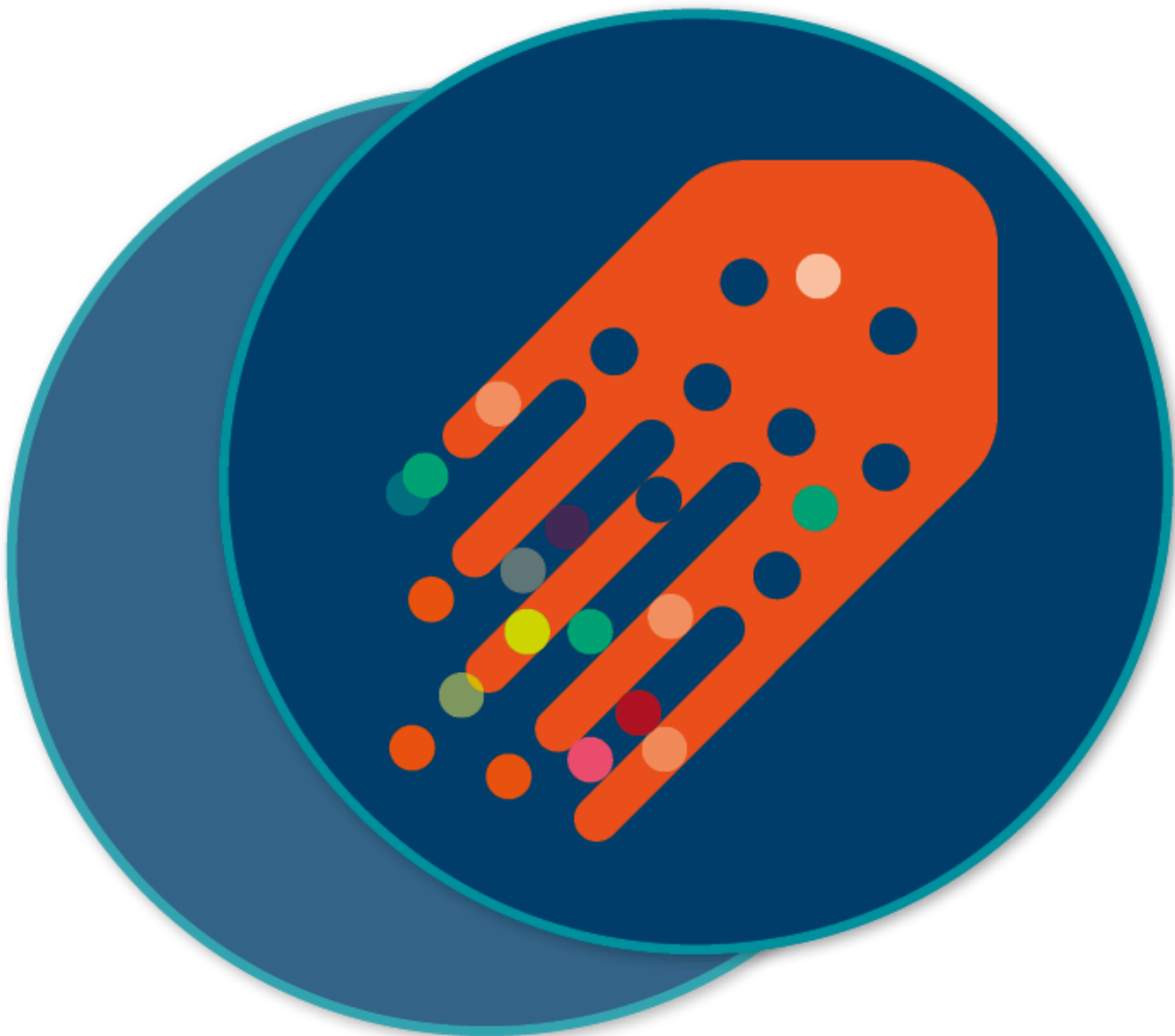


# ACT Practice Paper

Certificate in Treasury Unit 2

Practice Paper



## Practice paper for the Certificate in Treasury Unit 2

Based on the syllabus assessed from 05 September 2022.

