYZ's credit application?

a. The assessment should end, and credit should be declined.

b. The assessment should be postponed until the industry enters the recovery stage.

c. The assessment should continue and focus on total profit as a measure of success.

**d. The assessment should continue with more focus on the sales projections scenarios and cash flow impact.**

(49) What causes market overcapacity?

**a. Industry growth.**

b. Weak competition.

c. Drop in a sales price.

d. Low product demand

(50) In what type of repayment structure is a loan repaid by only one payment at the end of the loan period?

a. Annuity.

b. Balloon.

**c. Bullet.**

d. Equal.

(51) On what basis is the risk premium for a loan calculated?

**a. Expected loss.**



- b. Loss given default.
- c. Exposure at default.
- d. Probability of default.

(52) Which type of risk rating measures the loss given default?

- a. **Facility.**
- b. Low-point.
- c. Obligor.
- d. Single.

(53) Why is it important to analyse business performance when assessing the financial risk of a company?

- a. To forecast future risk of default.
- b. To calculate the company's current ratio.
- c. **To fully understand the company's credit needs and risks.**
- d. To ensure sales levels change from one operating period to the next.

(54) Company A had outstanding trade payable for an average of 44 days in Fiscal Year-End (FYE) 1 and 41 days in FYE 2. Company B had outstanding trade payable for an average of 52 days in FYE 1 and 55 days in FYE 2. Which of Company A or Company B is most likely to borrow funds, and why?

- A. **Company A due to reduced cash flow.**
- b. Company B due to reduced cash flow.
- c. Company A due to increased cash flow.
- d. Company B due to increased cash flow.

(55) Which asset is listed as a current asset on a company's balance sheet?

- a. **Inventory.**
- b. Intangible assets.
- c. Capital work-in-progress.
- d. Long-term loans and advances.

(56) Which factor is the most significant for a business's seasonal risk?

- a. Market downturn.
- B. **shorter peak season.**
- c. Product obsolescence.
- d. Unpredictability of sales.

(57) What type of credit covenant requires the borrower to provide updates to the lender at certain intervals?

- a. Affirmative.
- b. Enhancement.
- C. **Information.**
- d. Restrictive.

(58) Who is liable to pay a party that makes a valid claim under a bank guarantee?

- a. The applicant.
- B. **The bank.**
- C. The beneficiary.
- d. The guarantor.

(59) How is a fixed asset recorded on a company's balance sheet at the time of its acquisition?

- a. **As a debit to the fixed asset account using the cost of the asset.**
- b. As a credit to the fixed asset account using the cost of the asset.
- c. As a debit to the fixed asset account using the market value of the asset.
- d. As a credit to the fixed asset account using the market value of the asset.

(60) Under what circumstances might weak succession planning affect a borrower's credit risk when a key management member leaves unexpectedly?

- a. The nominated successor lacks management integrity.
- b. The nominated successor has not completed all required training.**
- c. The nominated successor cannot take up the position for a few weeks.
- d. Details of the nominated successor were not provided to the borrower's bank.

(61) What external factors outside of a business's control can affect its liquidity levels?

- a. Credit and lending policy.
- b. Facility and loan structure.
- c. Industry and business risk.**
- d. Management and key persons' risk.

(62) What activity would provide the least amount of information when conducting an inspection?

- a. Holding discussions with the borrower.
- b. Assessing the borrower's activity level.
- c. Establishing the existence of the borrower's capital stock.**
- d. Randomly checking the valuations of the borrower's raw materials.

(63) Which financial trigger can be set up internally as an early signal of a borrower's probability of default?

- a. Change in profit projections.**
- b. Change in ownership structure.
- c. Unexpected change in dividend policy.
- d. Emergence of new competitive entrants in the market.

(64) Which marks the end of a company's operating cycle?

- a. Receipt of cash.**
- b. Conclusion of sales.
- c. Purchase of inventory.
- d. Collection of trade receivables

(65) Under what circumstances would a company typically seek external debt financing?

- a. When it is cash rich.
- b. When its structure allows for new equity investors.
- c. When equity holders are willing to take on additional risk.
- d. When existing owners are unwilling to dilute their ownership interest.**

(66) What factor plays a key role in influencing the industry due to a large bargaining power of a significant supplier?

- a. Labour disruptions.
- b. Liberal credit terms.**
- c. Decreased sales prices
- d. Improved service levels.

(67) Which party issues a letter of credit in a goods and services transaction?

- a. Applicant.
- b. Bank.**
- c. Beneficiary.
- d. Seller. I

(68) Which is an example of an insurance covenant in a credit agreement?

- a. Prohibition on providing other creditors security over any assets.
- b. Restriction on incurring new debt above a pre-determined amount.
- c. Requirement to pay premiums on schedule to avoid a lapse of coverage.**

d. Obligation to submit security valuations performed by an independent appraiser

(69) What effect does the number of a company's trade receivable days have on its cash flow?

- a. Number of trade receivable days does not affect cash flow.
- b. Stable trade receivable days results in increased cash flow.
- c. A decrease in trade receivable days results in increased cash flow.**
- d. An increase in trade receivable days results in increased cash flow.

(70) Which activity can reduce a company's cash flow position?

- a. Sale of assets.
- b. Collection of receivables.
- c. Purchase of investments.**
- d. Increase in owner's equity

(71) Which is a major risk for a business in the mature stage of its life cycle?

- a. Failure to repay debt.
- b. Filing for bankruptcy.
- c. Merger with a competitor.
- d. Inability to invest in new products**

(72) Which principle of corporate governance has the recognition of obligations to all involved parties as its key element?

- a. Disclosure and transparency.
- b. Integrity and ethical behaviour.
- c. Interests of other stakeholders.**
- d. Rights and equitable treatment of shareholders.

(73) Which is a commonly accepted risk driver for financial risk?

- a. Gross margin.**
- b. Profit margin.
- c. Return on assets.
- d. Return on equity.

(74) What can be reasonably assumed when a business's debt to tangible worth ratio is higher than 1.00?

- a. Gearing is low.
- b. Financial risk is unfavourable.
- c. Creditors support assets more than the owners.**
- d. The owners support assets more than creditors.

(75) In what type of letter of credit is payment delayed until a specified future date?

- a. Contract.
- b. Demand.
- c. Sight.
- d. Usance.**

(76) Which source of external information can help a relationship manager identify changes that might affect the outlook for a borrower's industry?

- a. Credit bureau reports.
- b. Stock market announcements.
- c. Reports of parties that have defaulted.
- d. Government announcements of new or amended regulation**

(77) When determining a company's management risk, what details should be assessed before meeting with the company's management?

- a. The competitors' performance.
- b. The company's goal planning process.

- c. **The company's most recent annual report.**
- d. The economic outlook for the next couple of years.

(78) Which is examined by a lender when assessing the economic viability of a borrower's project?

- a. Margin of working capital.
- b. Provisions for a contingency fund.
- c. **Supply and demand in the industry.**
- d. Suitability of the technology being used.

(79) In which of its corporate documents is a company's lending limit set out?

- a. Articles of Association.
- b. Commencement Certificate.
- c. **Corporate Resolution.**
- d. Memorandum of Association.

(80) What does the right to claim indemnity entitle the guarantor to do?

- a. Pay the debt to the creditor voluntarily.
  - b. Ask the borrower to be relieved of its obligation.
  - c. **Receive from the borrower the amount paid under the guarantee.**
  - d. Ask the borrower to notify the creditor that the guarantor has been relieved of any obligation.
- 

(1) How does industry risk affect the credit risk of a particular business enterprise that operates within that industry?

- a. The effect is limited to industry-specific regulations.
- b. The effect is substantial only if the industry is, in a decline phase.
- c. The effect is insignificant as long as the particular business performs well and generates enough cash.
- d. **The effect is significant as industry risk includes factors that determine capital requirements and cash flow.**

(2) Which type of charge is appropriate when the security is a factory?

- a. Hypothecation.
- b. Lien.
- c. **Mortgage.**
- d. Pledge.

(3) When allowing a customer to draw under a domestic bill discounting facility, why is it important to confirm that there is an underlying movement of goods?

- a. To ensure that the transaction is not a one-off.
- b. To avoid providing financing for intergroup transactions.
- c. **To reduce the possibility of providing accommodation finance.**
- d. To ensure that financing is provided only for goods that have been shipped to existing customers.

(4) What is the primary purpose of setting up internal triggers for credit risk monitoring?

- a. **To provide early warning signals of deteriorating credit risk.**
- b. To identify breaches of contractually agreed upon covenants.
- c. To flag an issue when financial statements are ready for review.
- d. To replace contractual covenants for borrowers with high credit standing.

(5) Which action might a company take when it is in the cash concern stage of financial distress?

- a. Selling vital assets.

**b. Cancelling bonuses.**

- c. Laying off key employees.
- d. Eliminating management positions.

(6) An increase in which item will increase a borrower's debt service coverage ratio?

- a. Loan interest.
- b. Loan collateral.
- c. Cash flow from operations.**
- d. Scheduled principal repayment

(7) What type of opinion does an auditor provide when it disagrees with the information and/or conclusions in a company's financial report?

- a. Adverse.**
- b. Strong.
- c. Qualified.
- d. Unqualified.

(8) What is an example of an administrative expense in dealing with a problem loan?

- a. Litigation restructuring costs.
- b. Increased frequency of audits.**
- c. Costs to train new employees.
- d. Loss of management control of the company

(9) When issuing a term loan, what source of information can be used to benchmark the cost of customized, non-standard equipment?

- a. Suppliers' invoices.
- b. Other firms in the industry.**
- c. Information available on the internet.
- d. Comparisons with similar equipment.

(10) When disbursing term loans, which strategy should be used to ensure that the funds are utilised for the intended purposes?

- a. Pay disbursements directly to the suppliers.**
- b. Pay disbursements to the borrower's current account.
- c. Ensure the undrawn limit is equal to the amount requested to be drawn.
- d. Require the customer to provide funds after disbursement to ensure that the required debt-equity ratio is met.

(11) An asset would be classified as doubtful when it has remained in which category for how many months?

- a. Sub-standard category for 5 months.
- b. Sub-standard category for 12 months.**
- c. Non-performing category for 6 months.
- d. Non-performing category for 12 months.

(12) How does earnings before interest, taxes, depreciation and amortisation (EBITDA) differ from cash flow?

- a. It excludes net sales.
- b. It includes interest and taxes.
- c. It excludes the cost to replace assets.**
- d. It includes changes to working capital.

(13) Which type of subordination is determined by the position of the lender's exposure in the borrower's company group?

- a. Contractual
- b. Effective
- c. Legal.
- d. Structural.**

(14) What would be considered a warning signal when monitoring stock statements for a company experiencing sales growth?

- a. Late submission.
- b. An increase in inventory levels.
- c. An increase in over-aged receivables.**
- d. A fall in the value of outstanding usance letters of credit.

(15) Which principle of corporate governance has the recognition of obligations to all involved parties as its key element?

- a. Disclosure and transparency.
- b. Integrity and ethical behaviour.
- c. Interests of other stakeholders.**
- d. Rights and equitable treatment of shareholders.

(16) Which is examined by a lender when assessing the economic viability of a borrower's project?

- a. Margin of working capital.
- b. Provisions for a contingency fund.
- c. Supply and demand in the industry.**
- d. Suitability of the technology being used.

(17) For how many days can an account remain continuously in excess of the sanctioned limit before it is considered out of order?

- a. 30
- b. 60
- c. 90**
- d. 120

(18) What can be reasonably assumed when a business's debt to tangible worth ratio is higher than 1.00?

- a. Gearing is low.
- b. Financial risk is unfavourable.
- c. Creditors support assets more than the owners.**
- d. The owners support assets more than creditors.

(19) What type of credit rating will most likely cause a borrower's credit score to be adjusted downward because of an expected downturn in the borrower's industry?

- a. Single risk rating.
- b. Facility risk rating.
- c. Point-in-time rating.**
- d. Through the cycle rating.

(20) Under the second method suggested by the Tandon Committee, what is the minimum percentage of net working capital required to be provided by a borrower?

- a. 25% of current assets.**
- b. 75% of current assets.
- c. 25% of maximum permissible borrowings.
- d. 75% of maximum permissible borrowings.

(21) Which Basel 11 guidelines-based ratings approach permits banks to use their own estimates for loss given default?

- a. Standardised.
- b. Advanced internal ratings-based.**
- c. Foundation internal ratings-based.
- d. Capital requirement for credit risk.

(22) What variable will most likely decrease as a market approaches overcapacity?

- a. Loan defaults.

- b. Price of products.**
- c. Loan applications.
- d. Availability of products.

(23) Which component within a deal structure reflects the nature of the credit purpose being financed?

- a. Covenant.
- b. Guarantee.
- c. Pricing.
- d. Tenor.**

(24) What aspect of a business must be considered when performing an industry and business risk assessment?

- a. its future cash flows.
- b. Its vulnerability within the competitive marketplace**
- c. Management's capacity to run the business profitably.
- d. its ability to generate cash through its daily operations.

(25) What will have the biggest effect on the risk premium when pricing a loan?

- a. The term of the loan.
- b. The bank's growth strategy.
- c. The expected loss of the loan.**
- d. The expected return on equity.

(26) Which is considered a financing activity when using the indirect method of structuring a cash flow statement? '

- a. Purchases of fixed assets.
- b. Long-term loans and advances.**
- c. Proceeds from sale of fixed assets.
- d. Proceeds from sale of share capital.

(27) What is one feature of hypothecation that makes it different from a pledge?

- a. The charge is created against movable property.
- b. The charge is created against immovable property.
- c. Ownership of the property transfers to the creditor.
- d. Ownership of the property remains with the borrower.**

(28) What are the three key reference points that form the foundation of most projections?

- a. Start-up, expansion, and succession.
- b. Inventory, sales growth, and rate of return.
- c. Liquidity, profitability, and capital expenditures.
- d. Past results, management plans, and economic environments.**

(29) Which is a warning sign of cash flow manipulation using creative accounting?

- a. Receivables growing faster than sales.
- b. Converting trade receivables into notes.
- c. Stretching out the life of a depreciable asset
- d. Disclosure about timing of inventory purchases.**

(30) What is the first step for a management team in order to achieve results through the efforts of others?

- a. Set the strategic direction.**
- b. Incentivise the organisation in an effective manner.
- c. Source the necessary resources.
- d. Manage the critical business operations on a daily and long-term basis.

(31) How can a company's management best minimise the impact of potential

interruptions in the input supplies?

- a. Obtain supplier insurance.
- b. Ensure that there is an alternate supply source for all key inputs**
- c. Hold large stocks for all key supply inputs.
- d. Maintain good personal rapport with the key input suppliers.

(32) In which condition can a local business perform well while the local economy is in recession?

- a. Local competition is weak.
- b. The local economy of business's customers is thriving.**
- c. The business has a high profit margin.
- d. The business sells high quality and durable products.

(33) What is the difference between a partnership firm and a Limited Liability Partnership (LLP)?

- a. if a partner dies a partnership firm continues to exist and an LLP dissolves.
- b. An LLP is a separate legal entity from its members and a partnership is not a separate legal entity.**
- c. An LLP is governed by the Indian Partnership Act and a partnership firm is governed. by the Companies Act.
- d. The income from a partnership firm stays within the firm and LLP income is personal income for the partners.-

(34) What does a bias to pass rating indicate when assessing liquidity and solvency test results in a credit assessment?

- a. The credit request should be declined
- b. The borrower passed the liquidity test but failed the solvency test.**
- c. The credit request should be approved.
- d. The borrower passed the solvency test but failed the liquidity test.

(35)Based on these information: current secured INR 35,000 and current unsecured INR 20,000; non-current secured INR 75,000 and non-current unsecured INR 60,000, what is this company's total amount of subordinated debt outstanding?

- a. INR 55,000
- b. INR 80,000**
- c. INR 1,10,000
- d. INR 1,35,000

(36) Which is the most effective type of covenant in a credit agreement?

- a. Balance sheet.
- b. Cash flow.
- c. Event-based.**
- d. Non financial.

(37) What is the primary reason for assessing a business's financial performance before extending credit?

- a. To determine what a company's key ratios are.
- b. To determine how a business generates cash flow.**
- c. To determine how a company spends its free cash flow.
- d. To determine why a business has achieved certain results.

(38) What part of the loan pricing process sets an interest rate floor, below which the loan is financially undesirable?

- a. Cost analysis.**
- b. Loan structuring.
- c. Loan accounting.
- d. Competitive analysis.



(39) What does the cash flow coverage ratio of a company measure?  
a. The amount of cash collected after sales. b. Its profitability relative to interest expenses.  
c. Its ability to pay interest, debt payments and dividends.  
**d. The amount of cash available to cover its debt payments.**

(40) What is the primary purpose of calculating drawing power in a funds-based working capital facility?  
**a. To determine the amount the customer can draw on.**  
b. To ensure that bank funds are not tied up in obsolete stocks.  
c. To ensure that drawings are being used to fund current assets.  
d. To check that the value of eligible assets is at least equal to the approved credit limit.

(41) Company A had outstanding trade payable for an average of 44 days in Fiscal Year-End (FYE) 1 and 41 days in FYE 2. Company B had outstanding trade payable for an average of 52 days in FYE 1 and 55 days in FYE 2. Which of Company A or Company B is most likely to borrow funds, and why?  
**a. Company A due to reduced cash flow.**  
b. Company B due to reduced cash flow.  
c. Company A due to increased cash flow.  
d. Company B due to increased cash flow.

(42) Titan Ltd. is a lumber exporter with annual sales of INR 750,000, 45 inventory days, 35 trade receivables days, and 40 trade payables days. What approximate amount of external financing will Titan Ltd. need to support its operating cycle?  
a. INR 61,644  
**b. INR 82,192**  
c. INR 102,740  
d. INR 246,575

43) What monthly usance period should be used to calculate the required letter of credit limit?  
**a. Average.**  
b. Fixed.  
c. Maximum.  
d. Sight.

(44) An increase in which activity or position will lead to a company purchasing a lower amount of raw materials?  
a. Consumption of raw materials.  
b. Closing stock of raw materials.  
**c. Opening stock of raw materials.**  
d. Contingent liabilities of raw materials.

(45) For which type of banking products does the Reserve Bank of India regulate interest rates?  
**a. Savings accounts.**  
b. Chequing accounts held by residents.  
c. Personal loans of more than INR 2,00,000.  
d. Commercial loans of more than INR 2,00,000.

(46) Which existing market condition can act as a key barrier to entry for a business that wants to expand into a new market?  
a. Slow market growth.  
b. Product standardisation.  
c. Expensive local manpower.  
**d. Well-established competitor.**

(47) What general inference can be made about a company that has positive

cash flow from operations, and that is borrowing and investing?

- a. It is starting up.
- b. It is closing down.
- c. It is restructuring.
- d. It is acquiring other companies.**

(48) What is the most favourable scenario for a buyer in the supplier market?

- a. Unchanging supplier market.
- b. Frequent entry of new suppliers.**
- c. Exclusive relationship with a large supplier.
- d. Presence of a few highly specialised suppliers.

(49) Which method for valuation of capital assets is based on observation of the cash flows generated by similar assets? .

- a. Market method.
- b. Income method.**
- c. Net book method.
- d. Depreciated replacement cost method.

(50) What is the basic function of credit monitoring?

- a. To ensure the borrower continues to be a good credit risk.**
- b. To ensure the borrower is operating within the credit limits.
- c. To determine if the credit facilities are being used for the intended purpose.
- d. To determine what actions should be taken where there is a cause for concern.

(51) what previous management action is likely to raise doubt about management integrity and whether to enter into a credit relationship with a business?

- a. Tax planning.
- b. Making tweaks to reported accounts to mask a declining financial performance.**
- c. Marginally increasing the dividend payout ratio compared to the previous financial year.
- d. Making changes to the board of directors and audit committee to increase the proportion of independent directors.

(52) What can be reasonably understood if a business has a current ratio of less than 1.00?

