



SJA Learning

Bank Exams with Swarnakshi

JAIIB · PAPER 3

Accounting & Financial Management

7-Day Crash Course

The last week before the paper, planned day by day.

FREE SAMPLE · the plan, the contents, one full unit with its revision sheet, one case study and the exam-day page

- ✓ 300 chapter-wise MCQs covering all 35 units — 502 exam-pattern questions in the book
- ✓ Answer, why it's right and why every other option is wrong — under each question
- ✓ 10 case studies with 50 case-based questions
- ✓ 52 worked numericals across all 13 AFM formula families
- ✓ Day 7: a full-length 100-question mock on the exam pattern
- ✓ A revision sheet opening every unit — facts, trap pairs, numbers, definitions, syllabus map — plus the 60 most-asked facts, the textbook-versus-current-law table, the formula sheet, an A-Z glossary and an exam-day plan

How to use this book

This is a one-week finishing course for **JAIIB AFM**. Every question is from the SJA question bank, picked to cover every unit of the syllabus at exam level — about 20% easy, the rest moderate and tough — and every answer is explained: why the right option is right and why each of the others is wrong. Where the current rule differs from the textbook, the explanation says so with a **Law update, Sep 2026** tag.

Your 7-day plan

Day	What you study	MCQs	Time
Day 1	Module A — Units 1–5 (5 chapters)	61	3–3½ h
Day 2	Module A · Module B — Units 6–13 (8 chapters)	59	3–3½ h
Day 3	Module B · Module C — Units 14–20 (7 chapters)	63	3–3½ h
Day 4	Module C · Module D — Units 21–28 (8 chapters)	58	3–3½ h
Day 5	Module D — Units 29–35 (7 chapters)	59	3–3½ h
Day 6	10 case studies + 52 worked numericals · re-try the questions you marked	102	3 h
Day 7	Full-length mock in exam conditions (2 hours), then the answers and explanations	100	3 h

Work each question honestly. Cover the green answer block with a card, choose your option, then read the whole explanation — the “why the others are wrong” lines are where most marks are won. Tick the questions you got wrong; Day 6 has time to re-try them.

Each unit opens with a one-page revision sheet — the facts the paper tests in that unit, the pairs examiners love to swap, the numbers to remember, one-line definitions and a syllabus map showing which questions test which section (and one fact to keep for every section the questions do not reach). Read it before the questions — about five minutes — and again on the evening before the exam.

Day 7 is the real rehearsal. 100 questions, 2 hours, no notes, no breaks — just like the exam (JAIIB has no negative marking, so attempt everything). Pass mark: 50 in the paper, or 45 with an aggregate of 50% across the papers in one attempt. Check your answers only after the clock stops.

Doubt about a question? Every question carries a code (top right, e.g. **AFM-1-7**). Quote it when you write to SJA Learning, or search it in the SJA Mock Centre. © SJA Learning — this free sample may be shared as it is.

Contents

Before you start

The facts this paper asks most

Numbers this paper tests

Textbook versus current law

Formula sheet — every AFM formula the paper can ask

Syllabus map — units, weights, pages

Day 1

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Unit 2 · Basic Accountancy Procedures (11 Qs)

Unit 3 · Depreciation and Its Accounting (15 Qs)

Unit 4 · Maintenance of Cash (8 Qs)

Unit 5 · Bank Reconciliation Statement (13 Qs)

Day 2

Module A — Basic Accounting and Finance

Unit 6 · Trial Balance and Rectification of Errors (10 Qs)

Unit 7 · Capital and Revenue Expenditure (7 Qs)

Unit 8 · Bills of Exchange (11 Qs)

Unit 9 · Operational Aspects of Accounting Entries (5 Qs)

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Unit 11 · Bank Audit and Inspection (7 Qs)

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Unit 13 · Preparation of Final Accounts (9 Qs)

Day 3

Module B — Preparation of Financial Statements

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Day 4

Module C — Financial Management

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Unit 22 · Financial Mathematics - Calculation of YTM (6 Qs)

Unit 23 · Financial Mathematics - Forex Arithmetic (7 Qs)

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Unit 25 · Capital Investment Decisions - Term Loans (8 Qs)

Unit 26 · Equipment Leasing - Lease Financing (5 Qs)

Unit 27 · Working Capital Management (7 Qs)

Module D — Cost Management Accounting and Taxation

Unit 28 · Derivatives (5 Qs)