### Introduction

This practice paper has been produced by the Awarding Body at the Association of Corporate Treasurers (ACT) to assist students in their preparation for the CertT assessments. It contains a practice exam for the specified unit as well as practice answers.

Ideally, students should have completed the majority of their CertT studies for Unit 2 before attempting this practice paper. Students should allow themselves 120 minutes to complete the exam. They should then review their performance to identify areas of weakness on which to concentrate the remainder of their study time.

Although the practice exam in this guide is typical of a CertT assessment, it should be noted that it is not possible to test every single aspect of the syllabus in any one particular exam. To prepare properly for the examination, candidates should make full use of the tuition options where available and read as widely as possible to ensure that the whole syllabus has been covered.

### Assessment technique: CertT

The best approach to multiple choice assessments is to work methodically through the questions. Candidates should not spend too much time on any one question. If they cannot make up their mind, they should leave the question, flagging it to come back to later.

When all of the questions have been answered, it is prudent to use any remaining time to go through each question again, carefully, to double-check that nothing has been missed. Altering just one incorrect response to a correct response could make the difference between passing and failing.

## Assessment information

The CertT assessment consist of 64 questions, split into sections A, B and C; each assessment is worth a total of 100 marks.

CertT assessment test specification:

Section	Number of questions	Marks available	Question format
Section A	20 Multiple Choice questions (MCQs) and 10 Multiple Response questions (MRQs).	30	This section will test a cross-section of knowledge to achieve breadth of syllabus coverage.
Section B	30 MCQs based on mini scenarios (1 scenario with 5 accompanying MCQs).	30	This section will test a cross-section of knowledge to achieve breadth of syllabus coverage.
Section C	4 longer form questions.	40	This section will be based on mini-scenarios common to practice. Questions will test knowledge, analysis, application and justification as appropriate.
<b>Total</b>	<b>64</b>	<b>100</b>	<b>100</b>

Under exam conditions, **2 hours** (120 minutes) is allowed for the CertT assessments.

When you take your actual exam, you will be sitting online using your own PC/Laptop. You have access to an online scientific calculator, but for the purpose of this test, you may use a non-programmable scientific calculator. There is a formulae sheet located on page 26 that will also be accessible during your online assessment.

In order for you to determine how well you have performed, exemplar answers are listed at the end of this paper. There are also references to the relevant Learning Outcomes if you need to revisit the associated material.

**Section A – 30 marks**

**This section consists of 20 Multiple Choice questions and 10 Multiple Response questions**

**A01 Why could a company's cleared bank balance (local currency) be lower than the ledger balance?**

- A The bank has given an earlier value date for the receivable side of a foreign exchange trade.
- B The company has yet to repay its outstanding borrowings that are due today.
- C There are incoming cheques that have not been credited for the current value date.
- D There was an urgent payment made late in the day which was not posted in the accounts.

**A02 What is a drawback of having excessive headroom?**

- A Bank facility utilisation fees will be higher than required.
- B Future drawdowns from the facility are likely to be restricted due to non-use of the facility.
- C Having excess liquidity could lead to unnecessary investment in working capital.
- D The commitment fees for bank facilities would be higher than necessary.

**A03 Which of the following is the main cost of cash forecasting for a SME business?**

- A Cost of a treasury management system including setup and annual maintenance.
- B Cost of labour time to produce and review the forecasts.
- C Higher foreign exchange costs due to improved cash visibility from the forecast.
- D Inaccurate forecasting can lead to incorrect decisions and high net interest charge.

**A04 Which of the following could be classified as a discretionary payment?**

- A Capital expenditure.
- B Corporation tax.
- C Key supplier payment.
- D Payroll payment.

**A05 Which of the following will lead to a reduction in cash due to movement in working capital?**

- A A reduction in stock levels.
- B An increase in accounts payable.
- C An increase in accounts receivable.
- D An increase in capital expenditure.