- a. The business is liquid and solvent.
- b. Financial risk is low and favourable.
- c. The business has sufficient current assets to meet current obligations within the next operating period.
- d. The business has insufficient current assets to meet current obligations within the next operating period.**

(53) Which action by a borrower's management team could have an adverse effect on its cash flow and ability to meet its obligations?

- a. Adopting a conservative business planning strategy.
- b. Setting business plan objectives that are overly aggressive.**
- c. Increasing the rate of depreciation resulting in reduced net income.
- d. Disclosing confidential information to other stakeholders on a need to know basis.

(54) Which factor will decrease a buyer's market risk in the long term in conditions where the supplier has high bargaining power?

- a. Buyer's ability to pay.
- b. Increase in supplier's market share.
- c. Availability of substitute products in the market.**
- d. High demand skilled workers are employed by the supplier.

(55) How is a business's risk affected when a business environment is dominated by a few large and wealthy clients?

- a. Sales and profitability increases.
- b. Loss of one client creates the risk of lost revenues.**
- c. Large and steady sales minimise risk for the supplier.

d. The impact is significant only if a client declares bankruptcy.

(56) Why is management integrity the most critical factor when assessing the impact of management risk on a company's credit risk? ,

- a. Management lacking integrity may prioritise payments to other external stakeholders.
- b. A lack of integrity can result in a company using cash flows for purposes other than interest or loan payments.
- c. A lack of integrity can result in a company's underperformance and subsequent inability to meet its payment obligations.
- d. A positive assessment of management integrity is necessary for a lender to be confident in the reliability of the information provided by the company.**

(57) A company recording the disposal of a machinery asset will make which accounting entry on its balance sheet?

- a. A debit to machinery at cost.
- b. A credit to depreciation expense.
- c. A debit to accumulated depreciation.
- d. A credit to payment received from disposal.**

(58) How are surrounding businesses affected when an environment is dominated by two large employers?

- a. Neutral on sales and profitability.
- b. Loss of one of the employers creates high overall risk.**
- c. Increased employment reduces the risk for the industry.
- d. The impact is significant only if a catastrophic market downturn occurs.

(59) What year-over-year change in gross margin represents positive financial risk?

- a. No change represents stability.
- b. Gross margin does not affect risk.
- c. A decrease represents profit growth.
- d. An increase represents profit growth.**

(60) What is an implication of the revised framework for stressed assets?

- a. Restructured accounts are to be graded as standard.
- b. Large accounts are to be in default during the specified period.
- c. Insolvencies are to be filed for if the timelines of resolution plans are unmet.**
- d. Credit evaluations are required from five independent credit rating agencies.

(61) In what type of repayment structure is a loan repaid by only one payment at the end of the loan period?

- a. Annuity.
- b. Balloon.
- c. Bullet.**
- d. Equal.

(62) Under the cash budget method what is the limit of bank borrowings as a percentage of the peak deficit?  
a.5% b.25% c.80% **d.100%**

(63) How can a business's key performance objectives be used to assess the effectiveness of its organisational structure and staff responsibilities?

- a. Through identifying the employee responsible for each objective.
- b. By determining whether there have been any recent changes in the management.
- c. By benchmarking the business's performance objectives against those of peer organisations.**
- d. By determining whether each business objective is allocated to an appropriate and specified senior manager.

(64) If the stock auditor discovers discrepancies during the audit, what should they do next?

- a. Seek clarification from the borrower.**
- b. Raise them immediately with the bank.
- c. Report them in their report on the audit.
- d. Make recommendations on follow-up actions in their report.

(65) According to the contingent claims model, default occurs when what variable is less than the value of a firm's liabilities?

- a. The firm's gross profit.
- b. The firm's shareholders' equity.
- c. The firm's market value of assets.**
- d. The firm's net book value of assets.

(66) Using the revised framework for resolution of stressed assets, when must assets be classified as special mention accounts?

- a. When the borrower goes into default.
- b. When the borrower is no longer in default.
- c. When exposure is more than 50 million INR.**
- d. When changes to the loan are reflected on the borrower's books.

(67) XYZ trucking company (XYZ) has recently entered into an arrangement with an online sales business to deliver their general consumer goods and expect that this partnership will improve their sales. XYZ has sought enhanced financing to support this new business. The transportation industry is in a decline due to a recession, and XYZ's most recent annual financial statement shows relatively weak sales performance. What is the next step in assessing XYZ's credit application?

- a. The assessment should end, and credit should be declined.
- b. The assessment should be postponed until the industry enters the recovery stage.
- c. The assessment should continue and focus on total profit as a measure of success.
- d. The assessment should continue with more focus on the sales projections scenarios and cash flow impact.**

(68) How does sales volatility affect a business's reliance on debt?

- a. Volatility does not affect reliance on debt or financial risk.
- b. Less volatility reduces reliance on debt, increasing financial risk.
- c. Less volatility reduces reliance on debt, decreasing financial risk.**
- d. More volatility reduces reliance on debt, while maintaining financial risk.

(69) What is the primary purpose of the loan pricing process?

- a. To assess the probability of loss in the event of default.
- b. To calculate the profitability of the loan transaction for the bank.
- c. To determine appropriate interest rate and fees in line with the risk assumed.**
- d. To support the lender's position in the negotiation process with the borrower.

(70) When would an asset purchase most affect a company's operational capacity?

- a. When saving for the down payment prior to the purchase.**
- b. When capital spending is part of normal trading activities.
- c. When financing costs and revenues increase after the purchase.
- d. When the asset purchased is directly offset by the sale of an old asset.

(71) What projected information is best to use to assess working capital limits?

- a. Sales.
- b. Balance sheet.**
- c. Labour expenses.
- d. Profit and loss statement.

(72) What test is used to determine whether a borrower will generate enough cash flow from day-to-day operations to cover its debt obligations?

- a. Bias to fail test.
- b. Liquidity test.**
- c. Secondary source test.
- d. Solvency test.

(73) What does the trade receivables days ratio measure?

- a. Actual time it takes to pay suppliers.
- b. Average time it takes to pay suppliers.
- c. Actual time it takes to collect cash from customers.
- d. Average time it takes to collect cash from customers.**

(74) What strategy should a company use to ensure that it can still meet its financial obligations despite the occurrence of an unexpected event such as fire?

- a. Undertake a business impact analysis.
- b. Split operations between more than one site.
- c. Obtain insurance that meets statutory requirements.
- d. Obtain insurance coverage that covers loss of business income.**

(75) What is one disadvantage of accrual accounting?

- a. It hides any obligation to pay other parties.
- b. It does not record all transactions of a particular accounting period.

- c. Financial statements may not be directly comparable between businesses.**  
d. It overlooks future cash flows arising from transactions conducted in previous periods.

(76) Which based describes the effect that political DECISIONS AND frequent legislation charges in India have on its business and industry risk?

- a. Banks absorb most of the impact and businesses are less affected as a result.  
b. Taxation policies cause businesses to be less transparent in their financial reporting,  
c. Opportunistic decisions that influence monetary policy can negatively affect a business's financial performance.  
**d. Demonetisation of high denomination currency notes is an example of legislation that negatively affects small businesses working with cash. '**

(77) Companies operating in which industry are most likely to have a high investment in fixed infrastructure assets, with little inventory?

- a. Electric utility.**  
b. Food retailing.  
c. Home construction.  
d. Financial services consulting.

(78) What is the benefit of setting meaningful forecast assumptions in the overall projection process?

- a. To confirm future loan payments will be achievable.  
b. Assumptions depend on the results of the projections.  
c. To reflect factors independent of management's past performance.  
**d. To enable a realistic assessment of the projected financial performance that a credit decision is substantially "based on.**

(79) How might an inadequate management succession plan affect a business's cash flow?

- a. Training the new managers to address their skill gaps may result in excessive costs.  
b. Cost of hiring for the positions vacated due to promotion of the new managers will impact the cash flow.  
c. Weak relationship of the new managers with the bank staff may result in the credit facilities not being renewed.  
**d. Poor decisions of the new managers that lack sufficient skills or experience might result in weaker business performance.**

(80) Which method of inventory valuation maximises a company's net income during periods of inflation?

- a. Average cost.  
**b. First-in, first-out.**  
c. Last-in, first out.  
d. Weighted average.

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1. What action can a lender take if the restructuring decision process for a borrower determines a need to reduce exposure?

\*Set up and monitor qualitative triggers.

- \*Set up and monitor quantitative triggers.
- \*Liquidate and sell the borrower's current assets.
- \*Restrict new drawdowns on committed facilities.**

2. What is the number of inventory days for a company with sales of INR 500,000, inventory of INR 60,000, cost of goods sold of INR 300,000 and trade receivables of INR 125,000?

- \*73**
- \*152
- \*175
- \*219

3. Which is an example of a tangible fixed asset?

- \*Cash
- \*Goodwill.
- \*Land.**
- \*Trademark.

4. What type of credit rating is most appropriate to evaluate the credit risk of a group of borrowers that has never borrowed money before?

- \*Corporate family rating.**
- \*Issue rating.
- \*Issuer rating.
- \*Short-term rating.

5. Why might a business choose to expand its capital assets?

- \*To claim high levels of depreciation.
- \*To increase regular spending activities.
- \*To utilise all the available surplus cash reserves.
- \*To increase cash flow and revenue over the long term.**

6. What condition(s) must apply when opening a letter of credit (LC) for a customer?

- \*A cash margin equivalent to the value of the LC must be held.
- \*The LC cannot be issued in favour of another group company.
- \*The LC cannot be opened in favour of a supplier it has not previously dealt with.
- \*The tenor of the LC must not exceed the maximum agreed when the facility was approved.**

7. What action should a business take to remain competitive and stand out amongst its peers who are offering substitute products?

- \*Freeze production costs to increase overall profitability.
- \*Reduce development costs to better control expenditures.
- \*Increase the product's price to build perceived product superiority.
- \*Increase investments in product advertising to increase customer awareness.**

8. If net sales for a company over three Fiscal YearEnds (FYE) was  
 FYE 1: INR 1,25,00,885,  
 FYE 2: INR 1,37,45,473  
 and FYE 3: INR 1,40,25,992,  
 what is this company's sales growth for FYE 3 compared to FYE 2?

- \*2.0%**

\*2.04%  
\*8.87%  
\*10.0%

9. What is the primary purpose of setting up internal triggers for credit risk monitoring?

**\*To provide early warning signals of deteriorating credit risk.**  
\*To identify breaches of contractually agreed upon covenants.  
\*To flag an issue when financial statements are ready for review.  
\*To replace contractual covenants for borrowers with high credit standing.

10. In which scenario would customer concentration cause significant cash flow risk for a business?

\*The business sells clothing to individual consumers.  
\*The business distributes flour to most bakeries in the region.  
**\*The business supplies specialised parts to the largest auto maker.**  
\*The business provides cleaning services to schools, offices and residential buildings.

11. What term refers to the amount that a lender expects to be outstanding at the time of default?

\*Expected default loss.  
**\*Exposure at default.**  
\*Loss given default.  
\*Probability of default.

12. What is the best description of liquidity for a business?

\*Current assets exceed current liabilities.  
\*The business generates sufficient profit to cover interest.  
\*All debt obligations would be repaid in the event of liquidation.  
**\*The business generates sufficient cash to meet interest expenses and make debt payments.**

13. Which factor affecting the cost of funds will lead to a surplus to the lender if positive?

**\*Profit margin.**  
\*Risk premium.  
\*Term of funds.  
\*Cost of capital.

14. In what type of repayment structure is a loan repaid by only one payment at the end of the loan period?

\*Annuity.  
\*Balloon.  
**\*Bullet.**  
\*Equal.

15. What is the first step for a management team in order to achieve results through the efforts of others?

**\*Set the strategic direction.**  
\*Source the necessary resources.



- \*Incentivise the organisation in an effective manner.
- \*Manage the critical business operations on a daily and long-term basis.

16. What effect does the number of a company's trade receivable days have on its cash flow?

- \*Number of trade receivable days does not affect cash flow.
- \*Stable trade receivable days results in increased cash flow.
- \*A decrease in trade receivable days results in increased cash flow.**
- \*An increase in trade receivable days results in increased cash flow.

17. What is the difference between a partnership firm and a Limited Liability Partnership (LLP)?

- \*If a partner dies a partnership firm continues to exist and an LLP dissolves.
- \*An LLP is a separate legal entity from its members and a partnership is not a separate legal entity.**
- \*An LLP is governed by the Indian Partnership Act and a partnership firm is governed by the Companies Act.
- \*The income from a partnership firm stays within the firm and LLP income is personal income for the partners.

18. Which risk driver refers to the average time it takes a business to collect its sales in cash?

- \*Sales growth.
- \*Gross margin.
- \*Accounts payable days.
- \*Accounts receivable days.**

19. Which Basel II guidelines-based ratings approach permits the recognition of certain types of credit risk mitigation, such as collateral and guarantees, when calculating underlying risk exposure?

- \*Standardised.**
- \*Internal ratings-based.
- \*Foundation internal ratings-based.
- \*Capital requirement for credit risk.

20. According to the Indian Companies Act, within what period of the creation of a security charge must it be registered, including the maximum permitted period of condonable delay?

This is a single choice question. Selections are automatically selected as you use arrow to move.

- \*30 days.
- \*300 days.**
- \*1 year.
- \*5 years.

21. Which source of external information about a company's past behaviour can be used to assess its management integrity?

- \*Discussions with management.
- \*Details of dividends paid over the last five years.
- \*Opinion about management included in credit agency reports.**
- \*Account statements showing whether the company has met its obligations to the bank on time.

22. What is free cash flow?

- \*Net cash available after depreciation and amortisation.
- \*Net cash generated from sales without associated costs.
- \*Net cash after operations, interest expense, and dividends.
- \*Net cash remaining after spending to maintain or expand assets.**

23. At the beginning of the year, ZXV Inc. acquires computer equipment at a cost of INR 500,000. Using a 40% declining balance depreciation rate each year, what is the depreciation charge for this equipment in the second year?

- \*INR 120,000**
- \*INR 180,000
- \*INR 200,000
- \*INR 300,000

24. What is the most favourable scenario for a buyer in the supplier market?

- \*Unchanging supplier market.
- \*Frequent entry of new suppliers.**
- \*Exclusive relationship with a large supplier.
- \*Presence of a few highly specialised suppliers.

25. What 'Is a sign of incipient stress which may result' In an account being classified as Special Mention Account (SMA) under the SMA-O sub-category?

- \*Delay of 30 days in submission of stock statements.
- \*Decrease in frequency of overdrafts in current accounts.
- \*Actual sales and operating profits falling short of projections accepted for loan sanction by 20%.
- \*Return of three cheques issued by borrowers in 30 days on grounds of non-availability of balance.**

26. In an initial review of a company' 3 financial statements, which ratios can- be reviewed to uncover opportunities and identify potential risk flags?

1. Net income.
2. Gross margin.
3. Inventory days.
4. Return on equity.

- \*1 and 2.
- \*1 and 4.
- \*2 and 3.**
- \*3 and 4.

27. When determining a company's management risk, what details should be assessed before meeting with the company's management?

- \*The competitors' performance.
- \*The company's goal planning process.
- \*The company's most recent annual report.**
- \*The economic outlook for the next couple of years.

28. What is an example of an administrative expense in dealing with a problem loan?

- \*Litigation restructuring costs.
- \*Increased frequency of audits.**

- \*Costs to train new employees.
- \*Loss of management control of the company.

29. What is considered a critical management skill for key executives of a business?

- \*Effective leadership style.**
- \*Aggressive in taking risks.
- \*Able to tailor communication style to the audience.
- \*Able to contribute to the annual business planning process.

30 What is the most important reason for a lender to monitor pending business-altering laws during a credit risk assessment?

- \*To ensure informed decisions on future loan requests.
- \*To determine the laws' impact on future operations and cash flow.**
- \*To understand how the political landscape will change in the future.
- \*To estimate the competition's performance compared to that of the borrower.

31. Company A had outstanding trade payable for an average of 44 days in Fiscal Year-End(FYE) 1 and 41 days in FYE 2. Company B had outstanding trade payable for an average of 52 days in FYE 1 and 55 days in FYE 2. Which of Company A or Company B is most likely to borrow funds, and why?

- \*Company A due to reduced cash flow.**
- \*Company B due to reduced cash flow.
- \*Company A due to increased cash flow.
- \*Company B due to increased cash flow.

32. What is the result when a project's discount rate equals its internal rate of return?

- \*A net present value of zero.**
- \*A net present value that is commercially viable.
- \*Discounted cash outflows will be greater than discounted cash inflows.
- \*Discounted cash inflows will be greater than discounted cash outflows.

33. What is the result when a project's discount rate equals its internal rate of return?

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- \*A net present value that is commercially viable.
- \*Discounted cash outflows will be greater than discounted cash inflows.
- \*Discounted cash inflows will be greater than discounted cash outflows. ,

34. Which term refers to the amount of risk that a new loan adds to a portfolio of loans?

- \*Concentration.
- \*Correlation.
- \*Individual exposure.
- \*Risk contribution.**

35. When disbursing term loans, which strategy should be used to ensure that the funds are utilised for the intended purposes?

- \*Pay disbursements directly to the suppliers.**
- \*Pay disbursements to the borrower's current account.

- \*Ensure the undrawn limit is equal to the amount requested to be drawn.
- \*Require the customer to provide funds after disbursement to ensure that the required debt-equity ratio is met.

36. XYZ trucking company (XYZ) has recently entered into an arrangement with an online sales business to deliver their general consumer goods and expect that this partnership will improve their sales. XYZ has sought enhanced financing to support this new business. The transportation industry is in a decline due to a recession, and XYZ's most recent annual financial statement shows relatively weak sales performance. What is the next step in assessing XYZ's credit application?

- \*The assessment should end, and credit should be declined.
- \*The assessment should be postponed until the industry enters the recovery stage.
- \*The assessment should continue and focus on total profit as a measure of success.
- \*The assessment should continue with more focus on the sales projections scenarios and cash flow**

37) Which part of the financial statements does the Uniform Credit Analysis primarily focus on .

- \*Balance Sheet.
- \*Cash Flow Statement.**
- \*Income Statement.
- \*Net Worth Statement.

38. What is a key principle of the strategic debt restructuring scheme (SDR )?

- \*The decision to invoke an SDR should be made within 360 days of the initial account review.
- \*After the conversion, all lenders must collectively hold 49% or more of the equity shares of the company.
- \*The invocation of an SDR is not treated as restructuring for the purpose of asset classification and provisioning norms.**
- \*Equity shares acquired and held by banks under an SDR are exempt from the periodic mark-to-market requirement for 12 months after the reference date.

39. Which component within a deal structure reflects the nature of the credit purpose being financed?

- \*Covenant.
- \*Guarantee.
- \*Pricing.
- \*Tenor.**

40. What is most important to assess when determining how an industry regulation will affect a company's industry and business risk?

- \*If the regulation is a Federal regulation.
- \*If the regulation is a proposed regulation.
- \*If the company's cash flows will be affected.**
- \*If the company is operating in a free market.

41. What does the right to claim indemnity entitle the guarantor to do?

- \*Pay the debt to the creditor voluntarily.
- \*Ask the borrower to be relieved of its obligation.
- \*Receive from the borrower the amount paid under the guarantee.**
- \*Ask the borrower to notify the creditor that the guarantor has been relieved of any obligation.

42. Which is likely to be false of a company with a low gearing ratio?

- \*It has a high debt load. 1
- \*It has high interest costs.**
- \*It has high repayment ability.
- \*It has a high repayment obligation.

43. Which is a long-term source of working capital financing?

- \*Accrued expenses.
- \*Customer advances.
- \*Term loans.**
- \*Trade payables.

44. Using the turnover method (Nayak committee method), what percentage of projected annual turnover must a borrower provide as margin to finance working capital?

- \*5%**
- \*16%
- \*25%
- \*32%

45. How do a business's operating expenses affect the level of its cash flow?

- \*Operating expenses do not affect cash flow.
- \*Lower operating expenses result in lower cash flow.
- \*Lower operating expenses result in higher cash flow.**
- \*Higher operating expenses result in higher cash flow.