Day 5

Module D — Cost Management Accounting and Taxation

Unit 29 · Taxation - Income Tax, TDS, Deferred Tax (9 Qs)

Unit 30 · Goods and Services Tax (10 Qs)

Unit 31 · An Overview of Cost and Management Accounting (5 Qs)

Unit 32 · Costing Methods (7 Qs)

Unit 33 · Standard Costing (9 Qs)

Unit 34 · Marginal Costing (13 Qs)

Unit 35 · Budgets and Budgetary Control (6 Qs)

Day 6 — Case studies and worked numericals

Day 7 — Full-length mock

Day 7 — Answer key, answers and explanations

At the back

A-Z glossary · Exam day (in this sample) · Day 7 answer grid · score bands

Units 1-5

5 chapters · 61 questions · about 3-3½ hours

Module A — Basic Accounting and Finance

UNIT 1 · REVISION SHEET

Definition, Scope and Accounting Standards

Module A · exam weight **Medium** · 14 questions in this chapter (Q1-Q14) · 150 in the SJA bank

The facts this unit is tested on

- AICPA gave the classic definition of accounting — "the art of recording, classifying and summarising... and interpreting the results thereof."
- ASB constituted by ICAI on 21 April 1977; ICAI has issued 29 mandatory + 3 non-mandatory AS (AS 6 & AS 8 withdrawn).
- NACAS (15 June 2001) → replaced by NFRA under Section 132, Companies Act 2013, effective 1 October 2018.
- Section 134(5) = Board's responsibility for AS compliance; Section 129(5) = disclose deviation + reasons + financial effects.
- Ind AS applies to listed companies and unlisted companies with net worth ≥ Rs.250 crore; ICAI recommends, MCA notifies; 41 notified.
- SMC limits: turnover ≤ Rs.250 crore, borrowings ≤ Rs. 50 crore; AS 28 mandatory above Rs.50 crore turnover/ listed.
- RBI deferred Ind AS for banks till further notice on 22 March 2019 (third-schedule amendment of BR Act 1949 pending).
- Ind AS 109 ECL stages: 1 = 12-month ECL; 2 = lifetime ECL (not impaired); 3 = lifetime ECL (impaired).
- IASB took over from IASC on 1 April 2001; 41 IAS + 17 IFRS; LIFO allowed only under US GAAP (rules-based) — never IFRS (principles-based, 167 jurisdictions).
- Transfer pricing rests on the arm's-length price (OECD Guidelines); in banking, TPM = interest charged on funds from surplus-funds branch to deficit-funds branch.

Don't confuse

Bookkeeping vs Accountancy — Accountancy = bookkeeping + compilation; accountancy is wider

Comparability vs Consistency — Between enterprises vs same enterprise across periods

Timing differences (AS 22) vs Permanent differences — Timing reverse (create deferred tax); permanent never reverse

AS 4 vs AS 29 — Contingencies & post-BSE events vs provisions & contingent liabilities/assets

AS 2 rule vs AS 28 rule — Lower of cost/NRV (inventory) vs higher of net selling price/value-in-use (impairment)

Rs.250 crore vs Rs.50 crore — Ind AS net worth & SMC turnover vs SMC borrowings & AS 28 turnover

16 Feb 2015 vs 23 June 2021 — MCA: who follows Ind AS vs who follows ICAI AS

5 April 2018 vs 22 March 2019 — RBI: 1-year deferral vs deferral till further notice (banks' Ind AS)

21 April 1977 vs 15 June 2001 / 1 Oct 2018 — ASB constituted vs NACAS set up / NFRA effective

Section 129(5) vs Section 134(5) / Section 132 — Company discloses deviation vs Board responsibility vs NFRA

IASC (1973-2001) vs IASB (from 1 Apr 2001) — Issued IAS (41) vs issues IFRS (17)

CAP (1939) vs APB (1959) — 51 ARBs vs 31 Opinions (APB dissolved 1973, replaced by FASB — Wheat Committee)

US GAAP vs IFRS — Rules-based, US, LIFO allowed, cost model only vs principles-based, 167 jurisdictions, no LIFO, revaluation allowed

Value accounting vs Fair value accounting — Tracks individual contributions (tangible or intangible) to a product vs current market value of BOTH assets and liabilities

AS 21 vs AS 23 / AS 27 — Consolidated FS vs associates in CFS vs joint ventures

House of GAAP top vs House of GAAP floor — FASB Standards/APB Opinions/ARBs vs FASB Implementation Guides & industry practices

