

Certified Credit Research Analyst (Mock Test-2)

1) DuPont analysis illustrates integrating financial leverage, profit margin & Asset turnover to determine

- A. ROCE
- B. ROA
- C. ROE

2) Other things being same, an increase in debt and increase in interest expense would result in following:

- A. Debt Equity Ratio Increase; Interest Coverage Ratio Decrease
- B. Debt Equity Ratio Decrease; Interest Coverage Ratio Decrease
- C. Debt Equity Ratio Decrease; Interest Coverage Ratio Increase
- D. Debt Equity Ratio Increase; Interest Coverage Ratio Increase

3) Ajay Kumar a veteran credit analyst made following statement at a student's meet:

Whenever we analyze an entity into capital intensive business, we look at the fixed asset turnover ratio. In my 27 years of career as a credit analyst, I always compare the fixed asset turnover ratios of two entities in same industry.

Amongst the two entities, the entity which has higher fixed asset turnover ratio is not able to use fixed assets as efficiently as the other entity.

State which of the following is correct:

- A. Ajay Kumar is correct in his statement
 - B. Ajay Kumar is incorrect because for a capital intensive business you will total asset turnover ratio and not at fixed asset turnover ratio for better interpretation.
 - C. Ajay Kumar is incorrect because comparison of the ratios within a industry is not a fruitful exercise, rather one should look at ratios in isolation.
 - D. Ajay Kumar is incorrect because the entity which has lower fixed asset turnover ratio is not able to utilize fixed assets efficiently as compared to the other entity.
- 4) Which of the following qualify as short-term investments and fully contribute to a firm's liquidity?
- A. Money Market Instruments
 - B. Cash and cash equivalents
 - C. All of these
 - D. Bank Deposits
- 5) The debt maturity schedule helps in understanding_____.
- A. What debt is due in next 365 days for a business entity
 - B. All of these
 - C. Over what period debt is due to be repaid or refinanced for a business entity
 - D. What debt is due in the next 90 days for a business entity
- 6) Which of the following is considered as a phenomena involving financial stress?

- A. All of these
- B. Increased uncertainty about behavior of other investors
- C. Increased asymmetry of information
- D. Increased uncertainty about fundamental value of assets

7) Financial stress to a business enterprise can be caused by_____.

- A. A convergence of scenarios
- B. Both of these
- C. A scenario of extreme possibilities

8) Financial stress tests by the credit rating agencies are generally aimed at addressing lender concerns in the area of_____.

- A. Access to enough cash resources (liquidity) to meet the business's obligations as they come due
- B. Generation of adequate earnings/cash flow to sustain the business and meet its obligations
- C. Both of these

9) Some of the consideration(s) in scenario building based on environment consideration is (are)_____.

- A. All of these
- B. Global events with international / local impact
- C. Political / social turmoil
- D. Extreme economic shocks

10) The impact of volatility in commodity prices can be seen in_____.

- A. Understand the impact on input costs as a commodity may be associated with the cost drivers in the income statements.
- B. Both of these
- C. How the movement of commodity prices impacts those companies whose products are closely linked to commodity prices.

11) Scenario analysis is a methodology, which allows analyst to_____.

- A. Both of these
- B. Estimate for each company the expected value for financial statement data and their probability
- C. Study default risk on a predictive basis for companies and economic systems with the individuation of expected benchmark of risk and return

12) A Base Case scenario assumes the following situation(s)_____.

- A. Both of these
- B. All factors (economic, financial) remain in line with the long term average, or trends
- C. All factors (economic, financial) are in line with what is foreseeable and known

13) In stress testing, revenues of comparable entities are compared in terms of _____.

- A. In terms of the extent to which revenues are converted into operating income or the

operating margins

B. Their growth rates

C. Their absolute revenues

D. All options are compared

14) Supplement stress tests for risk reporting says that - Process a static set of stress scenarios consisting of_____.

A. Correlation coupling and decoupling

B. Liquidity decreases on a recurring basis

C. All of these

D. Extreme price movements

15) The base scenario can/ can only consider the assumption(s) regarding a typical year, such as_____.

A. Costs related to production will increase by 5%.

B. All of these

C. All other costs will rise by 5%

D. Sales will increase by 12.5% in a given year: 10% on account of volumes and 2.5% on account of price increases effected by the firm.