46. What is a way to conduct an inventory check when verifying the entire inventory is not feasible?

- \*Conduct an ABC analysis.**
- \*Review work in progress records.
- \*Review Central Excise taxation records.
- \*Check for boards indicating which assets are charged to the bank.

47. What is drawing power?

- \*The approved fund-based working capital limit to finance a company's inventory and receivables.
- \*The value of eligible inventory and receivables detailed in a company's latest stock statement that can be drawn against.
- \*A company's credit limit based on the value of eligible items from its latest stock statement multiplied by the agreed margin.
- \*The lower of a company's approved fund-based working capital limit and the lending value calculated based on its latest stock statement and unissued letters of credit issued.**

48. What should a lender consider when using projections in the credit risk assessment process?

- \*Select assumptions that will confirm the desired results.

- \*Avoid the tendency to include information on price trends.
- \*Understand that past projections and results have no impact on forecast assumptions.
- \*Set assumptions based on past performance, management performance, and the external environment.**

49. Which party issues a letter of credit in a goods and services transaction?

- \*Applicant.
- \*Bank.**
- \*Beneficiary.
- \*Seller.

50. What describes the primary reason(s) that companies need sound corporate governance?

- \*To formulate appropriate business strategy.
- \*To identify business activities that are not being run efficiently.
- \*To ensure that senior management is appropriately compensated.
- \*To ensure there is adequate oversight and to prevent excessive risk-taking.**

51. What is the profit before tax and financial costs for a company with sales of INR 5,000,000, cost of goods sold of INR 2,600,000, operating expenses of INR 1,400,000, interest expense of INR 60,000 and tax expenses of INR 125,000?

- \*INR 815,000
- \*INR 940,000
- \*INR 1,000,000**
- \*INR 1,185,000

53. What type of credit rating will most likely cause a borrower's credit score to be adjusted downward because of an expected downturn in the borrower's industry?

- \*Fail grade rating.
- \*Single risk rating.
- \*Facility risk rating.
- \*External international rating.**

54. What type of transactions would require further investigation in a cash credit account?

- \*Debits for salaries.
- \*Credits for sales turnover.
- \*Debits of round figure sums.**
- \*Debits for frequent suppliers.

55. How can a company's management best minimise the impact of potential interruptions in the input supplies?

- \*Obtain supplier insurance.
- \*Hold large stocks for all key supply inputs.
- \*Maintain good personal rapport with the key input suppliers.

**\*Ensure that there is an alternate supply source for all key inputs.**

56. What can be reasonably assumed when a business's debt to tangible worth ratio is higher than 1.00?

\*Gearing is low.

\*Financial risk is unfavourable.

**\*Creditors support assets more than the owners.**

\*The owners support assets more than creditors.

57. Which factor can make it difficult to project a business's financial performance based on historic trends?

\*Past operating results.

\*Management's future plans.

**\*Economic and competitive environments.**

\*Minimum rate for the lender's return on assets.

58. Which is a major risk for a business in the mature stage of its life cycle?

\*Failure to repay debt.

\*Filing for bankruptcy.

\*Merger with a competitor.

**\*Inability to invest in new products.**

59. What external factors outside of a business's control can affect its liquidity levels?

\*Credit and lending policy.

\*Facility and loan structure.

**\*Industry and business risk.**

\*Management and key persons' risk.

60. What variable will most likely decrease as a market approaches overcapacity?

\*Loan defaults.

**\*Price of products.**

\*Loan applications.

\*Availability of products.

61. Companies operating in which industry are most likely to have a high investment in fixed infrastructure assets, with little inventory?

**\*Electric utility.**

\*Food retailing.

\*Home construction.

\*Financial services consulting.

62. What information in a credit agency report can help a bank assess a company's management integrity?

**\*Opinion about the company management.**

\*Information about the financial performance.

\*How freely the management shares information.

\*Details on covenant compliance for the bank loans.

63. Which type of financial statement provides the best insight into the seasonality of a business's operating cycle?

**\*Monthly.**

\*Quarterly.

\*Semi-annual.

\*Annual.

64. How many days is the short-term financing gap for a company with 47 trade receivables days, 68 Inventory days and 63 trade payables days?

\*42

**\*52**

\*84

\*178

65. What three categories are cash payments classified by in the statement of cash flows?

\*Direct, indirect and Uniform Credit Analysis.

\*Cash receipts, cash payments and capital expenditures.

**\*Operating activities,- investing activities and financing activities.**

\*Operating activities, management activities and financing activities.

66. What is a characteristic of a good business plan?

\*Setting measurable goals.

\*Setting business objectives.

**\*Being reactive to changing demand.**

\*Defining who is accountable to the plan.

67. A company that records the market value of its equipment on its balance sheet has not followed which accounting principle? '

**\*Cost.**

\*Matching.

\*Conservatism.

\*Going concern.

68. What type of credit covenant requires the borrower to provide updates to the lender at certain intervals?

\*Affirmative.

\*Enhancement.

**\*Information.**

\*Restrictive.

69. What is the main purpose of conducting a competitive analysis during the loan pricing decision process?

\*To calculate the lowest lending rate the bank is willing to apply to the loan.

\*To determine the probability of loss based on the competitor's rate pricing.

\*To persuade the relevant committee to approve a lending rate lower than those of competitors.

**\*To determine whether the lending rate should be adjusted based on the ceiling established by other lenders.**

70. What type of capital investment is intangible and financial in nature?

**\*Applying for patents.**

\*Developing new products.



- \*Listing securities on a stock exchange.
- \*Replacing existing plant and equipment.

71. Which proposition is least likely to be considered for a term loan for its financing requirements?

- \*Expansion of a fleet of vehicles.
- \*Capital expenditure for a power plant.
- \*An instalment financing construction project.
- \*Daily working capital requirements for a small business.**

++How would you assess the repayment risk associated with a company with seasonal sales compared to one that has steadier sales throughout the year, all other things being equal?

- \*The seasonal business will have lower repayment risk.
- \*The seasonal business will have higher repayment risk.**
- \*None of the above.
- \*Both businesses have the same level of risk.

++Tea-Shop Ltd. finance their new store leases using 2/3rd debt and 1/3rd equity. Which of these events would reduce the risk for the lending institution?

- \*Reduction in costs of tea.**
- \*Increase in store maintenance costs.
- \*Decrease in credit provided by suppliers.
- \*Decrease in store sales with a constant operating margin.

++You see a news item that the Government has increased the minimum support price of sugarcane. Sugar production is expected to exceed the demand during the year and globally also there is abundant supply. What could be the implication sugar companies?

- \*There would be excess inventory of sugar cane with the sugar companies
- \* No implication for the sugar companies. They would push their output to their wholesalers.
- \*No major implication. The companies will offload their production when prices improve
- \*This could have serious adverse implications for the sugar companies' profitability and may lead to losses. In case the companies hold on to their output, it will have significant carrying costs which again would affect the profitability.**

++Best Bakers LLP bake and supply breads for retailers. in looking to expand their capacity to support a growing market, which form of financing would be most appropriate and why?

- \*Extending its existing overdraft facility because this type of funding provides maximum flexibility required due to the uncertain operating conditions that the expansion will create.
- \*Raising a new term-loan that can be secured against the new assets because this type of funding will provide secure financing over the operational life of the capital asset.**
- \*Raising new equity from shareholders because this type of funding is both long-term and relatively inexpensive compared to other forms of financing.
- \*Reducing its operating cycle to generate greater operating cash flows because this type of funding is free financing and will maximise the returns that the new assets will generate for shareholders.

++Describe the potential structural subordination risk of lending to a holding company.

- \*The holding company may have non-consolidated financial statements
- \*The holding company may have unrealistic projected revenues
- \*The holding company may have dated documentation
- \*The holding company may have limited operating assets**

++Under what scenario is having insurance most likely to have a positive effect?

- \*Recession.
- \*Political turmoil.
- \*Earthquake**
- \*Economic boom

++What is meant by the term "amount owing" on a credit agency report?

- \*The date or amount of time since the latest sale was made.
- \*The normal terms of sale extended by the supplier.
- \*The greatest amount of credit extended.
- \*The debt due by a business at the time of the survey and the status of that amount (current, amount past due).**

++Why is it preferable to make the disbursement of a term loan directly in favour of a supplier

- \*To whom the disbursement is made is immaterial
- \*This is only logical
- \*Direct disbursement to the supplier would facilitate quicker supply of equipment
- \*This is one of the ways to ensure that the disbursed funds are used for the purpose for which the term loan is sanctioned**

++In a UCA cash flow statement, what is the calculation for "change in cash"?

- \*Financing Surplus (Requirement) + Total External Financing.**
- \* Net Income - Total External Financing.
- \* Financing Surplus (Requirement) - Total External Financing.
- \* Net Income + Total External Financing.

++For a lender assessing credit risk, what business is likely to have a credit agency report with the most meaningful information?

- \*A non-borrowing small business.
- \*A medium business with many suppliers.**
- \*A non-borrowing large business.
- \*A small business with few suppliers

++What is the most important constraint in getting a pricing on a loan which is fully in accordance with the risk assessment?

- \*Bank's pricing policy
- \*Profitability calculation
- \*Competitive scenario, since competition places a ceiling on pricing which may be acceptable to the customer**
- \*Loan structuring

++Which statement about the cash flow coverage ratio is not correct?

**\*It uses accrual income values from the profit and loss statement.**

\*It is a broader metric than the interest coverage ratio.

\*It is an indicator of the ability to pay interest, dividends and scheduled debt payments.

\*It focuses on internal cash flow.

++Which statement is incorrect with respect to the legal documentation signed as part of the corporate debt restructuring (CDR) process?

\*If the debtor' agrees, the period of limitation can be extended beyond the standstill period.

**\*The Debtor Creditor Agreement is part of the Standstill Agreement.**

\*The standstill agreement does not apply to criminal action.

\*The Debtor Creditor Agreement and the Inter Creditor Agreement are signed at almost the same time,at the beginning of the Corporate Debt Restructuring (CDR) process

++Under Section 186 ofthe Companies Act, 2013, loan and investment by company, a company:

\*Can lend money to any other company.

\*Can give a guarantee for a loan taken by any other company.

**\*Can buy the securities of another company only to the extent of 60% of its own capital and free reserves.**

\*Cannot do any of the above.

++Which of the following is correct with respect to a banker's right of lien?

\*Ownership of goods is transferred to the bank

\*Possession of the goods remains with the borrower

\*The right of lien is subject to the law oflimitation

**\*A general lien converts to a specific lien if the bank appropriates the lien towards a specific debt of the borrower**

++Which critical skill for executives seeks to rally people in the business to further the enterprise's mission, accomplish its plans, earn the trust of colleagues and customers, and demonstrate and foster commitment to the business and its goals?

**\*Leadership.**

\*Commitment.

\*Communication.

\*Knowledge.

++You are examining a loan request for a short-term loan to cover working capital requirements. On examining the financial statements you establish that sales have fallen, the business has an operating loss, it has negative operating cash flow and there is a sharp increase in payable days outstanding. You establish that this is high risk loan application. How should you proceed with your financial analysis?

**\*You need not do further work with the financial statements and can reject the loan application.**

\*You should examine the financial statements more carefully to see if there are any off balance sheet liabilities that may increase the level of risk.

\*You should examine the financial statements more carefully to see if there are any assets that might be sold to finance the loan.

\*You should examine the financial statements more carefully to see if there are any opportunities to turn around the business

++Is it possible to compare the current inventory held by two different companies to determine which is more efficient in managing its working capital?

\*Yes, as current inventory levels is a measure that provides a direct comparative value between companies.

\*Yes, as current inventory held is the prime driver of working capital levels.

\*No, for a meaningful comparison the cost of sales needs to be used.

**\*No, for a meaningful comparison the time taken to close inventory for each company needs to be worked out and used instead**

++What is the role of credit rating agencies in the Indian market?

**\*They issue ratings that can help Indian companies raise funds from investors.**

\*They provide an independent and locally based assessment of the credit quality of all bonds issued by the Indian corporates.

\*They provide competition to the international rating agencies.

\*Ratings from all Indian ratings agencies can be used by banks when undertaking capital calculations for credit risk.

++ Why are the two methods of lending recommended by the Tandon Committee still being used today?

**\*These methods of lending implicitly set minimum liquidity standards by insisting on a minimum level of funding of current assets from long-term sources and so continue to be a reliable analytic tool. ,**

\*Banks have not reviewed their lending criteria but prefer to use methods that they are familiar with.

\*The two methods provide a reasonable analysis of risk and there is no reason to change them.

\*There has been no update to the recommendations of the Tandon committee so the original methods continue to be used.

++Which statement provides a correct illustration of the matching principle?

**\*Expenses of a period are matched to the revenues that they generate.**

\*The total value of debit entries will equal the total value of credit entries.

\*Total assets is matched to total liabilities plus equity.

\*Revenue of one period equals costs plus dividends of the same period

++What factors influence the values that appear in a credit migration or transition matrix?

\*The number of times that a corporate's graded credit is upgraded and downgraded.

**\*The final and initial ratings for the corporate at the start and end of the agreed time horizon.**

\*The number of rating bands that a rating is upgraded over the selected time horizon.

\*The number of rating bands that a bank uses in its rating scale

++Who is responsible for determining the quality of financial statements (for example, by defining the level of materiality and depth of disclosure)?

- \*Regulators (such as SEBI)
- \*Standards setting bodies (such as NACAS)
- \*Auditors.**
- \*Management of the borrowing entity.

++Which activity would cause the short-term financing gap of a company to decrease?

- \*Renegotiating a revolving credit facility on more favourable terms.
- \*Implementing a just-in-time inventory management system that minimizes the levels of raw material inventories required to be held.**
- \*Purchasing machinery to raise production capacity and meet increased demand.
- \*Securing supply arrangements by placing suppliers on new single source contracts with penalties for late delivery of goods.

++The objective of cost analysis in the pricing decision process is

- \*To ensure that the bank's costing is optimum
- \*To estimate the floor on the pricing below which the loan is financially not desirable**
- \*To get into a better negotiating position with the customer
- \*To ensure tight cost control

++Which statement is incorrect with respect to the Debt Recovery Tribunals (DRTS)?

- \*Only banks and financial institutions can approach the DRT for recovery of their dues.
- \*Decisions of the DRT can be appealed to the Debt Recovery Appellate Tribunal.
- \*Orders passed by recovery officers are judicial in nature.
- \*It is headed by a presiding officer who is of the same rank as a High Court Judge.**

++What service do local rating agencies provide for investors in India?

- \*Confirmation that an issuer will meet its financial obligations.
- \*Research and opinions that address information asymmetry.**
- \*Information that ensures that issues are priced correctly.
- \*They ensure that there is a liquid market for debt instruments once issued

++All else being equal, what business would typically carry the greatest credit risk?

- \*The one wherein liabilities are four times as great as capital.**
- \*The one wherein liabilities are less than tangible net worth.
- \*The one wherein liabilities and tangible net worth are equal.
- \*The one wherein capital is four times as great as liabilities

++Which statement is incorrect with respect to wilful defaulters?

- \*Wilful defaulters of Rs. 1 million or more must be reported to the CIC with RBI.**
- \*A borrower who has interest or principal overdue for more than 90 days is not necessarily a wilful defaulter.
- \*A case where the borrower loses diverted funds and makes a full disclosure of the diversion and loss is still a case of wilful default.
- \*An individual, guarantor does not automatically become a wilful defaulter when the original borrower is identified as a wilful defaulter.

++In a UCA cash flow statement, what is the correct calculation for operating income?

**\*Net Sales - Cost of Goods Sold - Operating Expenses.**

\*Net Sales - Cost of Goods Sold + Operating Expenses.

\*Net Profit + Cost of Goods Sold - Operating Expenses.

\*Net Profit + Cost of Goods Sold + Operating Expenses.

++What event would most likely have a neutral impact on the trade receivables days?

**\*Billings are computerised.**

\*Recession.

\*Sales increase.

\*Competitor terms lengthen.

++What step in the loan decision process provides early detection of conditions to indicate that business performance is lower than assumed in projections?

\*Grade the risk.

**\*Structure covenants.**

\*Gather data.

\*Identify credit enhancements.

++Which statement concerning industry risk is correct?

\*Emerging industries tend to be less risky than mature industries.

**\*Growing industries tend to be less risky than emerging industries.**

\*Declining industries tend to be less risky than growing industries.

\*Declining industries tend to be less risky than mature industries

++Which one of the following factors are taken into account when computing both EaD and LGD?

\*The amount initially advanced to the borrower

\*The realisable value of the security

\*The probability that the borrower may default

**\*The amount outstanding from the borrower at the point of default**

++Why should the stock statement include separate details of factored invoices?

\*It would reveal how much less margin the borrower has to contribute for working capital since margins on factored invoices are significantly lower than those prescribed by banks

\*It would reveal the extent of lending business being lost by the bank to the factoring company

**\*It would prevent double financing of the same receivables**

\*It would reveal the extent of low risk receivables being diverted to the factor since factoring companies discount receivables only from highly rated debtors

++Should the bank consider the client's past record of bank guarantees being invoked when deciding whether to grant a new bank guarantee?

\*No, past behaviour of the client is no indication of future behaviour.

**\*Yes, the client's previous credit history and business behaviour should be considered as well as all other relevant factors.**

\*Yes, and additionally the bank should be reluctant to offer a new bank guarantee to a client with previous history of having bank guarantees invoked.

\*No, the historical data is not relevant in considering the request for a bank guarantee

++The product or service being marketed has achieved some degree of acceptance and sales levels begin to increase. Profits and cash flow also improve and the ability to support and repay liabilities begins to develop. Industry status risk is moderate and there is a neutral level of overall risk." Which life cycle stage does this paragraph describe?

\*Maturity.

\*Growth.

\*Start-up.

**\*Adolescence.**

++Assessing management's capacity for business includes which step?

\*Make sure operating plans clearly come from the top down.

**\*Learn about and rely on management's capacity and experience to develop plans and carry them out.**

\*Quickly review tools used by management to develop plans.

\*Evaluate management's credit risk skills in developing and implementing business plans

++Which step in the "management cycle" comes after overseeing the use of resources and monitoring the success of plans?

**\*Adjusting plans, resources, and methodologies as necessary to ensure that goals are achieved and needs are met.**

\*Aggregating and organising resources to implement plans.

\*Developing plans to meet goals.

\*Assessing business needs.

++What regulation level is most likely to lead to a decline in market (industry and business) risk?

**\*Significant.**

\*Moderate.

\*Insignificant.

\*Unknown.

++ The usance period of LCs should be in line with the overall working capital cycle of the customer because

\*This ensures that no devolvement takes place

**\*A longer usance period would mean additional credit period which implies availability of more funds than needed to run the working capital cycle. This could lead to diversion of funds**

\*LC is essentially a working capital facility

\*A longer usance period would mean lesser credit period which implies availability of lesser funds than needed to run the working capital cycle. This would constrain the unit's operations and lead to a shortfall in performance

++What event is most likely to have a neutral impact on both the operating expense percentage ratio and profit?

- \*Administrative staff reduced.
- \*Office becomes computerised.**
- \*Rent increases.
- \*Recession.

++What factor is most likely to increase the bargaining power of suppliers?

- \*Suppliers lack the ability to integrate forward.
- \*Switching costs are low.
- \*Many competitive products or substitutes are available.
- \*Few alternative suppliers are available**

++What sources are available to a company to finance an on-balance sheet loan?

- \*Cash in the business or through liquidation of assets
- \*Cash from operations generated during the period when the investment is paid for
- \*A term bank financing
- \*All of the above**

++All else being equal, what business would typically have the highest loan return?

- \*The one wherein liabilities are less than tangible net worth.
- \*The one wherein liabilities and tangible net worth are equal.
- \*The one wherein liabilities are four times as great as capital.
- \*The one wherein capital is three times as great as liabilities**

++What is the definition of Common Equity Capital?

- \*The highest quality component of capital**
- \*A bank's gone-concern or supplementary capital
- \*Loss absorbing capital that can be converted to common shares or written down in the event of substantial losses
- \*A bank's pure or concern capital

++What statement concerning the impact of foreign competition on debt repayment is most accurate?