Numbers to remember

As per the text, how many IAS and IFRS exist **41 IAS and 17 IFRS**

Unlisted companies must follow Ind AS if their net worth **₹250 crore or more**

In the ECL 3-stage model, Stage 1 requires recognition of **12-month ECL**

Accounting Standards Board (ASB) was constituted by ICAI on **21st April 1977**

AICPA's Accounting Principles Board (APB), created in 1959, was dissolved in **1973**

AS 28 (Impairment of Assets) is mandatory for enterprises whose turnover exceeds **₹50 crore**

IFRS was earlier known as IAS. The IASB took over standard-setting from the IASC on **1 April 2001**

How many Ind AS have been notified by the MCA (of which two have been superseded/withdrawn)	41
Construction contracts and provisions/contingent liabilities are dealt with, respectively, by	AS 7 and AS 29
Under AS 3 (Cash Flow Statements), a 'cash equivalent' is characterised by a short maturity of, say	3 months or less
Luca de Borgo Pacioli published his book 'Summa', containing a section on Double Entry bookkeeping, in	1494, At Venice
RBI finally deferred the implementation of Ind AS for scheduled commercial banks "till further notice" on	22 March 2019

One-line definitions

Accounting — The art of recording, classifying and summarising transactions in money terms and interpreting the results.

Book-keeping — The recording stage alone — journal and ledger — on which accounting builds.

Accounting Standards (AS) — Written policy documents issued by ICAI on recognition, measurement and disclosure, binding on companies through the Companies Act.

Ind AS — Indian Accounting Standards converged with IFRS, notified by the Ministry of Corporate Affairs and mandatory for listed and large companies in phases from 2016.

IFRS — International Financial Reporting Standards issued by the IASB (successor to the IASC since 2001), used in over 140 countries.

US GAAP — The rules-based accounting framework of the United States set by the FASB.

Transfer pricing — The price at which related entities trade with each other, which tax law requires to be at arm's length.

In a nutshell

Accounting = the "language of business": it communicates results and financial health to users. Its grammar = Accounting Standards; its quality benchmark = the "true and fair" view.

In a nutshell

Evolution phases in order: Stewardship → Financial → Cost → Management → Social Responsibility → HRA (1964) → Inflation accounting. Each phase answers a new need the previous one couldn't.

In a nutshell

The date chain to memorise: ASB constituted 21 April 1977 → NACAS set up 15 June 2001 → NFRA effective 1 October 2018. Three bodies, three dates — the exam shuffles them constantly.

In a nutshell

Ind AS = IFRS converged for India: same names/ numbers with additions/deletions for India's economic and legal environment. ICAI recommends → MCA notifies; if Ind AS conflicts with the Companies Act, the Act prevails.

Syllabus map — where the questions come from

Section of the unit	Bank Qs	In this chapter / one fact to keep
Nature & Purpose of Accounting	10	Q1
Historical Perspectives — Accounting Ke Phases	11	Q7, Q8
New Accounting Systems	8	Q9
Origins of Accounting Principles	7	Q2
Accounting Standards (AS) in India — Definition & Scope	36	Q3, Q13
Indian Accounting Standards (Ind AS)	23	Q14
US GAAP (Generally Accepted Accounting Principles of USA)	14	Q12
Difference Between US GAAP and IFRS	8	Q4
Transfer Pricing	15	Q5, Q11

Most-tested sections of this unit in the SJA bank: Accounting Standards (AS) in India — Definition & Scope (36) · Indian Accounting Standards (Ind AS) (23) · Transfer Pricing (15) · US GAAP (Generally Accepted Accounting Principles of USA) (14).

Definition, Scope and Accounting Standards

AFM-1-7

Q1

Moderate

Maintaining accounts is compulsory for companies under which law (among others)?

- (a) Companies Act, Societies Act, Income Tax Act, Sales Tax Act
- (b) Only under the Constitution of India
- (c) Only under the RBI Act
- (d) Only under FEMA

Answer (a) Companies Act, Societies Act, Income Tax Act, Sales Tax Act**Why it's right** "Satisfying legal requirements" is a stated objective of accountancy: accounts must be maintained under the Companies Act, Societies Act, Public Trust Act, Income Tax Act and Sales Tax Act.**Why the others are wrong**

- (b) The Constitution allocates legislative powers; it contains no books-of-account requirement for companies.
- (c) The RBI Act governs the central bank and monetary matters — it is not the statute compelling companies generally to keep accounts.
- (d) FEMA regulates foreign-exchange dealings only; a purely domestic company is untouched by it.