16) Which of the following factors are compared while analyzing business entities for the purpose of financial stress?

A. All of these

B. Sales and Profits

C. Efficiency

D. Market Share

17) Which of the following are fundamental characteristics of high quality liquid assets?

- A. Low credit and market risk
- B. All of the Options
- C. Ease and certainty of valuation
- D. Low correlation with risky assets

18) State which of the following is correct:

Statement 1: Bear Case scenarios are within the realm of probable events. They might well happen.

Statement 2: Stressed scenarios look at extremely low-probability events which are highly unlikely to occur -but which may, nevertheless occur.

- A. Statement 1 only
- B. Statement 2 only
- C. Both are incorrect
- D. Both the Statements

19) State which of the following is correct:
Statement 1: The objective of conducting various scenario analyses is to keep critical parameters which reflect liquidity of the enterprise are impacted

Statement 2: Bull Case Scenario will not show any worsening of the solvency of the enterprise.

- A. Statement 1 only
- B. Both the Statements

- C. Statement 2 only
- D. Both are incorrect

20) An income statement figure which reflects the cost of obtaining raw materials and producing finished goods that are sold to consume USD

- A. Cost of Goods Sold
- B. Cost of Purchase
- C. Cost to Goods Sold
- D. Cost to Goods Purchased

21) The profit earned from a firm's normal core business operations is known as _____.

- A. Net Profit
- B. EBT
- C. Operating Profit
- D. EAT

22) The past performance of a business enterprise is not an indicator of its future performance, but average of last 10 years would give an idea about the future course of action

- A. FALSE
- B. TRUE
- C. Average data is a relative good measure of future performance

23) While comparing business entities, peers are two entities that serve the same market/ customer group and same country only

- A. TRUE
- B. FALSE
- C. Peers could be from different sectors also

24) While analyzing business entities, it is not acceptable to compare two providers of similar service to similar set of clients through different methods.

- A. It depends on the business model of the entity
- B. TRUE
- C. FALSE

25) It is not fair to compare two ice-cream companies, one of which sell ice-creams through parlors and other selling exclusively through cycle-stands.

- A. FALSE
- B. TRUE
- C. Channel of distribution is not a consideration in comparison for rating purposes

26) Choose the correct REVERSE sequence in which Lenders gets paid during the course of Liquidation.

- A. 4. Provident Funds / Employers savings schemes 3. Dues to employees - typically up to 4 months of pending pay 2. Workmen's compensation amounts 1. Dues to the revenue/ tax authority / government
- B. 4. Dues to employees - typically up to 4 months of pending pay 3. Dues to the revenue/ tax authority / government 2. Workmen's compensation amounts 1. Provident Funds / Employers savings schemes

C. 4. Dues to the revenue/ tax authority / government 3. Dues to employees - typically up to 4 months of pending pay 2. Workmen's compensation amounts 1. Provident Funds / Employers savings schemes

D. 4. Provident Funds / Employers savings schemes 3. Workmen's compensation amounts 2. Dues to employees - typically up to 4 months of pending pay 1. Dues to the revenue/ tax authority / government

27) Combining of two or more entities into one, through a purchase acquisition or a pooling of interests is known as _____.

- A. Acquisition
- B. Merger
- C. Consolidation
- D. Takeover

28) The process combining of separate companies, functional areas, or product lines, into a single one is known as _____.

- A. Consolidation
- B. Acquisition
- C. Merger
- D. Takeover

29) Acquiring control of a corporation, called a target, by stock purchase or exchange, either hostile or friendly is known as _____.

- A. Acquisition
- B. Consolidation

C. Merger

D. Combination

30) A firm acquires a running business and grows overnight through corporate combinations. This is the type of_____.

A. Internal Expansion

B. Environmental Expansion

C. External Expansion

D. Operational Expansion

1. C	2. A	3. D
4. C	5. B	6. A
7. B	8. C	9. A
10.B	11.A	12.A
13.D	14.C	15.B
16.A	17.B	18.D
19.C	20.A	21.C
22.A	23.B	24.C
25.A	26.D	27.B
28.A	29.A	30.C