- \*High foreign competition leads to decreased cash flow and decreased ability to repay debt as scheduled.**
- \*High foreign competition leads to increased cash flow and increased ability to repay debt as scheduled.
- \*High foreign competition leads to increased cash flow and decreased ability to repay debt as scheduled.
- \* High foreign competition leads to decreased cash flow and increased ability to repay debt as scheduled.

++Which item would be correctly classified as a current asset?

- \*A warehouse used to store finished goods.
- \*A financial asset held for dividend income
- \*Machinery bought in the last 12 months.
- \*A receivable due from-a customer in 9 months**

++In the corporate governance process, who is responsible for determining



overall business strategy by hiring managers and staff to help operate the business?

- \*Shareholders.
- \*Board of directors.
- \*Executive officers.**
- \*Regulators.

++What determines the number of operating cycles that a business will have?

**\*Significantly different products and markets will result in multiple operating cycles.**

- \*There will be a separate operating cycle for each business location.
- \*Each supplier and customer will have their own operating cycle.
- \*Accounting regulations will determine the number of operating cycles

++Which statement about risk drivers is most accurate?

- \* They have great impact on what balance sheet amounts, but not profit and loss statement amounts, will be in the future.
- \*They have great impact on what balance sheet and profit and loss statement amounts will be in the future.**
- \*They have little impact on what profit and loss statement and balance sheet amounts will be in the future.
- \*They have great impact on what profit and loss statement amounts, but not balance sheet amounts, will be in the future.

++What are the four areas of the financial risk assessment process?

- \*Cash flow, market (industry and business) risk, projections, and financial statement data and notes.
- \*Market (industry and business) risk, cash flow, financial ratios, and financial statement data and notes.
- \*Financial ratios, projections, cash flow, and market (industry and business)
- \*Projections, cash flow, financial ratios, and financial statement data and notes.**

++During which stage will management begin delaying payments to creditors?

- \*Cash crunch stage.**
- \*Cash crisis stage.
- \*Cash concern stage.
- \*Cash creation stage.

++What type of question is designed to encourage a more expansive response?

- \*Reflective question.
- \*Direct question.
- \*Open-ended question.**
- \*Rhetorical question.

++What account is typically included in the financial statements of a service business?

- \*Inventory (stock) – finished goods.
- \*Trade payables.**
- \*Inventory (stock)
- \* work in progress.
- \*Cost of goods sold.

++What risk has recently emerged as an important factor for funding projects?

**\*Compliance with environmental guidelines.**

\*The technical know-how of the company to implement change brought about by the new project.

\*The importance of management competence to bring the project to a close.

\*Government policies governing the industry of the borrower

++You come across information that USFDA has taken some action against one of your pharmaceutical clients. You want to ascertain the details of the matter. Which would be the best source to obtain this information?

\*RBI list of wilful defaulters

**\*Internet search for related news items and website of USFDA**

\*CRILC

\*ECGC caution list

++What is the relationship between the peak selling season and repayment risk?

\*The greater the magnitude of the peak or the shorter the duration of the peak selling season, the lower the repayment risk.

\*The greater the magnitude of the peak, the higher the repayment risk and the shorter the duration of the peak selling season, the lower the repayment risk.

\*The greater the magnitude of the peak, the lower the repayment risk and the shorter the duration of the peak selling season, the higher the repayment risk.

**\*The greater the magnitude of the peak or the shorter the duration of the peak selling season, the higher the repayment risk.**

++All else being equal, what business is most likely to fail?

**\*A borrower with an individual manager responsible for all of the key administrative responsibilities.**

\* A borrower with an individual manager responsible for three of the five key administrative responsibilities.

\*A borrower with an individual manager responsible for four of the five key administrative responsibilities

\*A borrower with an individual manager responsible for two of the five key administrative responsibilities

++Which of these is NOT a purpose of credit administration?

\*Ensure timely recovery of interest

\*Ensure recovery of the principal's instalments in accordance with the approved repayment schedule

\*Ensure that the drawings in the FBWC account do not exceed the allocated drawing power

**\*Credit risk assessment of the customer**

++Why is it important to follow the steps involved in assessing the working capital?

\*By following the steps, the credit officer and the relationship manager will know that everything has been done properly.

\*By following the steps, the proper paper trail is left for audit to follow.

\*By following the steps, the company will know that it is being treated fairly.

**\*By following the steps, a clear picture of risks is built up allowing an informed credit decision to be made.**

++How do the bargaining power of buyers and suppliers affect risk in the marketplace?

**\*The more significant the bargaining power of buyers and suppliers, the smaller the risk in the marketplace.**

\*The more significant the bargaining power of buyers and suppliers, the greater the risk in the marketplace.

\*The more significant the bargaining power of buyers and the less significant the bargaining power of suppliers, the greater the risk in the marketplace.

\*The more significant the bargaining power of buyers and the less significant the bargaining power of suppliers, the smaller the risk in the marketplace.

++What is the purpose of a covenant?

\*To set a schedule of instalments by which the loan must be repaid.

\*To set out terms in a loan agreement, e.g., rate of interest

\*To set an internal trigger which requires action on the part of the lender on the happening of a certain event.

**\*To specify the manner in which a loan must be conducted and repaid**

++All else being equal, what business would have the lowest credit risk?

\*A business with a current ratio of 1 : 1

\*A business with a current ratio of 0.5: 1

**\*A business with a current ratio of 2:1.**

\*A business with a current ratio of 1.521

++Which business is most likely to have a gross margin of 100%?

**\*Accounting firm.**

\*Clothing store.

\*Car manufacturer.

\*Food wholesaler

++What is the most common reason for which businesses use creative accounting?

**\*To falsely improve the appearance of company performance.**

\*To become more competitive in the marketplace.

\*Creative accounting stands to make a company look better, and there is no downside to the practice.

\*The company doesn't realise it is using creative accounting

++Which of the following actions is most likely to help mitigate the credit risk of a business that has potential environmental concerns?

\*Decrease the working capital financial covenant.

**\*Loan covenants certifying compliance with the law.**

\*Decrease insurance coverage requirements.

\*Increase the gearing financial covenant

++What action does the beneficiary need to take under a bank guarantee in case of default by the debtor?

\*He needs to request the money from the debtor.

**\*He needs to notify the guarantor bank and request payment.**

\*He needs to ask the guarantor bank to negotiate a settlement.

\*He only needs to wait for the guarantor bank to step in

++Identify one of the five management responsibilities.

\*Competitive intelligence.

**\*Administration.**

\*Production.

\*Market research.

++What is the purpose of financial covenants in term loans?

\*They are used to give the borrower a credit rating.

**\*Financial covenants provide additional legal protection to banks. In case of breach of covenant, the bank is able to foreclose on the loan early.**

\*They help the borrower manage his finances.

\*They are a legal requirements and must be used in all loan relationships.

++What is likely the most critical step in the overall projections process?

\*Construct a projected balance sheet, income (profit and loss) statement and Cash flow statement.

\*Construct a revised projected balance sheet.

\*Setting meaningful forecast assumptions.

**\*Consider the impact on your assumptions from potential changes in the competitive landscape, economic environment, management or operations of the business**

++What is the principal reason that lenders do not easily accept security of intangible assets?

**\*They are difficult to value and realise**

\*They are amortized, not depreciated

\*They are not a working part of the business

\*They do not physically exist

++Which statement is correct with respect to the divesting of holdings acquired under the Strategic Debt Restructuring Scheme (SDR)?

\*Creditors may divest their holdings back to the owners of the restructured company at the market price of the shares.

\*Creditors are required to hold their acquisition for at least 2 years to promote stability in the restructured company.

**\*The buyer to whom the shares are divested must acquire at least 51% of the equity of the restructured company.**

\*The account should continue to be classified for one year after divestment

++What is the main distinction between working capital and term finance products in India?

\*Rate of Interest.

\*Security.

**\*Tenor.**

\*Method of repayment.

++Which statement describes a characteristic of equity?

\*If sufficient shareholders vote for it, dividends can be paid from any equity reserves except share capital.

**\*Common stock is repayable only after all other legal obligations have been met in the event of liquidation.**

\*It has senior rights to other creditors in the event of liquidation.

\*The par value is repayable any time if shareholders vote for it, but the premium paid above par value is never repayable.

++What is meant by market overcapacity?

\*There is too much of a given product in the marketplace and there are too many businesses of a given type in the market.

**\*There is too much of a given product in the marketplace or there are too many businesses of a given type in the market.**

\*There is too much of a given product in the marketplace but not too many businesses of a given type in the market.

\*There are too many businesses of a given type in the market but not too much of a given product in the marketplace.

++ Which type of credit risk measurement is used to calculate a percentage probability of default for a specific firm?

**a.Absolute.** b. Implied. c.Ordinal. d. Ranking.

++Which source of information can likely be used to obtain details of a business's management succession plan? .

a.Credit agency reports.

b. The company's accounts or annual reports

c. Stock exchange announcements.

**d The business's chief executive officer.**

++ In which of its corporate documents is a company's lending limit set out?

a. Articles of Association. b. Commencement Certificate.

**c. Corporate'Resolution.** d. Memorandum of Association.

++ What does a bias to pass rating indicate when assessing liquidity and Solvency test results in a credit assessment? .

a. The credit request should be declined.

b. The credit request should be approved.

c. The borrower passed the solvency test but failed the liquidity test.

**d. The borrower passed the liquidity test but failed the solvency test.**

++Which source of external information can help a relationship manager identify changes that might affect the outlook for a borrower's industry?

a. Credit bureau reports.

b. Stock market announcements.

c. Reports of parties that have defaulted.

**d. Government announcements of new or amended regulations.**

++On what basis is the risk premium for a loan calculated?

**a. Expected loss.**

b. Loss given default.

c. Exposure at default.

d. Probability of default.

++How is a business's risk affected when a business environment is dominated by a few large and wealthy clients?

- a. Sales and profitability increases.
- b. Loss of one client creates the risk of lost revenues.**
- c. Large and steady sales minimise risk for the supplier.
- d. The impact is Significant only if a client declares bankruptcy.

++ At which stage of a business's life cycle is it considered the most risky for credit approval?

- a. Start-up.** b. Adolescence. c. Growth. d. Maturity;

++Which is a warning sign of cash flow manipulation using creative accounting?

- a. Receivables growing faster than sales.
- b. Converting trade receivables into notes.
- c. Stretching out the life of a depreciable asset.
- d. Disclosure about timing of inventory purchases.**

++Which Basel II guidelines-based ratings approach permits banks to use their own estimates for loss given default?

- a. Standardised.
- b. Advanced internal ratings-based.**
- c. Foundation internal ratings-based.
- d. Capital requirement for credit risk.

Mausam—

**(38) Why would a company most likely have a low gearing ratio?**

- a. It has a high debt load.
- b. It has high interest costs. '
- c. It has high're'payment ability.**
- d. It has a high repayment obligation.

**(39) What would allow a positive view to be taken of management's ability to develop a robust and implementable business plan?**

- a) Plans are developed in a top-down manner.
- b. There is a well-defined and balanced planning process.
- c. Corrective actions are taken quickly where targets are not being met.
- d. Plans are communicated to all relevant parties within the first month of the new financial year.

**(40) What strategy can management adopt to minimise the impact of work stoppages?**

- a. Employ additional staff.
- b. Obtain appropriate insurance. . \_.
- c. Engage regularly with staff to ensure good labour relations.
- d. Hold sufficient stocks so that orders can be fulfilled if production is lost during the stoppage.**

**(41) What is the order of quality of financial statements from lowest to highest?**

- a. Audited, reviewed, positive assurance, prepared.
- b. Positive assurance, prepared, reviewed, audited.
- c. Prepared, reviewed, audited, positive assurance.**
- d. Reviewed, positive assurance, prepared, audited.

**(42) Which activity can reduce a company's cash flow position?**

- a. Sale of assets.
- b. Collection of receivables.
- c. Purchase of investments.
- d. Increase in owner's equity.

**(43) What is one feature of a bank's right of lien?**

- a. It can be exercised against all owners of the security pledged.
- b. it can be exercised against goods, securities and savings deposits.
- c. Ownership of goods transfers to the bank when the lien is exercised.
- d. A general lien against borrower's assets does not require a separate contract and is implied, unless specified otherwise.

**(44) Why are operating cycles supported by short-term debt rather than long-term debt?**

- a. Short-term debt is ideal for both short- and long-term assets.
- b. Long-term debt dilutes owner interest more than short-term debt.
- c. Short-term debt financing offers more flexibility than long-term debt financing.
- d. Short-term debt allows for several years of operation to generate sufficient income to repay the investment.

**(45) What would be most impacted if a dominant employer makes a significant number of its staff redundant?**

- a. Availability of skilled workers.
- b. Supply of goods and services.
- c. Lobbying power with local authorities.
- d. The level of competition in the industry.

**(46) Under the second method suggested by the Tandon Committee, what is the minimum percentage of net working capital required to be provided by a borrower?**

- a. 25% of current assets.
- b. 75% of current assets.
- c. 25% of maximum permissible borrowings.
- d. 75% of maximum permissible borrowings.

**(47) what type of business organisation lodges its own tax returns and is responsible for its own taxes?**

- a. Company.
- b. Partnership.
- c. Sole trader.
- d. Wholesaler.

**(48) An increase in which activity or position will lead to a company purchasing a lower amount of raw materials?**

- a. Consumption of raw materials. .
- b. Closing stock of raw materials.
- c. Opening stock of raw materials.
- d. Contingent liabilities of raw materials.

**(49) Which type of subordination is determined by the position of the lender's exposure in the borrower's company group?**

a. Contractual. b. Effective. c. Legal. d. Structural.

**(50) A company has INR 1,13,04,950 in Cost of Goods Sold (COGS) and INR 1,09,10,070 in trade payables as of its most recent fiscal year-end. The company claimed no depreciation in COGS. How many days onaverage did it take this company to pay its trade creditors during the fiscal year?**

a.9 b.10 c.35 d.38

**(51) Which statement is correct regarding the effect of a debit or credit on the particular type of financial account?**

a. A credit to an asset account increases it. b. A debit to a liability account decreases it.  
c. A debit to a revenue account increases it. d. A credit to an equity account decreases it.

**(52) When allowing a customer to draw under a domestic bill discounting facility, why is it important to confirm that there is an underlying movement of goods?**

a. To ensure that the transaction is not a one-off.  
b. To avoid providing financing for intergroup transactions.  
c. To reduce the possibility of providing accommodation finance.  
d. To ensure that financing is provided only for goods that have been shipped to existing customers.

**(53) What is one of the objectives of periodic project monitoring?**

a. To ensure that the project is completed on time.  
b. To ensure that funds raised are used only for approved purposes;  
c. To ensure that the required financing for justifiable cost overruns is obtained.  
d. To review the financial performance of the borrower to ensure it remains" creditworthy.

**(54) What does the right to claim indemnity entitle the guarantor to do?**

a. Pay the debt to the creditor voluntarily. b. Ask the borroWer to be relieved of its obligation.  
  
c. Receive from the borrower the amount paid under the guarantee.  
  
d.Ask the borrower to notify the creditor that the guarantor has been relieved of any obligation.

**(55) Which industry factor increases the need for a company to compete for a high volume of sales to remain profitable?**

A)High fixed costs. b. Few competitors. c. High switching costs. d. Rapid demand growth.

**(56) What is the most effective measure of a business operating efficiency?**

a)Icrease in sale5. b. Increase in profits. c. Absolute level of operating expenses.  
  
d. Trénds in operating expenses as a percentage of sales.

**(57) What aspect of a business must be considered when performing an**



**industry and business risk assessment?**

- a. Its future cash flows. b. Its vulnerability within the competitive marketplace
- c. Management's capacity to run the business profitably.
- d. Its ability to generate cash through its daily operations.

**(58) How can a business's key performance objectives be used to assess the effectiveness of its organisational structure and staff responsibilities?**

- a. Through identifying the employee responsible for each objective.
- b. By determining whether there have been any recent changes in the management.
- c. By benchmarking the business's performance objectives against those of peer organisations.
- d. By determining whether each business objective is allocated to an appropriate and specified senior manager.

**(59) Which factor can make it difficult to project a business's financial performance based on historic trends?**

- a. Past operating results. b. Management's future plans.
- c. Economic and competitive environments. d. Minimum rate for the lender's return on assets.

**(60) Why does a special purpose vehicle expose a lender to more risk than conventional financing?**

- a. The loan has no security guaranteed. B. The sponsor has no established "track record.
- c. The sponsor is the only party liable for the loan d. The loan is repaid only from the project's cash flows.

**(61) Which type of risk rating measures the loss given default?**

- a. Facility. b. Low-point. c. Obligor. d. Single.

**(62) What causes market overcapacity?**

- a. Industry growth. b. Weak competition. c. Drop in a sales price. 'd. Low product demand.

**(62) Which risk driver refers to the average time it takes a business to collect its sales in cash?**

- a. Sales growth. b. Gross margin. C. Accounts payable days. d. Accounts receivable days.

**(63) An increase in which item will increase a borrower's debt service coverage ratio?**

- a. Loan interest. b. Loan collateral.
- c. Cash flow from operations. d. Scheduled principal repayment.

**(64) Which element of business planning, if not properly addressed, have cash flow implications for a business?**

- a. Clear accountabilities. b. Taking prompt corrective action.

c. Measurable performance targets. d. Clearly defined business goals and objectives.

**(65) What is one of the goals of periodic site inspections during project implementation?**

- a. To check that trial runs are going well.
- b. To check that amounts spent were in line with the projections.
- c. To confirm the date that commercial production will commence.
- d. To assess progress against the project implementation schedule.

**(66) Which source of external information about a company's past behaviour can be used to assess its management integrity?**

- a. DISCUSSIONS With management.
- b. Details of dividends paid over the last five years.
- c. Opinion about management included in credit agency reports,
- d. Account statements SHOWing Whether the company has met its obligations to the bank on time

**(67) What is a sign of incipient stress which may result in an account being classified as special mention Account (SMA) under the SMA-0 sub-category?**

- a. Delay of 30 days in submission of stock statements.
- b. Decrease in frequency of overdrafts in current accounts.
- c. Actual sales and operating profits falling short of Projections accepted for loan sanction by 20%.
- d. Return of three cheques issued by borrowers in 30 days on grounds of non-availability of balance.

**(68) Which describes the absolute priority rule With "3596" \*0 Payments made to creditors at default?**

- a. Subordinated debt is paid before insolvency-related costs.
- b. Available funds are paid first to the lowest ranked class until the borrower's obligations are fully satisfied
- c. Available funds are paid first to the highest ranked class until the borrower's obligations are fully satisfied
- d. Distributions to each ranked class are paid out proportionately based on its percentage in the company's capital structure.

**(78) What is meant by the term "excess borrowings" under the Tandon Committee approach to lending?**

- a. The amount borrowed exceeds current liabilities.
- b. The liquidity level exceeds the minimum required.
- c. The maximum permissible bank borrowings exceed current assets.
- d. The minimum required net working capital exceeds the actual amount.

**(79) Which is a primary component of a company's operating cycle?**

- a. Cash.
- b. inventory.
- c. Plant and equipment.
- d. shareholder's equity.

**(80) What is one risk to the guarantor of providing a bank guarantee on**

**behalf of a borrower?**

- a. The guarantee has a fixed expiry date. b. The guarantee must be paid even if it is not invoked.
- c. The term of the guarantee can be shortened without the guarantor's consent.
- d. The guarantee must be paid in full even when the contract is only partially fulfilled.

**(81) What is the most important reason for a lender to monitor pending business-altering laws during a credit risk assessment?**

- a. To ensure informed decisions on future loan requests.
- b. To determine the laws' impact on future operations and cash flow.
- c. To understand how the political landscape will change in the future.
- d. To estimate the competition's performance compared to that of the borrower.

**(82) In which industry would you typically expect to see a higher percentage of selling, general and administrative expenses?**

- a. Manufacturing. ' b. Retail. c. Service. d. Wholesale.