Exam tip The source's list is Companies Act / Societies Act / Public Trust Act / Sales Tax / Income Tax — any option offering a SINGLE statute ("only...") is wrong by construction.

AFM-1-8

Q2

Moderate

Double entry bookkeeping was first developed by merchants of which country?

- (a) England
- (b) Italy
- (c) Greece
- (d) India

Answer (b) Italy**Why it's right** Double entry was started by merchants of ITALY in the 15th century; Pacioli documented it in 'Summa' (Venice, 1494).**Why the others are wrong**

- (a) England (like the rest of Europe) only ADOPTED the Italian system during its 19th-century spread — it did not originate it.
- (c) Greece had early record-keeping in antiquity, but not the debit-credit double entry system.
- (d) India had its own indigenous method — 'Nama' (Mahajani/Marwari/Deshi) — not double entry.

Exam tip Origin = Italy (15th c.) · Documentation = Pacioli 1494 · Spread across Europe = 19th c. Three different dates, three different questions.

The NFRA was constituted under which section of the Companies Act, 2013, effective from 1st October 2018?

- (a) Section 132 (b) Section 129(5)
(c) Section 134(5) (d) Section 143A

Answer (a) Section 132

Why it's right Section 132 of the Companies Act 2013 creates the NFRA, effective 1 October 2018.

Why the others are wrong

- (b) Section 129(5) requires a company to DISCLOSE DEVIATION from AS, with reasons and financial effects.
- (c) Section 134(5) places responsibility for AS compliance on the BOARD OF DIRECTORS.
- (d) Section 143A is a decoy from the audit chapter's numbering — the auditors' AS-related duty is to qualify their report, not a section creating NFRA.

Exam tip The section trio: 132 = NFRA · 134(5) = Board's responsibility · 129(5) = deviation disclosure. Learn them as a set — they are always each other's distractors.

A key difference: GAAP is rules-based while IFRS is:

- (a) Also rules-based (b) Principles-based
(c) Tax-based (d) Cash-based

Answer (b) Principles-based

Why it's right GAAP is RULES-based (detailed prescriptions); IFRS is PRINCIPLES-based (judgement within a framework), used across 167 jurisdictions.

Why the others are wrong

- (a) If both were rules-based there would be no "key difference" — the contrast IS the tested fact.
- (c) Tax rules are national statutes; neither framework is built on them.
- (d) Both frameworks rest on ACCRUAL, not cash, accounting.

Exam tip Rules = US GAAP; principles = IFRS. Attach LIFO to the rules side and you have the two most-tested rows.

In banking, the Transfer Price Mechanism (TPM) refers to the interest charged by:

- (a) The customer to the bank
(b) The surplus-funds branch to the deficit-funds branch
(c) The RBI to the commercial banks
(d) The deficit branch to the surplus branch

Answer (b) The surplus-funds branch to the deficit-funds branch

Why it's right In banking, the transfer price = interest charged on funds moved from a SURPLUS-funds branch to a DEFICIT-funds branch; the TPM evaluates branch performance and the rate must fit the arm's-length definition (varying bank to bank).

Why the others are wrong

- (a) Customer-to-bank interest is DEPOSIT interest — an external transaction, not an internal transfer price.
- (c) RBI-to-bank lending is the repo/policy channel — external, not intra-bank.
- (d) Direction reversed — the lender is the branch with the surplus; the deficit branch PAYS.

Exam tip Money flows surplus → deficit; interest flows deficit → surplus. The CHARGER is the surplus branch.

Financial statements are expected to present a _____ view of the enterprise:

- (a) True and fair (b) True and correct
(c) Full and final (d) Certified and audited

Answer (a) True and fair

Why it's right The accepted expression is "true and fair" view — statements should faithfully reflect the financial position and performance, not claim arithmetic perfection.

Why the others are wrong

- (b) "true and correct" is the older phrase that company law moved away from — "fair" acknowledges that accounting involves estimates and judgement.
- (c) "full and final" is settlement language (used in claims/compromises), not a reporting benchmark.
- (d) Certification is the auditor's act; it describes the audit, not the qualitative standard of the statements themselves.

Exam tip Trap swap: "true and CORRECT" vs "true and FAIR" — IIBF plants the first as a distractor.

The root of bookkeeping is traced to which phase, in which wealthy people employed persons to manage their property and render periodical accounts?