**(83) Which is an example of a liquidity early warning signal?**

- a. Rising corporate bond prices. b. Non-consolidation of subsidiaries' accounts.
- c. Frequent overdrafts that are covered in a few days.
- d. A large cheque that is returned for insufficient funds.

**(84) What general inference can be made about a company that has positive cash flow from operations, and that is borrowing and investing?**

- a. it is starting up. b. It is closing down. c. it is restructuring. d. It is acquiring other companies.

**(85) Which financial trigger can be set up internally as an early signal of a borrower's probability of default?**

- a. Change in profit projections. b. Change in ownership structure. 2.
- c. Unexpected change in dividend policy d. Emergence of new competitive entrants in the market.

**(86) Which is the most effective type of covenant in a credit agreement?**

- a. Balance sheet. b. Cash flow. C. Event-based. d. Non-financial.

**(87) What is the main purpose of conducting a competitive analysis during the loan pricing decision process?**

- a. To calculate the lowest lending rate the bank is willing to apply to the loan.
- b. To determine the probability of loss based on the competitor's rate pricing.
- c. To persuade the relevant committee to approve a lending rate lower than those of competitors.
- d. To determine whether the lending rate should be adjusted based on the

ceiling established by other lenders.

**(88) What type of risk is the risk that credit exposure is not adequately structured?**

a. Facility risk. b. Financial risk c. Industry risk d. Management risk.

**(89) What is the impact of low market entry barriers on competition within an industry and the financial performance of businesses' operating within the industry?**

a. Increased competition, increased cash flow. b. Increased competition decreased cash flow.  
c. Decreased competition, decreased cash flow. d. Decreased competition, increased cash flow.

**(90) What does a current ratio of 1.33 indicate about a company's current assets?**

a. Current assets are less than net working capital.  
b. Current assets are able to cover double the current liabilities.  
c. Very few current assets have been funded from current liabilities.  
d. A portion of current assets has been funded from long-term sources.

**(91) Which is an appropriate source of capital investment financing?**

a. Line of credit. b. Letter of credit. c. Government grant. d. Working capital loan.

**(92) For how many days can an account remain continuously in excess of the sanctioned limit before it is considered out of order?**

a. 30 b. 60 c. 90 d. 120

**(93) Using the turnover method (Nayak committee method), what percentage of projected annual turnover must a borrower provide as margin to finance working capital? '**

a. 5% b. 16% 'c. 25% d. 32%

**(94) What is the fundamental function of credit administration?**

a. To address optional issues to ensure the customer can draw on approved credit facilities

**(95) Which risk driver is most sensitive to economic factors such as a recession?**

a. Capital expenditures. b. Sales growth figures.  
c. Trade receivable days. d. Operating profit margin.

**(96) Which does the Reserve Bank of India consider to be an early warning signal indicator?**

a. Lack of related party transactions. b. Increase in borrowings despite large cash holdings.  
c. Decrease in unbilled revenue year after year. d. Project costs are closely aligned with benchmark costs.

**(97) What is the likely impact on cash flow and financial risk of improved**

**inventory turnover?**

- a. Cash flow will increase, reducing financial risk. b. Cash flow will increase, increasing financial risk.
- c. Cash flow will decrease, reducing financial risk. d. Cash flow will decrease, increasing financial risk.

**(98) What is the primary function of stock statements in the administration of fund-based working capital limits?**

- a. To calculate drawing power. b. To provide evidence that can be used in legal proceedings.
- c. To provide monthly movement in the level and quality of inventory and receivables.
- d. To indicate the aging profile of inventory and receivables for calculation of the eligible items.

**(99) Which is a commonly accepted risk driver for financial risk?**

- a. Gross margin. b. Profit margin. c. Return on assets. d. Return on equity.

**(100) Under what circumstances might weak succession planning affect a borrower's credit risk when a key management member leaves unexpectedly?**

- a. The nominated successor lacks management integrity.
- b. The nominated successor has not completed all required training.
- c. The nominated Successor cannot take up the position for a few weeks.
- d. Details of the nominated successor were not provided to the borrower's bank.

**(101) Titan Ltd. is a lumber exporter with annual sales of INR 750,000, 45 inventory days, 35 trade receivables days, and 40 trade payables days. What approximate amount of external financing will Titan Ltd. need to support its operating cycle?**

- a. INR 61,644 b. INR 82,192 c. INR 102,740 d. INR 246,575

**(102) Companies handling hazardous products that pose risk to the environment must have an insurance policy equal to the paid-up capital of the company. What type of expense is covered by this insurance?**

- a. Court fines. b. Clean-up costs. c. Property damage. d. Victim compensation.

**(103) In what type of repayment structure is a loan repaid by only one payment at the end of the loan period?**

- a. Annuity. b. Balloon. c. Bullet. d. Equal.

**(104) When would an asset purchase most affect a company's operational capacity?**

- a. When saving for the down payment prior to the purchase.
- b. When capital spending is part of normal trading activities.
- c. When financing costs and revenues increase after the purchase.
- d. When the asset purchased is directly offset by the sale of an old asset.

**(105) Which factor is unlikely to affect a business's ability to penetrate a market with high entry barriers?**

- a. Capital available to the business.
- b. Level of skill of the business's workforce.
- c. Uniqueness of products sold by the business.
- d. Government regulation affecting the business's industry.

**(106) Which is a major risk for a business in the mature stage of its life cycle?**

- a. Failure to repay debt.
- b. Filing for bankruptcy.
- c. Merger with a competitor.
- d. Inability to invest in new products.

**(107) ATB Ltd. recently purchased machinery at a cost of INR 2,00,000 with a disposal value of INR 20,000.**

**The company uses straight-line depreciation and estimates the machinery will have a useful life of 10 years.**

**What is the first-year depreciation charge for this machinery? »**

- a. INR 2,000
- b. INR 18,000
- c. INR 20,000
- d. INR 22,000

**(108) What is free cash flow?**

- a. Net cash available after depreciation and amortisation.
- b. Net cash generated from sales without associated costs.
- c. Net cash before interest, taxes, depreciation and amortisation.
- d. Net cash remaining after spending to maintain or expand assets.

**(109) Which element in the development of a business plan would indicate a high degree of management risk?**

- a. Set business objectives are easy to meet.
- b. Reports on progress implementation are often late.
- c. No consultation with stakeholders in setting up the plan.
- d. Finalisation of the business plan only a few days before the start date.

**(110) What part of the loan pricing process sets an interest rate floor, below which the loan is financially undesirable?**

- a. Cost analysis.
- b. Loan structuring.
- c. Loan accounting.
- d. Competitive analysis.

**(111) Based on these information: current secured INR 35,000 and current unsecured INR 20,000; non-current secured INR 75,000 and non-current unsecured INR 60,000, what is this company's total amount of subordinated debt outstanding?**

- a. INR 55,000
- b. INR 80,000
- c. INR 1,10,000
- d. INR 1,35,000

**(112) What process for addressing non-performing assets is timely, transparent and outside of legal proceedings?**

- a. Joint lenders' forum.
- b. Strategic debt restructuring.
- c. Corporate debt restructuring.
- d. Scheme for sustainable structuring of stressed assets.

**(113) What is an implication of the revised framework for stressed assets?**

- a. Restructured accounts are to be graded as standard.
- b. Large accounts are to be in default during the specified period.

c. Insolvencies are to be filed for if the timelines of resolution plans are unmet.

d. Credit evaluations are required from five independent credit rating agencies.

**(114) What can be reasonably understood if a business has a current ratio of less than 1.00?**

a. The business is liquid and solvent.

b. Financial risk is low and favourable.-

c. The business has sufficient current assets to meet current obligations within the next operating period.

d. The business has insufficient current assets to meet current obligations within the next operating period.

**(115) What information in a credit agency report can help a bank assess a company's management integrity?**

a. Opinion about the company management.

b. information about the financial performance.

c. How freely the management shares information.

d. Details on covenant compliance for the bank loans.

**(116) What sources of cash are used when undertaking the solvency test?**

The injection of new capital by shareholders.

**The sale of assets.**

Sources other than day-to-day operations.

Arranging the refinancing of existing debts.

Question (2)

Which rating scale would generally be used to rate a five-year bond issued in India with less than 12 months to maturity?

\*A scale ranging from A1 (80) to D (80)

\*A nine point scale from A1 to A4 and D for default

**\*A scale ranging from AAA (80) to D (50)**

\*A 20 point scale ranging from AAA to D

Question (3)

If a corporate is proposing to raise funds from a new five-year bond, what type of rating would they ask a rating agency to provide in order to attract investors?

\*An issue rating

\*An obligor rating

- \*A corporate family rating
- \*An issuer rating**

Question (4)

What is a key difference between internal and external credit ratings for corporates?

- \*Internal credit ratings provide an estimate of the likely loss in the event of default.
- \*Internal credit ratings primarily use statistical models with limited expert opinion being used.
- \*Rating agencies produce facility risk ratings as well as obligor credit ratings.
- \*The main three ratings agencies use similar rating scales but those used by banks can be less granular.**

Question (5)

What classification would you expect to see when a rating agency provides a rating outlook?

- \*Uncertain
- \*Negative**
- \*Watchlisted
- \*Potential upgrade

Question (6)

What control mechanisms are often used to ensure that credit underwriting decisions have been prudently made?

- \*Peer reviews of an agreed percentage of all loan decisions made each month.
- \*Post-approval monitoring of loan requirements such as compliance with loan covenants.
- \*Post- approval reviews of a sample of loan decisions undertaken by an independent review officer.
- \*Checks to confirm that credit decisions have only been made by individuals or committees within review authorities.**

Question (7)

What is the risk that a business is run in such a way that it fails to generate sufficient cash to meet its debt obligations?

- \*Facility Risk
- \*Financial Risk**
- \*industry and Business Risk
- \*Management Risk

Question (8)

Which is one of the six key components of a bank's credit underwriting framework?

- \*The delegation of credit authority
- \*Defining the calculation of risk adjusted returns
- \*Determining policies on ethical and reputational risks**



\*Facility structuring guidelines

Question (9)

What is the basic purpose of undertaking a credit analysis?

- \*To confirm that the facility risks comply with the bank's credit policy
- \*To determine the correct pricing parameters when lending to a borrower
- \*To calculate the expected loss if the borrower defaults
- \*To understand a borrower's ability and Willingness to service their debt obligations when due**

Question (10)

What must credit rating agencies in India do in order to comply with regulatory requirements after they have rated a debt instrument?

- \*Monitor company performance and update the rating on an annual basis.
- \*Give a minimum of three months notice to the issuer before withdrawing their rating.
- \*Report any changes in the rating to the regulator.
- \*Continue to rate the debt instrument over its lifetime.**

Question (11)

What does the liquidity test provide information about that can be used when undertaking a credit assessment of a borrower?

- \*Whether secondary sources of repayment will be sufficient to meet its debt obligations.
- \*How much the borrower is able to raise from all sources to meet all its cash needs.
- \*Whether the borrower is generating sufficient cash from day-to-day operations to cover its interest and principal obligations.
- \*The ability of the borrower to generate cash from day-to-day operations to meet all cash needs.**

Question (12)

What factors influence the values that appear in a credit migration or transition matrix?

- \*The final and initial ratings for the corporate at the start and end of the agreed time horizon.**
- \*The number of rating bands that a bank uses in its rating scale
- \*The number of rating bands that a rating is upgraded over the selected time horizon.
- \*The number of times that a corporate's graded credit is upgraded and downgraded.

Question (13)

What service do local rating agencies provide for investors in India?

- \*Information that ensures that issues are priced correctly.
- \*Research and opinions that address information asymmetry.**

- \*They ensure that there is a liquid market for debt instruments once issued.
- \*Confirmation that an issuer will meet its financial obligations.

Question (14)

A potential customer has submitted a credit request. It has passed the liquidity test but failed the solvency test. What action is the lender most likely to take?

- \*Recalculate the liquidity and solvency tests.
- \*Undertake a further credit assessment.**
- \*Decline the credit request.
- \*Approve the credit request.

Question (15)

How are credit ratings used as part of the credit underwriting process for a credit request?

- \*They are used to determine if allowances for losses are required.**
- \*They are used as inputs when undertaking financial analysis.
- \*They are used to determine the required level for credit approval.
- \*They are used to manage portfolio credit risks.

Question (16)

Why is the basis for establishing a credit rating different in capital markets and banking markets?

- \*Capital markets facilitate capital transformation.
- \*Rating agencies undertake an analysis of risk-return when investment decisions are made rather than the banks when making credit decisions.
- \*Investors bear the credit risk when they invest in debt securities.**
- \*Investors indirectly provide money to corporates who raise funds from capital markets.

Question (17)

Which measure is used to measure borrower or obligor risk?

- \*Maturity (M)
- \*Loss Given Default (LGD)
- \*Probability at Default (PD)**
- \*Exposure at Default (EaD)

Question (18)

A customer has defaulted with Exposure at Default of 10,000. Mitigation held is valued at 15,000 but only 50% is recovered when it is sold and costs of 1,000 are incurred. What is the LGD%?

- \*50%
- \*35%**
- \*25%
- \*65%

Question (19)

What is the primary purpose of conducting a projections scenario analysis as part of the lending decision process?

- \*To confirm that the assumptions underlying the projections are valid
- \*To identify the impact of credit enhancements.
- \*Determine whether there is a need to reassess the initial financial risk assessment.
- \*To compare projected financial results with the most recently available actual financial results.**

Question (20)

In the Merton approach, at what point is default considered to have occurred?

- \*When asset volatility exceeds two standard deviations.
- \*When the value of a firm is less than the value of its liabilities based on market values.**
- \*When the firm's leverage ratio exceeds agreed thresholds.
- \*When the value of a firm is less than the value of its liabilities based on accounting values.

Question (21)

What is the underlying concept on which statistical models used in credit risk assessment are based?

- \*That the weighted outputs for the identified factors can be combined to determine a score.
- \*That there is a relationship between company default and financial ratios and other factors.**
- \*That regression analysis can be used to build a model.
- \*That modelled scores can be mapped to empirically observed default probabilities.

Question (22)

What should banks do if income levels are such that risk-adjusted return thresholds are not met?

- \*Cancel unutilised facilities,
- \*Monitor the situation and seek to improve the rate of return over time.**
- \*Ask the customer to re-bank with another bank.
- \*Reprice existing exposures

Question (23)

What is a key difference between global and Indian national ratings scales?

- \*The number of ratings in each scale differs, making comparisons difficult.
- \*Ratings using Indian national ratings scales and global ones are not comparable as they use different rating methodologies.
- \*Indian corporates rated using global scales will have their ratings capped based on the country rating for India.**
- \*The scales use different combinations of alpha and alphanumeric symbols for each grade.

Question (24)

Why are banks more susceptible to failure as a result of their exposure to credit risk than other types of companies?

- \*Because they have low capital ratios
- \*Because credit risk is the single biggest risk that banks are exposed to
- \*Because capital buffers can be insufficient if there are significant credit losses
- \*Because they operate with very high leverage**

Question (25)

What does a credit scorecard that uses statistical techniques enable a bank to produce?

- \*The placement of a customer in a risk bucket.
- \*A score for a customer as part of the credit assessment process.**
- \*A credit rating
- \*A credit risk grade for a customer

Question(26)

Which risk ratings provide a measure of the probability of default?

- \*Through-the-cycle risk ratings
- \*Obligor risky ratings**
- \*Single risk ratings
- \*Facility risk ratings

Question (27)

How can banks use the information provided by the external rating agencies to improve their credit assessment processes?

- \*To assess credit portfolio risks.
- \*As a benchmark for comparing with model outputs when determining the rating for a customer.
- \*As comparators when designing and developing their internal ratings system.**
- \*To assess the customers' attractiveness within a particular industry.

Question (28)

Which is the longest established credit rating agency in India?

- \*ICRA Ltd.
- \*India Rating and Research Pvt Ltd.
- \*SME Rating Agency of India Ltd.
- \*CRISIL Ltd.**

Question (29)

Which requirement is an element of Pillar 2 of the Basel Ill Pillars approach?

- \*Disclosing details of adequate capital and risk management processes.
- \*The calculation of capital requirements for credit risk.
- \*Holding capital in line with minimum capital requirements.
- \*Undertaking and documenting an annual internal capital adequacy assessment.**

Question (30)

How is current market information used by the Merton approach, or contingent claims model, to assess the credit risk for a corporate?

**\*By directly revaluing the corporate's assets using information contained in stock prices**

- \*By calculating the leverage ratio for the corporate based on accounting values
- \*Through highlighting the financial structure of the corporate
- \*By revaluing the corporate's liabilities

Question (31)

What is a good source of relative measures of credit risk for a corporate customer?

**\*A credit rating agency-rating**

- \*A structural credit risk model that uses equity information
- \*Altman's Z-score model
- \*An expert system

Question (32)

Why is the level of bank capital a concern for regulators?

**\*If a bank incurs large losses it would reduce the level of capital the bank holds and make it vulnerable to failure.**

- \*Credit risk is the largest risk that a banks face and capital is needed to protect against large losses when they happen.
- \*Holding too high a level of capital will result in poor returns for shareholders.
- \*It is inevitable that a bank will incur large losses at some point in the economic cycle.

Question (33)

As an element of portfolio credit risk, which factor has the most significant impact on exposure credit risk?

- \*Recovery rate
- \*Asset correlation
- \*Concentration risk**
- \*Correlation in exposure values

Question (34) \_

What is the most common definition of credit risk as it applies to banks?

**\*Credit risk is the risk of economic loss that a bank incurs as a result of the failure by a borrower to make interest and principal payments in full and on time.**

\*Credit risk is the possibility of losses associated with a fall in value of traded debt instruments.

\*Credit risk is the risk of losses on funded credit products.

\*Credit risk is the loss in value of a credit exposure as a result of a deterioration in the creditworthiness of the obligor.

Question (35)

What is the definition of Common Equity Capital?

\*Loss absorbing capital that can be converted to common shares or written down in the event of substantial losses

\*A bank's pure or concern capital

**\*The highest quality component of capital**

\*A bank's gone-concern or supplementary capital

Question (36)

What factors are included in rating agencies' industry rating methodology?

\*An assessment of a company's business strategy with regards to the industries they operate in.

\*A peer comparison of financial performance for companies operating in the same industry.

**\*Factors that are considered most predictive of default for companies operating in that particular industry.**

\*The ability of management to address issues that arise in their external environment.

Question (37)

What is a key feature of the Standardised Approach for calculating credit risk capital?

\*The ability to use greater granularity when calculating risk-weighted assets.

\*The use of a bank's own estimates for components such as Probability of Default.

\*The need to obtain regulatory approval before the Standardised Approach can be used.

**\*The use of external ratings to determine risk weights for credit exposures.**

Question (1)

Which financial trigger can be set up internally as an early signal of a borrower's probability of default?

**\*Change in profit projections.**

\*Change in ownership structure.

\*Unexpected change in dividend policy.

\*Emergence of new competitive entrants in the market.

Question (2)

What is the difference between operating cash flow and earnings before interest, taxes, depreciation and amortisation (EBITDA)?

- \*EBITDA considers interest expense.
- \*EBITDA considers capital expenditures.**
- \*EBITDA considers changes in cash flow.
- \*EBITDA adds back depreciation and amortisation.

Question (3)

What external factors outside of a business's control can affect its liquidity levels?

- \*Credit and lending policy.
- \*Facility and loan structure.
- \*Industry and business risk.**
- \*Management and key persons' risk.

Question (4)

Which industry factor increases the need for a company to compete for a high volume of sales to remain profitable?

- \*High fixed costs.**
- \*Few competitors.
- \*High switching costs.
- \*Rapid demand growth.

Question (5)

Which action might a company take when it is in the cash concern stage of financial distress?

- \*Selling vital assets.
- \*Cancelling bonuses.**
- \*Laying off key employees.
- \*Eliminating management positions.

Question (6)

What does a current ratio of 1.33 indicate about a company's current assets?

- \*Current assets are less than net working capital.
- \*Current assets are able to cover double the current liabilities.
- \*Very few current assets have been funded from current liabilities.
- \*A portion of current assets has been funded from long-term sources.**

Question (7)

In which condition can a local business perform well while the local economy is in recession?

- \*Local competition is weak.
- \*The business has a high profit margin.
- \*The business sells high quality and durable products.
- \*The local economy of business's customers is thriving.**

Question (8)

Which is likely to be false of a company with a low gearing ratio?.

**\*It has a high debt load.**

\*It has high interest costs.

\*It has high repayment ability.

\*It has a high repayment obligation.

Question (9)

What information in a credit agency report can help a bank assess a company's management integrity?

**\*Opinion about the company management.**

\*Information about the financial performance.

\*How freely the management shares information.

\*Details on covenant compliance for the bank loans.

Question (10)

What is the starting point in the process of projecting a business's financial performance?

\*Evaluate economic factors.

\*Complete sensitivity analysis.

\*Project future values for the risk drivers.

**\*Review historic levels of the risk drivers.**

Question (11)

What does the credit risk premium attributed to in the credit pricing process?

\*The bank's risk appetite.

\*Expected return on equity.

\*The bank's growth strategy.

**\*Losses incurred due to default.**

Question (12)

Based on these information: current secured INR 35,000 and current unsecured INR 20,000; non-current secured INR 75,000 and non-current unsecured INR 60,000, what is this company's total amount of subordinated debt outstanding?

\*INR 55,000

**\*INR 80,000**

\*INR 110,000

\*INR 135,000

Question (13)

What would describe a non-fund-based facility?

\*A facility that is lower risk than a fund-based facility.

\*A credit facility that incurs a monetary obligation when draw down occurs.

\*A facility that is similar to a fund-based facility in terms of how it is recorded in a bank's books.

**\*A facility that may result in a funded obligation if the customer fails to settle any payments due.**



Question (14)

How are surrounding businesses affected when an environment is dominated by two large employers?

- \*Neutral on sales and profitability.
- \***Loss of one of the employers creates high overall risk.**
- \*Increased employment reduces the risk for the industry.
- \*The impact is significant only if a catastrophic market downturn occurs.

Question (15)

What type of capital investment is intangible and financial in nature?

- \* Applying for patents.
- \* Developing new products.
- \* **Listing securities on a stock exchange.**
- \* Replacing existing plant and equipment.

Question (16)

For how many days can an account remain continuously in excess of the sanctioned limit before it is considered out of order?

- \*30
- \*60
- \***90**
- \*120

Question (17)

Which party enforces a bank guarantee in the event of default?

- \* Applicant.
- \* **Beneficiary.**
- \* Government.
- \* Guarantor.

Question (18)

Which factor will most likely reduce loss given default?

- \* Amount of the loan.
- \* Duration of the loan.
- \* Industry of the borrower.
- \* **Seniority of the loan.**

Question (19)

During which implementation phase of deal structure is counsel instructed on documentation and covenant definition issues?

- \* Design.
- \* Drawdown.
- \* Monitoring.
- \* **Negotiation.**

Question (20)

Which is an example of an insurance covenant in a credit agreement?

- \* Prohibition on providing other creditors security over any assets.
- \* Restriction on incurring new debt above a predetermined amount.
- \* **Requirement to pay premiums on schedule to avoid a lapse of coverage.**
- \* Obligation to submit security valuations performed by an independent appraiser.

Question (21)

At the beginning of the year, ZXV Inc. acquires computer equipment at a cost of INR 500,000. Using a 40% declining balance depreciation rate each year, what is the depreciation charge for this equipment in the second year?

- \* **INR 120,000**
- \* INR 180,000
- \* INR 200,000
- \* INR 300,000

Question (22) Which result of an increase in management risk will most negatively affect a company's financial performance?

- \*Managers' increased focus on their own compensation packages.
- \***Managers fail to take timely or correct decisions that affect sales or costs.**
- \*Managers fail to take full advantage of favourable developments in the external environment.
- \*Managers are less transparent in their dealings with external stakeholders, such as banks.

Question (23)

What is the number of inventory days for a company with sales of INR 500,000, inventory of INR 60,000, cost of goods sold of INR 300,000 and trade receivables of INR 125,000?

- \* **73**
- \* 152
- \* 175
- \* 219

Question (24)

What is the primary reason for assessing a business's financial performance before extending credit?

- \* To determine what a company's key ratios are.
- \* **To determine how a business generates cash flow.**
- \* To determine how a company spends its free cash flow.
- \* To determine why a business has achieved certain results.

Question (25)

For which type of banking products does the Reserve Bank of India regulate interest rates?

- \* **Savings accounts.**
- \* Chequing accounts held by residents.
- \* Personal loans of more than INR 200,000.
- \* Commercial loans of more than INR 200,000.

Question (26)

What is the most effective measure of a business's operating efficiency?

- \* Increase in sales.
- \* Increase in profits.
- \* Absolute level of operating expenses.
- \* **Trends in operating expenses as a percentage of sales.**

Question (27)

A company that records the market value of its equipment on its balance sheet has not followed which accounting principle?

- \* **Cost.**
- \* Matching.
- \* Conservatism.
- \* Goingconcern.

Question (28)

What test is used to determine whether a borrower will generate enough cash flow from day-to-day operations to cover its debt obligations?

- \* Bias to fail test.
- \* **Liquidity test.**
- \* Secondary source test.
- \* Solvency test.

Question (29)

Special Mention Accounts were introduced as a new asset category between which two categories?

- \* Doubtful and Loss.
- \* Standard and Doubtful.
- \* Sub-standard and Doubtful.
- \* **Standard and Sub-standard.**

Question (30)

Which type of structural mitigation is used to ensure that all intercompany transactions occur at arm's length? .

- \* Collateral.
- \* Guarantee.
- \* Monitoring.
- \* **Restrictive covenant.**

Question (31)

What type of credit rating will most likely cause a borrower's credit score to be adjusted downward because of an expected downturn in the borrower's industry?

- \* Fail grade rating.
- \* Single risk rating.
- \* Facility risk rating.
- \* **External international rating.**

Question (32)

Which describes the absolute priority rule with respect to payments made to creditors at default?

- \* Subordinated debt is paid before insolvency-related costs.
- \* Available funds are paid first to the lowest ranked class until the borrower's obligations are fully satisfied.
- \* Available funds are paid first to the highest ranked class until the borrower's obligations are fully satisfied.**
- \* Distributions to each ranked class are paid out proportionately based on its percentage in the company's capital structure.

Question (33)

What is the profit before tax and financial costs for a company with sales of INR 5,000,000, cost of goods sold of INR 2,600,000, operating expenses of INR 1,400,000, interest expense of INR 60,000 and tax expenses of INR 125,000?

- \* INR 815,000
- \* INR 940,000
- \* INR 1,000,000**
- \* INR 1,185,000

Question (34)

What is meant by the term "excess borrowings" under the Tandon Committee approach to lending?

- \* The amount borrowed exceeds current liabilities.
- \* The liquidity level exceeds the minimum required.
- \* The maximum permissible bank borrowings exceed current assets.
- \* The minimum required net working capital exceeds the actual amount.**

Question (35)

What type of credit rating is most appropriate to evaluate the credit risk of a group of borrowers that has never borrowed money before?

- \* Corporate family rating.**
- \* Issue rating.
- \* Issuer rating.
- \* Short-term rating.

Question (36)

Which item is evaluated more substantively when determining the amount of financing available to a company under the assessed bank finance method as compared to the maximum permissible bank finance method?

- \* Assets.**
- \* Current ratio.
- \* Liquidity.
- \* Trade payables.

Question (37)

How should a customer's account activity be monitored to ensure end-use of funds?

- \* Review a percentage of all the transactions.
- \* Scrutinise all the transactions regardless of value.

- \* Review the transactions above a threshold amount.
- \* **Browse through the account and investigate any unusual transaction.**

Question (38)

Companies operating in which industry are most likely to have a high investment in fixed Infrastructure assets, with little inventory?

- \* **Electric utility.**
- \* Food retailing.
- \* Home construction.
- \* Financial services consulting.

Question (39)

Which factor will decrease a buyer's market risk in the long term in conditions where the supplier has high bargaining power?

- \* Buyer's ability to pay.
- \* Increase in supplier's market share.
- \* **Availability of substitute products in the market.**
- \* High demand skilled workers are employed by the supplier.

Question (40)

What information should be reviewed in the periodic progress reports on implementation of a project to assess likelihood of meeting the loan repayment obligations?

- \* **The project implementation is on schedule.**
- \* Funding is available to cover any cost overruns.
- \* There are orders for the project outputs once completed.
- \* Project reports have been approved by the lender's engineer

Question (41)

Why is management integrity the most critical factor when assessing the impact of management risk on a company's credit risk?

- \* Management lacking integrity may prioritise payments to other external stakeholders.
- \* A lack of integrity can result in a company using cash flows for purposes other than interest or loan payments.
- \* A lack of integrity can result in a company's underperformance and subsequent inability to meet its payment obligations.
- \* **A positive assessment of management integrity is necessary for a lender to be confident in the reliability of the information provided by the company.**

Question (42)

What governing body for the Insolvency and Bankruptcy Code would set up accreditation for insolvency professionals and information utilities?

- \* Adjudicating Authority.
- \* Debt Recovery Tribunal.
- \* Insolvency Professional Agency.

**\* Insolvency and Bankruptcy Board of India.**

Question (43)

Which proposition is least likely to be considered for a term loan for its financing requirements?

- \* Expansion of a fleet of vehicles.
- \* Capital expenditure for a power plant.
- \* An instalment financing construction project.
- \* Daily working capital requirements for a small business.**

Question (44)

What is the primary reason for reviewing external information when assessing a company's credit quality?

- \* To evaluate any adverse press coverage of the company.
- \* To assess the company's vulnerability to natural disasters.
- \* To review any gradual economic changes that may affect the company's industry.
- \* To evaluate what developments may create opportunities for the company or adversely affect its performance.**

Question (45)

Which factor will most likely affect the length of time it takes to convert inventory to sales?

- \* New products.**
- \* Increased financing.
- \* Management decisions.
- \* Accounts payable growth.

Question (46)

What is the difference between a partnership firm and a Limited Liability Partnership (LLP)?

- \* If a partner dies a partnership firm continues to exist and an LLP dissolves.
- \* An LLP is a separate legal entity from its members and a partnership is not a separate legal entity.**
- \* An LLP is governed by the Indian Partnership Act and a partnership firm is governed by the Companies Act.
- \* The income from a partnership firm stays within the firm and LLP income is personal income for the partners.

Question (47)

How many days is the short-term financing gap for a company with 47 trade receivables days, 68 inventory days and 63 trade payables days?

- \* 42
- \* 52**
- \* 84
- \* 178

Question (48)

What is the first step for a management team in order to achieve results

through the efforts of others?

**\* Set the strategic direction.**

- \* Source the necessary resources.
- \* Incentivise the organisation in an effective manner.
- \* Manage the critical business operations on a daily and long-term basis.

Question (49)

What type of non-fund-based lending facility would a buyer of goods and services use to guarantee a one-time payment?

- \* Export credit.
- \* Letter of credit.**
- \* Overdraft.
- \* Term loan.

Question (50)

Which costs related to environmental hazards can have a significant negative impact on a company's credit risk?

- \* Cost of insurance premiums.
- \* Cost of hazardous waste clean-up.**
- \* Cost of compliance with environmental laws.
- \* Cost of professional assessment of facilities for safety.

Question (51)

What general inference can be made about a company that has positive cash flow from operations, and that is borrowing and investing?

- \* It is starting up.
- \* It is closing down.
- \* It is restructuring.
- \* It is acquiring other companies.**

Question (52)

If net sales for a company over three Fiscal Year Ends (FYE) was

FYE 1: INR 1,25,00,885,

FYE 2: INR 1,37,45,473 and

FYE 3: INR 1,40,25,992,

what is this company's sales growth for FYE 3 compared to FYE 2?

- \* 2.0%
- \* 2.04%**
- \* 8.87%
- \* 10.0%

Question (53)

Which action by a borrower's management could have an adverse effect on its cash flow and ability to meet its obligations?

- \* Adopting a conservative financing strategy.
- \* Executing plans to ensure short-term goals are met.**
- \* Increasing the rate of depreciation resulting in reduced net income.
- \* Disclosing information to other stakeholders on need to know basis.

Question (54)

What is the impact of low market entry barriers on competition within an industry and the financial performance of businesses' operating within the industry?

- \* Increased competition, increased cash flow.
- \* **Increased competition, decreased cash flow.**
- \* Decreased competition, decreased cash flow.
- \* Decreased competition, increased cash flow.

Question (55)

In an initial review of a company's financial statements, which ratios can be reviewed to uncover opportunities and identify potential risk flags?

1. Net income.
2. Gross margin.
3. Inventory days.
4. Return on equity.

- \* 1 and 2.
- \* 1 and 4.
- \* **2 and 3.**
- \* 3 and 4.

Question (56)

Which organisational structure can inhibit management's ability to take decisions thus adversely affecting the company's performance and credit risk?

- \* A pyramidal structure.
- \* **A centralised decision-making process.**
- \* A structure that has distinct divisions between different functions.
- \* A structure in which roles and responsibilities are clearly documented.

Question (57)

XYZ trucking company (XYZ) has recently entered into an arrangement with an online sales business to deliver their general consumer goods and expect that this partnership will improve their sales. XYZ has sought enhanced financing to support this new business. The transportation industry is in a decline due to a recession, and XYZ's most recent annual financial statement shows relatively weak sales performance. What is the next step in assessing XYZ's credit application?

- \* The assessment should end, and credit should be declined.
- \* The assessment should be postponed until the industry enters the recovery stage.
- \* The assessment should continue and focus on total profit as a measure of success.
- \* **The assessment should continue with more focus on the sales projections scenarios and cash flow impact.**

Question (58)

Why does a special purpose vehicle expose a lender to more risk than conventional financing?

- \* The loan has no security guaranteed.
- \* The sponsor has no established track record.



- \* The sponsor is the only party liable for the loan.
- \* **The loan is repaid only from the project's cash flows.**

Question (59)

A company has INR 11,304,950 in Cost of Goods Sold (COGS) and INR 1,091,070 in trade payables as of its most recent fiscal year-end. The company claimed no depreciation in COGS. How many days on average did it take this company to pay its trade creditors during the fiscal year?

- \* 9
- \* 10
- \* **35**
- \* 38

Question (60)

Which activity can reduce a company's cash flow position?

- \* Sale of assets.
- \* Collection of receivables.
- \* **Purchase of investments.**
- \* Increase in owner's equity.

Question (61)

What type of early warning signals may be indicated as a result of technology changes?

- \* **Business.**
- \* Fundamental.
- \* Market.
- \* Operational.

Question (62)

which element in the development of a business plan would indicate a high degree of management risk?

- \* Set business objectives are easy to meet.
- \* Reports on progress implementation are often late.
- \* No consultation with stakeholders in setting up the plan.
- \* **Finalisation of the business plan only a few days before the start date.**

Question (63)

Titan Ltd. is a lumber exporter with annual sales of INR 750,000, 45 inventory days, 35 trade receivables days, and 40 trade payables days. What approximate amount of external financing will Titan Ltd. need to support its operating cycle?

- \* INR 61,644
- \* **INR 82,192**
- \* INR102,740
- \* INR246,575

Question (64)

What is the basic function of credit monitoring?

**\*To ensure the borrower continues to be a good credit risk.**

\*To ensure the borrower is operating within the credit limits.

\*To determine if the credit facilities are being used for the intended purpose

\*To determine what actions should be taken where there is a cause for concern.

Question (65)

Why must a company's management plan for unexpected events even if they are unlikely to occur?

\*Robust planning can reduce costs as an alternative to obtaining insurance coverage.

\*Contingency planning is a prerequisite to obtain insurance coverage and business loans.

**\*Many improbable unexpected events can have a significant effect on the business operations.**

\*Adequate planning can help minimise the impact of disturbances relating to economic cycles and technological changes.

Question (66)

Under what circumstances might weak succession planning affect a borrower's credit risk when a key management member leaves unexpectedly?

\*The nominated successor lacks management integrity.

**\*The nominated successor has not completed all required training.**

\*The nominated successor cannot take up the position for a few weeks.

\*Details of the nominated successor were not provided to the borrower's bank.

Question (67)

Which is the best description of the gearing ratio?

\*An indication of current assets to current liabilities.

\*An indication of net worth compared to total assets.

\*An indication of how much cash is available to cover payments.

**\*An indication of how a business's assets are funded between owners and creditors.**

Question (68)

At what point during an asset purchase do a company's capital expenditures most affect its operational cash flow?

\*Before the purchase while saving for the down payment.

**\*At the time of purchase and beyond due to financing costs.**

\*When the asset purchased generates expenses such as taxes and insurance.

\*Capital expenditures do not affect cash flow as they are outside normal operational activities.

Question (69)

Which risk driver is most sensitive to economic factors such as a recession?

- \*Capital expenditures.
- \*Sales growth figures.**
- \*Trade receivable days.
- \*Operating profit margin.

Question (70)

In what type of security charge are goods and raw materials commonly pledged as assets?

- \*Assignment.
- \*Hypothecation.**
- \*Lien.
- \*Mortgage.

Question (71)

What is considered as one of the three levels of oversight in the corporate governance process?

- \*The media.
- \*The regulators.
- \*The board of directors.**
- \*Banks and other lenders.

Question (72)

Which type of charge is appropriate when the security is a factory?

- \*Hypothecation.
- \*Lien.
- \*Mortgage.**
- \*Pledge.

Question (73)

How does industry risk affect the credit risk of a particular business enterprise that operates within that industry?

- \*The effect is limited to industry-specific regulations.
- \*The effect is substantial only if the industry is in a decline phase.
- \*The effect is insignificant as long as the particular business performs well and generates enough cash.
- \*The effect is significant as industry risk includes factors that determine capital requirements and cash flow.**

Question (74)

Which party issues a letter of credit in a goods and services transaction?

- \*Applicant.
- \*Bank.**
- \*Beneficiary.
- \*Seller.

Question (75)

which factor can be excluded from the cost analysis during the pricing decision process?

- \*External financial market conditions.**

- \*The borrower's total business with the bank.
- \*The borrower's past and current financial performance.
- \*The bank's minimum returns requirements for the transaction.

Question (76)

what is the primary purpose of calculating drawing power in a funds-based working capital facility?

**\*To determine the amount the customer can draw on.**

- \*To ensure that bank funds are not tied up in obsolete stocks.
- \*To ensure that drawings are being used to fund current assets.
- \*To check that the value of eligible assets is at least equal to the approved credit limit.

Question (77)

What causes market overcapacity?

**\*Industry growth.**

- \*Weak competition.
- \*Drop in a sales price.
- \*Low product demand.

Question (78)

What projected information is best to use to assess working capital limits?

- \* Sales.
- \* Balance sheet.**
- \* Labour expenses.
- \* Profit and loss statement.

Question (79)

What is the first step in the process of restructuring a loan?

**\* Take control.**

- \* Develop an action plan.
- \* Resolve future financing.
- \* Implement the action plan.

Question (80)

In which scenario would customer concentration cause significant cash flow risk for a business?

- \* The business sells clothing to individual consumers.
- \* The business distributes flour to most bakeries in the region.
- \* The business supplies specialised parts to the largest auto maker.**
- \* The business provides cleaning services to schools, offices and residential buildings.

Question (1) ,

What year-over-year change in gross margin represents positive financial risk?

- a) No change represents stability.
- b) Gross margin does not affect risk.
- c) A decrease represents profit growth.

d) An increase represents profit growth.

Question (2)

Which is a major risk for a business in the mature stage of its life cycle?

- a) Failure to repay debt.
- b) Filing for bankruptcy.
- c) Merger with a competitor.
- d) Inability to invest in new products.**

Question (3)

Which company related issue can result in a problem loan?

- a) Deregulation.
- b) Globalisation.
- c) Illiquidity.
- d) Seasonality.

Question (4)

Which figure is likely to increase for a business after a seasonal peak sales period?

- a) Sales.
- b) Inventory.
- c) Trade payables.
- d) Trade receivables.