- (a) Financial accounting (b) Cost accounting
(c) Stewardship accounting (d) Management accounting

Answer (c) Stewardship accounting

Why it's right Stewardship accounting: wealthy persons kept 'stewards' who managed property and periodically rendered accounts — the root of bookkeeping.

Why the others are wrong

- (a) Financial accounting arrived later, with large-scale business and Joint Stock Companies.
- (b) Cost accounting arose in the industrial revolution (England).
- (d) Management accounting is the 20th-century, forward-looking phase.

The correct chronological order of the phases of accounting evolution is:

- (a) Stewardship → Financial → Cost → Management
(b) Financial → Stewardship → Management → Cost
(c) Stewardship → Cost → Financial → Management
(d) Cost → Stewardship → Financial → Management

Answer (a) Stewardship → Financial → Cost → Management

Why it's right Order: Stewardship → Financial → Cost → Management (→ Social Responsibility → HRA → Inflation). Stewardship is ancient; financial came with Joint Stock Companies; cost with the industrial revolution; management in the 20th century.

Why the others are wrong

- (b) Stewardship precedes financial accounting.
- (c) Financial accounting preceded cost accounting in the notes' sequence.
- (d) Cost accounting cannot precede stewardship, the root of bookkeeping.

Fair value accounting has not gained wide acceptance mainly because of:

- (a) Legal prohibition under the Companies Act 2013
- (b) Its conflict with the double entry system
- (c) Non-availability of software
- (d) Cost involved, delays, and doubts about reliability

Answer (d) Cost involved, delays, and doubts about reliability

Why it's right The stated reasons are practical: cost, delays and reliability doubts in estimating current market values.

Why the others are wrong

- (a) No legal prohibition — Ind AS/IFRS use fair value extensively (revaluation model, FVOCI/ FVTPL).
- (b) Fair value changes what amount is recorded, not the debit-credit mechanics.
- (c) Software is never cited; the problem is estimation reliability.

The IFRS Interpretations Committee (IFRIC) is best described as:

- (a) The trustee body of the IFRS Foundation
- (b) The audit regulator for IFRS jurisdictions
- (c) The body notifying IFRS in each country
- (d) The IASB's interpretative body for widespread issues

Answer (d) The IASB's interpretative body for widespread issues

Why it's right IFRIC = the IASB's interpretative body; it issues authoritative guidance (IFRICs) on widespread accounting issues.

Why the others are wrong

- (a) The Trustees are a separate organ safeguarding IASB independence.
- (b) Audit regulation is national (e.g., NFRA in India).
- (c) Adoption/notification is done by national authorities (in India, the MCA).

Governments frame transfer-pricing regulations primarily to:

- (a) Increase the profits of multinational companies
- (b) Prevent taxation revenue from going abroad
- (c) Standardise product quality across divisions
- (d) Control inflation

Answer (b) Prevent taxation revenue from going abroad

Why it's right Because the transfer price decides how total profit is divided among the parts (and countries) of a company, governments regulate it to stop taxation revenue from shifting abroad.

Why the others are wrong

- (a) Regulation restrains profit-shifting, not enables it.
- (c) Quality is not a transfer-pricing concern.
- (d) Inflation control is monetary policy — unrelated.

In the 'House of GAAP', the LEAST authoritative category (category d) includes:

- (a) The APB Opinions
- (b) Implementation guides and prevalent industry practices
- (c) The AICPA Accounting Research Bulletins
- (d) The FASB Statements of Financial Accounting

Answer (b) Implementation guides and prevalent industry practices

Why it's right Category (d), the floor of the house: FASB Implementation Guides (Q&A) and widely recognised industry practices.

Why the others are wrong

- (a) APB Opinions sit in category (a) — the most authoritative tier.
- (c) ARBs are also category (a) survivors from the CAP era.
- (d) FASB Standards are the core of category (a).

Exam tip Paradox to remember: the FASB appears at BOTH ends — its Standards at the top, its Implementation Guides at the bottom.

Which body is India's independent audit and accounting regulator, constituted in 2018 with powers over auditors of listed and large companies?

- (a) NACAS
- (b) NFRA
- (c) ASB of ICAI
- (d) SEBI

Answer (b) NFRA

Why it's right The National Financial Reporting Authority (NFRA), constituted under Section 132 of the Companies Act 2013, replaced NACAS's advisory role and regulates auditors of listed/large companies.