Question (5)

What is a generally acceptable gearing ratio for a business in India?

- a) 1.00
- b) 2.00
- c) 3.00
- d) 4.00

Question (6)

Which is a long-term source of working capital financing?

- a) Accrued expenses.
- b) Customer advances. M
- c) Term loans.
- d) Trade payables.

Question (7)

What does the trade receivables days ratio measure?

- a) Actual time it takes to pay suppliers.
- b) Average time it takes to pay suppliers.
- c) Actual time it takes to collect cash from customers.
- d) Average time it takes to collect cash from customers.

Question (8)

What projected information is best to use to assess working capital limits?

- a) Sales.
- b) Balance sheet.
- c) Labour expenses.
- d) Profit and loss statement.

Question (9)

On what basis is the risk premium for a loan calculated?

- a) Expected loss.
- b) Loss given default.
- c) Exposure at default.
- d) Probability of default.

Question (10)

Which industry factor increases the need for a company to compete for a high volume of sales to remain profitable?

- a) High fixed costs.
- b) Few competitors.
- c) High switching costs.
- d) Rapid demand growth.

Question (11)

Which source of external information can help a relationship manager identify changes that might affect the outlook for a borrower's industry?

- a) Credit bureau reports.
- b) Stock market announcements.
- c) Reports of parties that have defaulted.
- d) Government announcements of new or amended regulations.

Question (12)

What is a sign of incipient stress which may result in an account being classified as Special Mention Account (SMA) under the SMA-O sub-category?

- a) Delay of 30 days in submission of stock statements.
- b) Decrease in frequency of overdrafts in current accounts.
- c) Actual sales and operating profits falling short of projections accepted for loan sanction by 20%.
- d) Return of three cheques issued by borrowers in 30 days on grounds of non-availability of balance.

Question (13)

Which is an appropriate source of capital investment financing?

- Line of credit.
- Letter of credit.
- Government grant.
- Working capital loan.

Question (14) .

What is the best time to pay a creditor to optimise cash flow?

- Immediately.
- On the due date.
- 30-60 days after the due date.
- 60-90 days after the due date.

Question (15)

Which statement is correct regarding the effect of a debit or credit on the particular type of financial account?

A credit to an asset account increases it.  
A debit to a liability account decreases it.  
A debit to a revenue account increases it.  
A credit to an equity account decreases it.

Question (16)

What is drawing power?

- a) The approved fund-based working capital limit to finance a company's inventory and receivables.
- b) The value of eligible inventory and receivables detailed in a company's latest stock statement that can be drawn against.
- c) A company's credit limit based on the value of eligible items from its latest stock statement multiplied by the agreed margin.
- d) The lower of a company's approved fund-based working capital limit and the lending value calculated based on its latest stock statement and unissued letters of credit issued.**

Question (17)

What is the order of quality of financial statements from lowest to highest?

- a) Audited, reviewed, positive assurance, prepared.
- b) Positive assurance, prepared, reviewed, audited.
- c) Prepared, reviewed, audited, positive assurance.
- d) Reviewed, positive assurance, prepared, audited

Question (18)

What term refers to the amount that a lender expects to be outstanding at the time of default?

- a) Expected default loss.
- b) Exposure at default.
- c) Loss given default.
- d) Probability of default.

Question (19)

Which is a negative effect of sales fluctuations for seasonal businesses?

- a) Falling sale prices.
- b) Increased inventories.
- c) Incapacity to compete.
- d) Inability to repay loans.

Question (20)

What three categories are cash payments classified by in the statement of cash flows?

- a) Direct, indirect and Uniform Credit Analysis.
- b) Cash receipts, cash payments and capital expenditures.
- c) Operating activities, investing activities and financing activities.
- d) Operating activities, management activities and financing activities.

Question (21)

What information should be reviewed in the periodic progress reports on implementation of a project to assess likelihood of meeting the loan repayment obligations?

- a) The project implementation is on schedule.
- b) Funding is available to cover any cost overruns.

- c) There are orders for the project outputs once completed.
- d) Project reports have been approved by the lender's engineer

Question (22)

What information must be collected and analysed before a personal guarantee on a loan can be accepted?

- a) Evidence that the guarantor has a higher net worth than the borrower.
- b) Proof that the guarantor is employed showing the gross and net pay received.
- c) Confirmation that the guarantor has no other outstanding guarantees.
- d) The amount of the guarantor's obligations to banks, including pending loan applications.

Question (23)

Under what circumstances might weak succession planning affect a borrower's credit risk when a key management member leaves unexpectedly?

- a) The nominated successor lacks management integrity.
- b) The nominated successor has not completed all required training.
- c) The nominated successor cannot take up the position for a few weeks.
- d) Details of the nominated successor were not provided to the borrower's bank.

Question (24)

What activity would provide the least useful information when conducting an inspection?

Holding discussions with the borrower.  
Assessing the borrower's activity level.  
Establishing the existence of borrower's capital stock.  
Updating the Bank's existing knowledge about the borrower's operations.

Question (25)

What are the three key reference points that form the foundation of most projections?

Start-up, expansion, and succession.  
Inventory, sales growth, and rate of return.  
Liquidity, profitability, and capital expenditures.  
Past results, management plans, and economic environments.

Question (26)

What type of credit facility will typically have a lower interest rate?

Fund-based.  
Non-fund-based.  
Secured.  
Unsecured.

Question (27)

What would allow a positive view to be taken of management's ability to develop a robust and implementable business plan?

- a) Plans are developed in a top-down manner.
- b) There is a well-defined and balanced planning process.
- c) Corrective actions are taken quickly where targets are not being met.
- d) Plans are communicated to all relevant parties within the first month of the new financial year.



Question (28)

What can be reasonably assumed when a business's debt to tangible worth ratio is higher than 1.00?

Gearing is low.  
Financial risk is unfavourable.  
Creditors support assets more than the owners.  
The owners support assets more than creditors.

Question (29)

Which can occur as a result of including a group cross-default covenant in the credit agreement that involves a loan guarantor?

The guarantor is protected if the borrower defaults.  
The borrower is protected if the guarantor defaults.  
Allows action if the borrower and guarantor default.  
Allows action against the borrower if the guarantor defaults.

Question (30)

Which is considered a financing activity when using the indirect method of structuring a cash flow statement?

Purchases of fixed assets.  
Long-term loans and advances.  
Proceeds from sale of fixed assets.  
Proceeds from sale of share capital.

Question: 31.

What would describe a non-fund-based facility?

a) A facility that is lower risk than a fund-based facility.  
b) A credit facility that incurs a monetary obligation when draw down occurs.  
c) A facility that is similar to a fund-based facility in terms of how it is recorded in a bank's books.  
**d) A facility that may result in a funded obligation if the customer fails to settle any payments due**

Question (32)

Which is the most effective type of covenant in a credit agreement?

Balance sheet.  
Cash flow.  
Event-based.  
Non-financial.

Question (33)

Which existing market condition can act as a key barrier to entry for a business that wants to expand into a new market?

Slow market growth.  
Product standardisation.  
Expensive local manpower.  
Well-established competitor.

Question (34)

What does a current ratio of 1.33 indicate about a company's current assets?

Current assets are less than net working capital.  
Current assets are able to cover double the current liabilities.  
Very few current assets have been funded from current liabilities.  
A portion of current assets has been funded from long-term sources.

Question (35)

Which Master Circular of the Reserve Bank of India aims to ensure that low-income individuals are able to benefit from the country's economic growth?

Exposure Norms.  
Statutory Restrictions.  
Priority Sector Lending.  
Prudential Norms on Income Recognition.

Question (36)

Which type of supplier is lowest risk with reference to customer concentration and the business's position as a supplier?

Core supplier with low interdependency with the buyer.

Core supplier with high interdependency with the buyer.  
Peripheral supplier with low interdependency with the buyer.  
Peripheral supplier with high interdependency with the buyer.

Question (37) ,

Which-risk driver refers to the average time it takes a business to collect its sales in cash?

Sales growth.  
Gross margin.  
Accounts payable days.  
Accounts receivable days.

Question (38)

What are scorecards widely used to assess?

Changes in the price of credit default swaps.  
Liquidity mismatches in institutional financing.  
Default probability based regression analysis.  
Credit applications for small business borrowers.

Question (39)

What type of credit rating will most likely cause a borrower's credit score to be adjusted downward because of an expected downturn in the borrower's industry?

Fail grade rating.  
Single risk rating.  
Facility risk rating.  
External international rating.

Question (40)

A company is facing financial difficulties and is in the process of corporate debt restructuring(CDR). What is one of the options a minority lender to this company has if the lender does not want to commit additional funding?

Demand repayment by stipulating a recompense clause.

Obtain approval from the CDR Core Group to be excluded from the process.

**Arrange for its share of funding to be provided by another lender, either existing or new.**

Agree to defer principal and interest payments for one year before the CDR package becomes effective.

Question (41)

If net sales for a company over three Fiscal Year Ends (FYE) was

FYE 1: INR 1,25,00,885,

FYE 2: INR 1,37,45,473

and FYE 3: INR 1,40,25,992,

what is this company's sales growth for FYE 3 compared to FYE 2?

2.0%

2.04%

8.87%

10.0%

Question (42)

In what type of letter of credit is payment delayed until a specified future date?

Contract.

Demand.

Sight.

Usance.

Question (43)

Which occurs immediately after a bank guarantee is invoked?

The bank makes payment.

The beneficiary discharges the guarantee.

The bank removes the guarantee from its books.

The beneficiary enters into a contract with the applicant.

Question (44)

What previous management action is likely to raise doubt about management integrity and whether to enter into a credit relationship with a business?

Tax planning.

**Making tweaks to reported accounts to mask a declining financial performance.**

Marginally increasing the dividend payout ratio compared to the previous financial year.

Making changes to the board of directors and audit committee to increase the proportion of independent directors.

Question (45)

What is the primary source of cash flow used in calculating debt repayment capacity?

Sale of an asset.

Peripheral rental fees.

Extraordinary income.

Cash generated from operations.

Question (46)

Which activity of a borrower is an example of siphoning funds?

Using short-term capital for long-term purposes.

Routing funds through a bank other than the lender bank.

Investing in other companies without the approval of lenders.

Using borrowed funds for purposes unrelated to the operations of the borrower.

Question (47)

What type of business organisation lodges its own tax returns and is responsible for its own taxes?

Company.

Partnership.

Sole trader.

Wholesaler.

Question (48)

What strategy can management adopt to minimise the impact of work stoppages?

Employ additional staff.

Obtain appropriate insurance.

Engage regularly with staff to ensure good labour relations.

Hold sufficient stocks so that orders can be fulfilled if production is lost during the stoppage.

Question (49)

Titan Ltd. is a lumber exporter with annual sales of INR 750,000, 45 inventory days, 35 trade receivables days, and 40 trade payables days. What approximate amount of external financing will Titan Ltd. need to support its operating cycle?

INR 61,644

INR 82,192

INR 102,740

INR 246,575

Question (50)

A note in the auditor's report for TGH Ltd. indicates that an asset reserve was credited INR 50,000, instead of expensed, as a result of creative accounting. What effect will this entry have on TGH Ltd's financial statements?

Profit will be overstated.

Liabilities will be overstated.

Liabilities will be understated.

Shareholder's equity will be understated.

Question (51)

Under what circumstances would a company typically seek external debt financing?

When it is cash rich.

When its structure allows for new equity investors.

When equity holders are willing to take on additional risk.

When existing owners are unwilling to dilute their ownership interest.

Question (52)

What is the typical loan-to-value ratio for companies with lower levels of financial risk or high levels of available equity finance?

- 60%
- 80%
- 50%
- 30%

Question (53)

Which activity can reduce a company's cash flow position?

- Sale of assets.
- Collection of receivables.
- Purchase of investments.
- Increase in owner's equity.

Question (54)

Which type of equity shares can be repaid at the discretion of the issuer?

- Common stock.
- Convertible preference shares.
- Cumulative preference shares.
- Redeemable preference shares.

Question (55)

What aspect of a business must be considered when performing an industry and business risk assessment?

- Its future cash flows.
- Its vulnerability within the competitive marketplace
- Management's capacity to run the business profitably.
- Its ability to generate cash through its daily operations.

Question (56)

What is the main purpose of conducting a competitive analysis during the loan pricing decision process?

- a) To calculate the lowest lending rate the bank is willing to apply to the loan.
- b) To determine the probability of loss based on the competitor's rate pricing.
- c) To persuade the relevant committee to approve a lending rate lower than those of competitors.
- d) To determine whether the lending rate should be adjusted based on the ceiling established by other lenders.**

Question (57)

What part of the loan pricing process sets an interest rate floor, below which the loan is financially undesirable?

- Cost analysis.**
- Loan structuring.
- Loan accounting.
- Competitive analysis.

Question (58)

What is meant by the term "excess borrowings" under the Tandon Committee approach to lending?

The amount borrowed exceeds current liabilities.

The liquidity level exceeds the minimum required.

**The maximum permissible bank borrowings exceed current assets.**

The minimum required net working capital exceeds the actual amount.

Question (59)

Which describes the absolute priority rule with respect to payments made to creditors at default?

a) Subordinated debt is paid before insolvency-related costs.

b) Available funds are paid first to the lowest ranked class until the borrower's obligations are fully satisfied

c) Available funds are paid first to the highest ranked class until the borrower's obligations are fully satisfied.

d) Distributions to each ranked class are paid out proportionately based on its percentage in the company's capital structure.

Question (60)

At what stage in the management cycle should the management consider the effect of changes in the external environment on the company's business goals? ,

Assessing business needs.

Developing plans to meet goals.

Aggregating and organizing resources.

Adjusting plans, resources, and methodologies.

Question (61)

What factor plays a key role in influencing the industry due to a large bargaining power of a significant supplier?

Labour disruptions.

Liberal credit terms.

Decreased sales prices.

Improved service levels

Question (62)

How might an inadequate management succession plan affect a business's cash flow?

a) Training the new managers to address their skill gaps may result in excessive costs.

b) Cost of hiring for the positions vacated due to promotion of the new managers will impact the cash flow.

c) Weak relationship of the new managers with the bank staff may result in the credit facilities not being renewed.

d) Poor decisions of the new managers that lack sufficient skills or experience might result in weaker business performance.

Question (63)

Which best describes the effect that political decisions and frequent

legislation changes in India have on its business and industry risk?

a) This is a single choice question. Selections are automatically selected as you use arrow to move. Banks absorb most of the impact and businesses are less affected as a result.

b) Taxation policies cause businesses to be less transparent in their financial reporting.

c) Opportunistic decisions that influence monetary policy can negatively affect a business's financial performance.

d) Demonetization of high denomination currency notes is an example of legislation that negatively affects small businesses working with cash.

Question (64)

What is considered as one of the three levels of oversight in the corporate governance process?

The media.

The regulators.

The board of directors.

Banks and other lenders.

Question (65)

How can a company's management best minimise the impact of potential interruptions in the input supplies?

Obtain supplier insurance.

Hold large stocks for all key supply inputs.

Maintain good personal rapport with the key input suppliers.

Ensure that there is an alternate supply source for all key inputs.

Question (66)

Which state of the economy has a neutral impact on credit risk?

Contraction.

Recovery.

Growth.

Stability.

Question (67)

Which proposition is least likely to be considered for a term loan for its financing requirements?

Expansion of a fleet of vehicles.

Capital expenditure for a power plant.

An instalment financing construction project.

Daily working capital requirements for a small business.

Question (68)

Which lists the primary components of India's corporate debt restructuring (CDR) system?

Debtor-creditor agreements, inter-creditor agreements.

CDR Standing Forum, CDR Empowered Group, CDR Cell.

Multiple banking accounts, syndications, consortium accounts.

Repayment period, repayable amount, instalment amount, interest rate.

Question (69)

What is the benefit of setting meaningful forecast assumptions in the overall projection process?

To confirm future loan payments will be achievable.  
Assumptions depend on the results of the projections.  
To reflect factors independent of management's past performance.  
To enable a realistic assessment of the projected financial performance that a credit decision is substantially based on.

Question (70)

XYZ trucking company (XYZ) has recently entered into an arrangement with an online sales business to deliver their general consumer goods and expect that this partnership will improve their sales. XYZ has sought enhanced financing to support this new business. The transportation industry is in a decline due to a recession, and XYZ's most recent annual financial statement shows relatively weak sales performance. What is the next step in assessing XYZ's credit application?

The assessment should end, and Credit should be declined.  
The assessment should be postponed until the industry enters the recovery stage.  
The assessment should continue and focus on total profit as a measure of success.  
The assessment should continue with more focus on the sales projections scenarios and cash flow impact.

Question (71) .

In what type of security charge are goods and raw materials commonly pledged as assets?

Assignment.  
Hypothecation.  
Lien.  
Mortgage.

Question (72)

An increase in which item will increase a borrower's debt service coverage ratio?

Loan interest.  
Loan collateral.  
Cash flow from operations.  
Scheduled principal repayment.

Question (73)

Which is an example of a liquidity early warning signal?

Rising corporate bond prices.  
Non-consolidation of subsidiaries' accounts.  
Frequent overdrafts that are covered in a few days.  
A large cheque that is returned for insufficient funds.

Question 74

When allowing a customer to draw under a domestic bill discounting facility, why is it important to confirm that there is an underlying movement of goods?



To ensure that the transaction is not a one-off.  
To avoid providing financing for intergroup transactions.  
To reduce the possibility of providing accommodation finance.  
To ensure that financing is provided only for goods that have been shipped to existing customers

Question (75)

During which implementation phase of deal structure is counsel instructed on documentation and covenant definition issues? ,

This is a single choice question. Selections are automatically selected as you use arrow to move.

Design.  
Drawdown.  
Monitoring.  
Negotiation.

Question (76)

In what type of feasibility assessment is a project's maximum debt to equity ratio reviewed?

Cost of project.  
Economic viability.  
Means of finance.  
Technical viability.

Question (77)

What is a characteristic of a good business plan?

Setting measurable goals.  
Setting business objectives.  
Being reactive to changing demand.  
Defining who is accountable to the plan

Question (78)

Which source of external information about a company's past behaviour can be used to assess its management integrity?

Discussions with management.  
Details of dividends paid over the last five years.  
Opinion about management included in credit agency reports.  
Account statements showing whether the company has met its obligations to the bank on time

Question (79)

What causes market overcapacity?

Industry growth.  
Weak competition.  
Drop in a sales price.  
Low product demand.

Question (80) `

What type of risk is the risk that credit exposure is not adequately structured?

Facility risk.

Financial risk  
Industry risk  
Management risk.

1. Which item is evaluated more substantively when determining the amount of financing available to a company under the assessed bank finance method as compared to the maximum permissible bank finance method?

a. Liquidity. b. Trade payables. c. Long-term assets. D. Excess borrowings

2. What three categories are cash payments classified by in the statement of cash flows?

a. Direct, indirect and Uniform Credit Analysis.

b. Cash receipts, cash payments and capital expenditures.

**c. Operating activities, investing activities and financing activities.**

d. Operating activities, management activities and financing activities

3. Why must a company's management have contingency plans for unexpected events?

. Unexpected events are more likely to occur.

. Is a prerequisite to obtain insurance coverage and business loans.

. Can reduce costs as an alternative to obtaining insurance coverage.

. Unexpected events can have a significant effect on the business's operations

4. Which increases a supplier's bargaining power?

a. Low-switching costs.

b. Standardised products.

c. Ability to integrate forward.

d. Large sales to a single buyer

5. An increase in which item will increase a borrower's debt service coverage ratio?

a. Loan interest.

b. Loan collateral.

c. Cash flow from operations.

d. Scheduled principal repayment

6. What activity would provide the least amount of information when conducting an inspection?

a. Holding discussions with the borrower.

b. Assessing the borrower's activity level.

c. Establishing the existence of the borrower's capital stock.

d. Randomly checking the valuations of the borrower's raw materials

7. For how many days can an account remain continuously in excess of the sanctioned limit before it is considered out of order?

a. 30

b. 60

c. 90

d. 120

8. What strategy can management adopt to minimise the impact of work stoppages?

- a. Employ additional staff.
- b. Obtain appropriate insurance.
- c. Engage regularly with staff to ensure good labour relations.
- d. Hold sufficient stocks so that orders can be fulfilled if production is lost during the stoppage.