Why the others are wrong

- (a) NACAS was the earlier advisory committee that NFRA superseded.
- (c) ICAI's ASB drafts standards; it does not regulate auditors.
- (d) SEBI regulates securities markets, not the accounting/audit framework.

Under Ind AS 109's ECL model, interest revenue on a Stage 3 (credit-impaired) asset is recognised on:

- (a) The NET carrying amount (gross minus loss allowance)
- (b) The gross carrying amount
- (c) No interest is ever recognised
- (d) The original sanctioned amount

Answer (a) The NET carrying amount (gross minus loss allowance)

Why it's right Stage 3 flips the interest base to the NET (amortised cost after allowance) — reflecting that part of the asset is not expected to pay.

Why the others are wrong

- (b) Gross-basis interest applies in Stages 1 and 2.
- (c) Effective-interest recognition continues, only the base shrinks.
- (d) Sanction figures are irrelevant to measurement.

End of the Unit 1 sample. In the full book Day 1 continues with Units 2–5 (47 more questions), and Days 2–5 cover the rest of the syllabus the same way.

Case studies and worked numericals

10 cases · 50 questions · 52 worked numericals · then re-try the questions you ticked on Days 1–5

Read the whole case once, then answer its five questions one by one — exactly how the case-based questions in the paper work.

Case 1 · Closing the year at Anand Stores — adjustments and the final accounts

Module B · Unit 13 · about 10 minutes

Anand Stores, a sole proprietorship, extracted the following from its trial balance for the year ended 31 March 2026: opening stock ₹30,000; purchases ₹2,00,000; sales ₹3,20,000; wages ₹20,000; carriage inwards ₹5,000; salaries ₹24,000; rent ₹11,000; insurance ₹6,000; furniture ₹50,000.

Adjustments: closing stock was physically verified and valued at ₹40,000; rent for March 2026 (₹1,000) is unpaid; insurance includes ₹1,500 paid for April–June 2026; furniture is to be depreciated at 10% per annum.

Must-know before this case

- U13 Final accounts are prepared from the trial balance, which itself is NOT a financial statement.
- U13 Adjusting entries = non-transaction entries pairing one P&L account with one balance sheet account; they convert records to the accrual basis (AS-1 fundamental assumption).
- U13 Four cases: outstanding expense (payable), prepaid expense (asset/debtor), accrued income (receivable), advance income (liability).

C1.1

AFM-C06-1

The cost of goods sold for the year is:

- | | |
|---------------|---------------|
| (a) ₹2,25,000 | (b) ₹2,55,000 |
| (c) ₹2,15,000 | (d) ₹1,95,000 |

Answer (c) ₹2,15,000

Why it's right $\text{COGS} = \text{Opening stock} + \text{Purchases} + \text{Direct expenses} - \text{Closing stock} = 30,000 + 2,00,000 + (\text{wages } 20,000 + \text{carriage inwards } 5,000) - 40,000 = ₹2,15,000$.

Why the others are wrong

- (a) 2,25,000 leaves out the closing stock deduction of 40,000 but also drops purchases arithmetic — it does not follow the formula.
- (b) 2,55,000 adds closing stock instead of deducting it.
- (d) 1,95,000 omits wages and carriage inwards, which are direct (trading) expenses.

The net profit for the year, after all adjustments, is:

- (a) ₹64,000 (b) ₹60,000
(c) ₹59,500 (d) ₹55,000

Answer (c) ₹59,500

Why it's right Gross profit = 3,20,000 – 2,15,000 = ₹1,05,000. Indirect expenses: salaries 24,000; rent 11,000 + 1,000 outstanding = 12,000; insurance 6,000 – 1,500 prepaid = 4,500; depreciation 10% × 50,000 = 5,000. Net profit = 1,05,000 – 24,000 – 12,000 – 4,500 – 5,000 = ₹59,500.

Why the others are wrong

- (a) 64,000 ignores the three adjustments to rent, insurance and depreciation.
- (b) 60,000 forgets the outstanding rent but not the prepaid insurance.
- (d) 55,000 double-counts an adjustment.

How does the ₹1,500 prepaid insurance appear in the final accounts?

- (a) Added to insurance in the P&L and shown as a liability
(b) Ignored, since it was actually paid during the year
(c) Deducted from insurance in the P&L and shown as a current asset in the balance sheet
(d) Deducted from capital

Answer (c) Deducted from insurance in the P&L and shown as a current asset in the balance sheet

Why it's right A prepaid expense belongs to the next period. The adjusting entry is Dr Prepaid Insurance / Cr Insurance — the P&L carries only ₹4,500 and the ₹1,500 stands as a current asset (a receivable from the insurer for cover not yet enjoyed).

Why the others are wrong

- (a) Prepaid is an asset, and the expense is reduced, not increased.
- (b) Cash paid is not the test — accrual accounting matches the expense to the period.
- (d) Capital is not touched by expense adjustments.

If the closing stock had been wrongly valued at ₹50,000 instead of ₹40,000, the net profit would have been:

- (a) Understated by ₹10,000
(b) Unchanged, because closing stock is a balance-sheet item
(c) Overstated by ₹10,000
(d) Overstated by ₹20,000

Answer (c) Overstated by ₹10,000

Why it's right Closing stock reduces COGS; overvaluing it by ₹10,000 cuts COGS and inflates gross and net profit by ₹10,000, while also overstating the current asset. Stock must be valued at the lower of cost and market value.

Why the others are wrong

- (a) Overvaluation inflates profit, it does not depress it.
- (b) Closing stock appears in BOTH the trading account and the balance sheet.
- (d) The effect equals the overvaluation, not double.

Which statement about the trial balance used to prepare these accounts is correct?

- (a) The trial balance is only a check of arithmetical accuracy — final accounts are prepared from it after passing adjusting entries
- (b) The trial balance is itself a financial statement
- (c) The trial balance proves that no errors exist in the books
- (d) Adjusting entries are passed after the balance sheet is prepared

Answer (a) The trial balance is only a check of arithmetical accuracy — final accounts are prepared from it after passing adjusting entries

Why it's right The trial balance is a working list of ledger balances, not a financial statement; it tests arithmetical agreement only. Adjusting entries (outstanding, prepaid, accrued, advance, depreciation) convert the records to the accrual basis before the Trading, P&L and balance sheet are drawn up.

Why the others are wrong

- (b) It is not one of the financial statements.
- (c) Errors of principle, omission and compensating errors survive a tallying trial balance.
- (d) Adjustments come BEFORE closing and the balance sheet (Adjusting → Closing → Extract).

Worked numericals

All 13 formula families of the AFM paper, four solved questions each — from a warm-up to an exam-level twist. The “why the other answers are wrong” lines are the mistakes students actually make; learn them as carefully as the method.

Family 1 · Interest — simple, compound, effective rate, Rule of 72

$SI = P \times R \times T$ · $CI: A = P(1+i)^n$ · effective rate = $(1+r/m)^m - 1$ · Rule of 72

N1.1

Easy

N1-1

A loan of ₹40,000 carries simple interest at 11% per annum. The interest for 3 years is:

- (a) ₹4,400 (b) ₹14,705.24
(c) ₹13,200 (d) ₹53,200

Answer (c) ₹13,200

Worked solution Simple interest = $P \times R \times T = ₹40,000 \times 11\% \times 3 = ₹13,200$. Interest is charged on the original principal only, every year.

Why the other answers are wrong

- (a) That is one year's interest only ($₹40,000 \times 11\%$); it must be multiplied by 3 years
- (b) That is compound interest — under simple interest the principal never grows
- (d) That is the total repayment (principal + interest), not the interest alone

N1.9

Moderate

N1-9

₹1,00,000 is invested at 8% per annum compounded annually. The maturity value after 3 years is closest to:

- (a) ₹1,24,000 (b) ₹25,971
(c) ₹1,25,971 (d) ₹1,16,640

Answer (c) ₹1,25,971

Worked solution $A = P(1+i)^n = ₹1,00,000 \times (1.08)^3 = ₹1,00,000 \times 1.2597 = ₹1,25,971$.
Compound interest = ₹25,971.

Why the other answers are wrong

- (a) That is simple interest — compound interest earns interest on interest
- (b) That is the interest earned, not the maturity value
- (d) That compounds for 2 years only

N1.10

Moderate

N1-10

₹50,000 is invested at 10% per annum compounded annually. The maturity value after 2 years is closest to:

- (a) ₹60,000 (b) ₹60,500
(c) ₹55,000 (d) ₹10,500

Answer (b) ₹60,500

Worked solution $A = P(1+i)^n = ₹50,000 \times (1.10)^2 = ₹50,000 \times 1.21 = ₹60,500$. Compound interest = ₹10,500.