9. Which is the most effective type of covenant in a credit agreement ???

- a. BalanceSheet
- b. Cash flow.
- c. Event-based
- d. Non-financial

10. On what basis is the risk premium for a loan calculated?

- a. Expected loss.
- b. Loss given default.
- c. Exposure at default.
- d. Probability of default

11 During which implementation phase of deal structure is counsel instructed on documentation and covenant definition issues??

- a. Design.
- B. Drawdown
- c. Monitoring
- d. Negotiation

12. A note in the auditor's report for TGH Ltd. indicates that an asset reserve was credited INR 50,000. instead of expensed, as a result of creative accounting. What effect will this entry have on TGH Ltd.'s financial statements?

- a. Profit will be overstated.
- b. Liabilities will be overstated
- c. Liabilities will be understated.
- d. Shareholder's equity will be understated

13. What term refers to the amount that a lender expects to be outstanding at the time of default?

- a. Expected default loss
- b. Exposure at default.
- c. Loss given default.
- d. Probability of default

14. XYZ trucking company (XYZ) has recently entered into an arrangement with an online sales business to deliver their general consumer goods and expect that this partnership will improve their sales. XYZ has sought enhanced financing to support this new business. The transportation industry is in a decline due to a recession, and XYZ's most recent annual financial statement shows relatively weak sales performance. What is the

next step in assessing XYZ's credit application?

- a. The assessment should end, and credit should be declined.
- b. The assessment should be postponed until the industry enters the recovery stage.
- c. The assessment should continue and focus on total profit as a measure of success.
- d. The assessment should continue with more focus on the sales projections scenarios and cash

15. What would be most impacted if a dominant employer makes a significant number of its staff redundant?

- a. Availability of skilled workers
- b. Supply of goods and services.
- c. Lobbying power with local authorities
- d. The level of competition in the industry

16. What is free cash flow?

- a. Net cash available after depreciation and amortisation.
- b. Net cash generated from sales without associated costs.
- c. Net cash before interest, taxes, depreciation and amortisation.
- d. Net cash remaining after spending to maintain or expand assets

17. What information in a credit agency report can help a bank assess a company's management integrity?

- a. Opinion about the company management.
- b. Information about the financial performance.
- c. How freely the management shares information.
- d. Details on covenant compliance for the bank loans

18. What type of credit facility is likely to have a repayment period of less than one year?

- a. A loan to import capital goods.
- b. A loan to fund project financing.
- c. A loan to fund capital expenditures.
- d. A loan for a company's working capital requirements

19. Which factor is the most significant for a business's seasonal risk?

- a. Market downturn.
- b. Shorter peak season.
- c. Product obsolescence
- d. Unpredictability of sales.

20. What is an example of an administrative expense in dealing with a problem loan?

- a. Litigation restructuring costs.
- b. Increased frequency of audits.
- c. Costs to train new employees.
- d. Loss of management control of the company

21. How can a company's management best minimise the impact of potential interruptions in the input supplies?

- a. Obtain supplier insurance.
- b. Hold large stocks for all key supply inputs.
- c. Maintain good personal rapport with the key input suppliers.
- d. Ensure that there is an alternate supply source for all key inputs

22. What is a generally acceptable gearing ratio for a business in India?

- a. 1.00
- b. 2.00
- c. 3.00
- d. 4

23. Which statement is correct regarding the effect of a debit or credit on the particular type of financial account?

- a. A credit to an asset account increases it.
- b. A debit to a liability account decreases it.**
- c. A debit to a revenue account increases it.
- d. A credit to an equity account decreases it

24. What is one risk to the guarantor of providing a bank guarantee on behalf of a borrower?

- a. The guarantee has a fixed expiry date.
- b. The guarantee must be paid even if it is not invoked.
- c. The term of the guarantee can be shortened without the guarantor's consent.
- d. The guarantee must be paid in full even when the contract is only partially fulfilled

25. What is the benefit of setting meaningful forecast assumptions in the overall projection process?

- a. To confirm future loan payments will be achievable.
- b. Assumptions depend on the results of the projections.
- c. To reflect factors independent of management's past performance.
- d. To enable a realistic assessment of the projected financial performance that a credit decision is substantially based on.

26. What is the primary purpose of calculating drawing power in a funds-based working capital facility?

- a. To determine the amount the customer can draw on.
- b. To ensure that bank funds are not tied up in obsolete stocks.
- c. To ensure that drawings are being used to fund current assets.
- d. To check that the value of eligible assets is at least equal to the approved credit limit.

27. What is the likely impact on a company's cash flow if lack of oversight fails to spot non-compliance with regulatory reporting requirements?

- a. Imposition of a substantial fine.
- b. Substantial reputational damage.
- c. Downgrading by a ratings agency.
- d. The reporting of incorrect financial results

28. Which best describes the effect that political decisions and frequent legislation changes in India have on its business and industry risk?

- a. Banks absorb most of the impact and businesses are less affected as a result.
- b. Taxation policies cause businesses to be less transparent in their financial reporting.
- c. Opportunistic decisions that influence monetary policy can negatively affect a business's financial performance.
- d. Demonetisation of high denomination currency notes is an example of legislation that negatively affects small businesses working with cash

29. What projected information is best to use to assess working capital limits?

- a. Sales.
- b. Balance sheet.
- c. Labour expenses.
- d. Profit and loss statement

30. What is the result when a project's discount rate equals its internal rate of return?

- a. A net present value of zero
- b. A net present value that is commercially viable. we gm} 7L5"
- c. Discounted cash outflows will be greater than discounted cash inflows.
- d. Discounted cash inflows will be greater than discounted cash outflows.

31. Inventory is categorized as what type of asset?

- a. Tangible and fixed.
- b. Tangible and current
- c. Intangible and fixed.
- d. Intangible and current

32. What legal debt recovery action can a debtor take to stop a judgement obtained by a creditor?

- a. File bankruptcy.
- B. File a civil litigation.
- c. File criminal proceedings.
- d. File a Debt Recovery Tribunal

33. Companies handling hazardous products that pose risk to the environment must have an Insurance policy equal to the paid-up capital of the company. What type of expense is covered by this insurance?

- a. Court fines.
- b. Clean-up costs
- c. Property damage
- d. Victim compensation

34. What is the likely impact on a company's cash flow if lack of oversight fails to spot non-compliance with regulatory reporting requirements?

- a. imposition of a substantial fine.
- b. Substantial reputational damage.
- c. Downgrading by a ratings agency.
- d. The reporting of incorrect financial results

35. What year-over-year change in gross margin represents positive financial risk?

- a. No change represents stability.
- b. Gross margin does not affect risk.
- c. A decrease represents profit growth
- d. An increase represents profit growth

36. What are the three key reference points that form the foundation of most projections?

- a. Start-up, expansion, and succession.
- B. Inventory, sales growth. and rate of return.
- c. Liquidity, profitability, and capital expenditures.
- d. Past results, management plans, and economic environments

37. Which Basel II guidelines-based ratings approach permits banks to use their own estimates for loss given default?

- a. Standardized.
- b. Advanced internal ratings-based.
- c. Foundation internal ratings-based.
- d. Capital requirement for credit risk

38. What information does using the gearing ratio provide?

- a. Current assets to current liabilities.
- b. Net worth compared to total assets.
- c. How much cash is available to cover payments.
- d. The relative amount of funding provided by owners and creditors

39. Which condition will increase the buyer's bargaining power over its suppliers?

- a. Low-profit margins.
- b. High-switching costs.
- c. Product specialization.
- d. Ability to integrate forward

40. In which cash flow category would you typically see interest expense?

- a. Consolidating activities.
- b. Expansion activities.
- C. Financing activities.
- d. Operating activities.

41. Which is an example of an insurance covenant in a credit agreement? \

- a. Prohibition on providing other creditors security over any assets.
- b. Restriction on incurring new debt above a pre-determined amount.
- c. Requirement to pay premiums on schedule to avoid a lapse of coverage.
- d. Obligation to submit security valuations performed by an independent appraiser

42. What type of credit rating will most likely cause a borrower's credit score to be adjusted downward because of an expected downturn In the borrowers industry

- a. Single risk rating.
- B. Facility risk rating
- c. point-in-time rating.

d. Through the cycle rating

43. What is the most effective measure of a business's operating efficiency?

- a. Increase in sales.
- b. Increase in profits.
- c. Absolute level of operating expenses.
- d. Trends in operating expenses as a percentage of sales

44. Which statement is correct regarding the effect of a business's management structure on its performance and cash flow?

- a. Informal business structures tend to result in weaker business performance than more formal structures.
- b. A structure that is too centralized can result in poor management decisions and weak business performance.
- c. Decentralization of decision-making tends to result in weaker business performance than a centralized structure.
- d. A management structure with clearly assigned responsibilities is necessary to achieve sound business performance

45. Under Indian Account Standards (IND AS 1), what information is it permissible to disclose only in the notes to account.

- a. Par value per share.
- b. Restriction on the distribution of dividend.
- c. Shares in the entity held by the entity or its subsidiary or associates.
- d. Aggregate number and class of shares allotted as fully paid up by bonus shares

46. What is the typical loan-to-value ratio for companies with lower levels of financial risk or high levels of available equity finance?

- a. 60%
- b. 80%
- c. 50%
- d. 30%

47. What is a possible consequence of management overload on credit risks?

- a. A manager issuing conflicting instructions.
- b. Late payment to suppliers due to delayed authorisation of invoice payments.
- c. Delays in decisions on proposals to upgrade firm premises and technology systems.
- d. Failure to win new orders to replace existing contracts as they run off, resulting in falling sales.

48. Which is a major risk for a business in the mature stage of its life cycle?

- a. Failure to repay debt.
- b. Filing for bankruptcy.
- c. Merger with a competitor.
- d. Inability to invest in new products

49. In which of its corporate documents is a company's lending limit set out?

- a. Articles of Association.



- b. Commencement Certificate.
- c. Corporate Resolution.
- d. Memorandum of Association

50. Which type of security can be used in a pledge charge?

- a. Building.
- b. Finished goods.
- c. Heavy equipment.
- d. Life Insurance contract

51. Which factor affecting the cost of funds will lead to a surplus to the lender if positive? I

- a. Profit margin.
- b. Risk premium.
- c. Term of funds.
- d. Cost of capital

52. Which method of inventory valuation maximises a company's net income during periods of inflation?

- a. Average cost.
- b. First-in, first-out.
- c. Last-in, first out
- d. Weighted average.

53. Under what condition is a customer permitted to draw under an export bill discounting facility?

- a. The loan period is no more than 180 days.
- b. The customer has obtained an ECGC post-shipment policy.
- c. The customer provides evidence that the goods have been shipped.
- d. The source of repayment is an export bill drawn under a letter of credit

54. How does industry risk affect the credit risk of a particular business enterprise that operates within that industry?

- a. The effect is limited to industry-specific regulations.
- b. The effect is substantial only if the industry is in a decline phase.
- c. The effect is insignificant as long as the particular business performs well and generates enough cash.
- d. The effect is significant as industry risk includes factors that determine capital requirements and cash flow.

55. If the stock auditor discovers discrepancies during the audit, what should they do next?

- a. Seek clarification from the borrower.
- b. Raise them immediately with the bank.
- c. Report them in their report on the audit.
- d. Make recommendations on follow-up actions in their report

56. What does a current ratio of 1.33 indicate about a company's current assets?

- a. Current assets are less than net working capital.
- b. Current assets are able to cover double the current liabilities.
- c. Very few current assets have been funded from current liabilities.
- d. A portion of current assets has been funded from long-term sources.

57. What previous management action is likely to raise doubt about management integrity and whether to enter into a credit relationship with a business?

- a. Tax planning.
- b. Making tweaks to reported accounts to mask a declining financial performance.
- c. Marginally increasing the dividend payout ratio compared to the previous financial year.
- d. Making changes to the board of directors and audit committee to increase the proportion of independent directors.

58. Companies with what amount of net worth were required to mandatorily adopt the Indian Accounting Standards during the first phase beginning 1st April 2016?

- a. Less than INR 150 cr.
- b. Between INR 150 cr. and INR 250 or.
- c. Between INR 250 or. and INR 500 cr.
- D. More than INR 500 or.

59. What is the basic function of credit monitoring?

- a. To ensure the borrower continues to be a good credit risk.
- b. To ensure the borrower is operating within the credit limits.
- c. To determine if the credit facilities are being used for the intended purpose.
- d. To determine what actions should be taken where there is a cause for concern.

60. Which risk driver refers to the average time it takes a business to collect its sales in cash?

- a. Sales growth.
- b. Gross margin.
- c. Accounts payable days.
- d. Accounts receivable days

61. What aspect of a business must be considered when performing an industry and business risk assessment?

- a. Its future cash flows.
- b. Its vulnerability within the competitive marketplace
- c. Management's capacity to run the business profitably.
- d. Its ability to generate cash through its daily operations

62. Using the revised framework for resolution of stressed assets. when must assets be classified as special mention accounts?

- a. When the borrower goes into default.
- b. When the borrower is no longer in default.
- c. When exposure is more than 50 million INR.
- d. When changes to the loan are reflected on the borrower's books

63. What is the primary purpose of the loan pricing process?

- a. To assess the probability of loss in the event of default.
- b. To calculate the profitability of the loan transaction for the bank.
- c. To determine appropriate interest rate and fees in line with the risk assumed.
- d. To support the lender's position in the negotiation process with the

borrower

64. At what stage in the management cycle should the management consider the effect of changes in the external environment on the company's business goals?

- a. Assessing business needs.
- b. Developing plans to meet goals.
- c. Aggregating and organizing resources.
- d. Adjusting plans, resources, and methodologies

65. Why is it important for the management of a business to plan for the possible impact of unanticipated events and disturbances?

- a. To minimize the negative impact of such events.
- b. To ensure business performance continues to improve.
- c. To ensure that business plans are successfully implemented.
- d. To allow the business to achieve tactical changes during the implementation of business plans.

66. Why does a special purpose vehicle expose a lender to more risk than conventional financing?

- a. The loan has no security guaranteed.
- b. The sponsor has no established track record.
- c. The sponsor is the only party liable for the loan.
- d. The loan is repaid only from the project's cash flows

67. In what type of letter of credit is payment delayed until a specified future date?

- a. Contract.
- b. Demand.
- c. Sight.
- d. Usance.

68. Why are operating cycles supported by short-term debt rather than long-term debt?

- a. Short-term debt is ideal for both short- and Long-term assets.
- b. Long-term debt dilutes owner interest more than short-term debt.
- c. Short-term debt financing offers more flexibility than Long-term debt financing.
- d. Short-term debt allows for several years of operation to generate sufficient income to repay the investment.

69. What is the likely impact on cash flow and financial risk of improved inventory turnover?

- a. Cash flow will increase, reducing financial risk.
- b. Cash flow will increase, increasing financial risk.
- c. Cash flow will decrease, reducing financial risk.
- d. Cash flow will decrease, increasing financial risk

70. What is one disadvantage of accrual accounting?

- a. It hides any obligation to pay other parties.
- b. It does not record all transactions of a particular accounting period.
- c. Financial statements may not be directly comparable between businesses.
- d. It overlooks future cash flows arising from transactions conducted in previous periods

71. Which figure is likely to increase for a business after a seasonal peak sales period?

a. Sales b. Inventory. c. Trade payables. d. Trade receivables.

72. Which existing market condition can act as a key barrier to entry for a business that wants to expand into a new market?

a. Slow market growth.  
b. Product standardization.  
c. Expensive local manpower.  
d. Well-established competitor

73. A company has INR 1,1,3.04,950 in Cost of Goods Sold (COGS) and INR 1,0,91,070 in trade payables as of its most recent fiscal year-end. The company claimed no depreciation in COGS. How many days on average did it take this company to pay its trade creditors during the fiscal year?

a. 9 b. 10 c. 35 d. 38

74. Which describes the flow of items in the trading cycle?

a. Cash -> inventory -> product -> sales -> trade receivable.  
b. Cash -> product -> inventory -> sales -> trade receivable.  
c. Inventory -> sales -> product -> trade receivable -> cash.  
d. Product -> inventory -> sales -> trade receivable -> cash.

75. What type of credit covenant requires the borrower to provide updates to the lender at certain intervals?

a. Affirmative. b. Enhancement. c. Information. d. Restrictive

76. Special Mention Accounts were introduced as a new asset category between which two categories?

a. Doubtful and Loss.  
b. Standard and Doubtful.  
c. Sub-standard and Doubtful.  
d. Standard and Sub-standard

77. What is an advantage of using a statistical credit risk rating model?

a. It is forward looking.  
b. It is based on financial ratios.  
c. It is based on accounting data.  
d. It is consistent across an organisation

78. Which is an appropriate source of capital investment financing?

a. Line of credit. b. Letter of credit. c. Government grant. d. Working capital loan.

79. When allowing a customer to draw under a domestic bill discounting facility, why is it important to confirm that there is an underlying movement of goods?

a. To ensure that the transaction is not a one-off.  
b. To avoid providing financing for intergroup transactions.  
c. To reduce the possibility of providing accommodation finance.  
d. To ensure that financing is provided only for goods that have been shipped to existing customers

80. Which is a long-term source of working capital financing?

- a. Accrued expenses.
- b. Customer advances.
- c. Term loans.
- d. Trade payables

1. In what circumstance are creditors prevented from enforcing their rights under the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SAREESI) Act?

- a. The debt is secured.
- b. The security is agricultural land.**
- c. The debt is classified as non-performing assets.
- d. The consent to invoke is given by 80% of creditors.

2. What type of transaction usually requires a bank guarantee for 5% of the contract value?

- a. Earnest Deposit
- b. Retention Money
- c. Mobilization advance.
- d. Performance assurance.

3. Which factors may affect the number of days it takes a company to collect its receivables? .

- a. Net sales.
- b. Interest costs.
- c. Invoicing software.
- d. Economic conditions.

4. Which state of the economy has a neutral impact on credit risk?

- a. Contraction.
- b. Recovery.
- c. Growth.
- d. Stability.

5. Which feature of a company would pose an inherent credit risk?

- a. Limited inventory (stock).
- b. Seasonal operating cycle.
- c. Simplified business model.
- d. Multiple corporate shareholders.

6. What action can a lender take if the restructuring, decision process for a Borrower determines a need to reduce exposure?

- a) Pursue a consensual restructuring
- b) Set up and monitor quantitative triggers.
- c) Liquidate and sell the borrower's current assets.
- d) Restrict new drawdown on committed facilities.

7. What issues might a bank encounter from regulators if it has a large number of problem loans?

- a. Run on deposits.
- b. Insolvency charges.
- c. Loss of good employees. .
- d. Loss of control of the bank.

8. What type of sales growth for a manufacturing company represents the lowest lending risk?

- a. Growth largely made to related parties.
- b. Growth with little volatility year after year
- c. Growth with a corresponding increase to receivables.
- d. Growth without the correct goods and sales tax being collected.

9. What strategy can a lender use to reduce credit migration risk?

- a. Fix the loan's interest rate for a long period.
- b. Ensure the borrower has a high credit rating.
- c. Link the loan's interest rate to a centrally recognized prime lending rate.

**d. Include a covenant that the loan be repriced based on external credit ratings**

10. Which cash drivers are among those commonly used as part of the assessment of a borrower's financial risk?

- a. Net Working Capital, current ratio and funds flow.
- b. Management risk, business risk, and environmental risk
- c. sales growth, gross margin, and operating expense percentage.
- d. Operating activities, financing activities, and investment activities.

11. Which failure of corporate governance might result in peer business performance such that a business's ability to meet its obligations is adversely affected?

- a) Too many committees resulting in delays in decision making.
- b) Adverse publicity for failing to effectively deal with customer complaints.
- c) Manipulation of reports to give the appearance that targets were met and Bonuses are due.
- d) A board of directors that is not aware of the significant risks the company is exposed to.