Why the other answers are wrong

- (a) That is simple interest — compound interest earns interest on interest
- (c) That compounds for 1 years only
- (d) That is the interest earned, not the maturity value

A loan of ₹60,000 carries simple interest at 12% per annum. The interest for 2 years is:

- (a) ₹14,400 (b) ₹74,400
(c) ₹7,200 (d) ₹15,264

Answer (a) ₹14,400

Worked solution Simple interest = $P \times R \times T = ₹60,000 \times 12\% \times 2 = ₹14,400$. Interest is charged on the original principal only, every year.

Why the other answers are wrong

- (b) That is the total repayment (principal + interest), not the interest alone
- (c) That is one year's interest only ($₹60,000 \times 12\%$); it must be multiplied by 2 years
- (d) That is compound interest — under simple interest the principal never grows

Exam day — Accounting & Financial Management

The paper

- 100 questions, 100 marks, 2 hours — 72 seconds a question on average.
- No negative marking: never leave a question blank. A guess is worth 25%; a blank is worth nothing.
- Pass mark 50 out of 100 in each paper — or 45 with an aggregate of 50% across the papers in one attempt. Credits are kept for passed papers within the time limit.
- Questions come as knowledge recall (most), numericals (AFM heavily), case-based sets and 'which is NOT correct' stems — read every NOT and EXCEPT twice.

Order of attack

- Pass 1 (about 60 minutes): answer everything you know on sight; mark the doubtful ones and move on. Do not let one question eat three minutes.
- Pass 2 (about 40 minutes): the marked questions — numericals, case sets, long stems. Eliminate two options, then choose.
- Pass 3 (last 15 minutes): fill every blank. Check that every question has an answer saved. Do not change answers on a whim — change only when you find a fact.
- Textbook versus current law: if the stem says currently / at present / latest, use the current figure; if it names the old scheme or year, the textbook figure. If only one appears in the options, that is the answer.

The evening before

- Re-read the revision sheets (one page a unit) — the facts, the trap pairs and the numbers. Skip the questions.
- Read the Top-60 facts and the numbers page once more; then stop. No new material after 9 p.m.
- Pack: admit card (printed), the original photo ID named on it, two pens, and whatever else the admit card tells you to carry; a water bottle if allowed. Confirm the centre address and travel time.
- Sleep seven hours. A tired brain misreads NOT questions.

At the centre

- Reach 45 minutes early; the gate closes before the start time. Phones and smart watches stay outside.
- Read the on-screen instructions and the navigation (mark for review, clear response, submit) before the clock starts.
- Keep an eye on the timer at Q25, Q50 and Q75 — you should be at or past 30, 60 and 90 minutes.
- If the screen or system fails, call the invigilator at once; lost time is added back.

How AFM asks

- About a third of the paper is numerical: ratios, EMI/annuity, bond price/YTM, forex cross rates, NPV/IRR, MPBF, depreciation, break-even, variances, GST arithmetic. Do these in Pass 2, after the theory questions.
- Theory is definitional: accounting concepts, AS/Ind AS numbers, Schedule III heads, bank balance-sheet schedules (Form A 1-12, Form B 13-16), HTM/AFS/HFT, NPA classes and provisions, cost classifications, budget types.
- Decimal-shift and formula-swap distractors are the examiner's favourite: check units (₹ lakh vs crore), months vs years, and which denominator the formula uses before you mark.
- Rounding: pick the option closest to your figure; if two are close, re-check the time period (years vs months) and whether the question wants the before-tax or after-tax number.

DAY 7 OF 7

Full-length mock — JAIIB AFM

100 questions · 2 hours · in the full book

That's the free sample

The full **JAIIB AFM — 7-Day Crash Course** (Paper 3) holds:

Days 1-5: 300 chapter-wise MCQs covering all 35 units, each unit opening with its revision sheet — every answer explained, including why each wrong option is wrong.

Day 6: 10 case studies with 50 questions and 52 worked numericals from all 13 formula families.

Day 7: a full-length 100-question mock on the exam pattern, with the answer key and every explanation.

Before and after: the 60 facts this paper asks most, the numbers page, the textbook-versus-current-law table, the formula sheet and the syllabus map at the front; an A-Z glossary, the exam-day page you have just read, a Day-7 answer grid and score bands with a weak-module finder at the back.

Get it at sjalearning.in/products/7-day-crash-course.html — one paper, or all four papers together.

For the November 2026 exam · content verified to September 2026. Free sample — you are welcome to share this file. An independent study aid — not affiliated with IIBF.