**A06 A business has constant sales of EUR800m per year and purchases of EUR600m. Sales proceeds are received two months in arrears and suppliers are paid one month in arrears.**

**What is the investment in its working capital?**

- A EUR33.3m.
- B EUR183.3m.
- C EUR81.5m.
- D EUR83.3m.

**A07 The operating cash cycle is the time period between:**

- A generating operating profit and paying interest and tax.
- B invoicing for raw materials and invoicing for finished goods.
- C paying for raw materials and the receipt of cash from the sale of finished goods.
- D payment for raw materials and sale of finished goods.

**A08 The Days Payable Outstanding for a company have increased from 25 to 30 days. It has average outstanding payables of GBP10m and its purchases are spread evenly throughout the year.**

**Which of the following is the company's annual purchase figure?**

- A GBP120,000,000.
- B GBP121,666,666.
- C GBP132,727,273.
- D GBP144,000,000.

**A09 Which of the following payment methods would provide a company with the most certainty over the timing of its receipts?**

- A ACH payment.
- B Bank transfer.
- C Cheque.
- D Direct debit.

**A10 Consignment inventory management is characterised by:**

- A building up stock levels in anticipation of a large order with a new supplier.
- B inventory being held on site but only invoiced for once it has been used or resold.
- C reorder levels that almost exactly match demand levels ensuring minimum stock levels.
- D use of a mathematical model to calculate reorder quantities and frequency.

**A11 Revolving Credit Facility (RCF) fees include:**

- A margin over a floating reference rate and commitment fees.
- B margin over a fixed rate plus uncommitted fees.
- C floating reference rate plus commitment fees.
- D margin over a floating reference rate only.

**A12 A company issues USD50m commercial paper at a discount rate of 1.8% for 181 days. How much would the company receive?**

- A USD49,547,500.
- B USD49,551,558.
- C USD49,557,647.
- D USD50,456,632.

**A13 In international trade, which of the following risks do exporters face?**

- A Money tied up in payables.
- B Credit risk of the customer.
- C Dependence on the supplier.
- D Risk of late delivery of goods or poor quality.

**A14 Which of the following international trade payment arrangements is most preferential for an importer?**

- A Documentary collection.
- B Letter of credit.
- C Open account.
- D Payment in advance.

**A15 Herstatt risk is the risk that:**

- A conversion costs become punitive for foreign currency payments received into a local currency account.
- B in a foreign exchange transaction, the receivable side is delayed or not received.
- C one of the banks in a payment supply chain fails.
- D the basket of securities for a repo is impaired.

**A16 Which of the following is a characteristic of cash pooling?**

- A Intercompany loans are not required.
- B Physical cash is moved to a centralised bank account.
- C There is generally an increase in counterparty risk at a group level.
- D Thin capitalisation rules are avoided.

**A17 Cash concentration has one distinct advantage over notional pooling.**

**Cash concentration:**

- A avoids the risk of thin capitalisation rules.
- B centralises funds for better liquidity.
- C helps reduce the risk of withholding tax.
- D is administratively easier to manage day to day.

**A18 Which of the following is a common characteristic shared by a payment factory and an in-house bank?**

**They both:**

- A allow foreign exchange transactional hedging to be centralised.
- B can reduce group borrowing requirements.
- C facilitate straight through processing and hence reduce risk.
- D require strong controls as they concentrate operational risk.

**A19 Which of the following describes a reverse repo instrument?**

- A A borrowing backed up by buying a basket of securities and selling them at maturity.
- B A borrowing with the sale of securities at the start date and buying them back at maturity.
- C A contract to purchase securities at a discount to the market price and resell later at market value.
- D An investment in a basket of securities which are then sold back at maturity.

**A20 Which of the following best describes the cost of carry for a company?**

**When it:**

- A has a bid-offer spread charge that is applied when investing in money market funds.
- B has both debt and cash at the same time and the interest receivable rate is lower than the payable rate.
- C has finished goods that are held at a wholesaler and there is a storage charge applied.
- D simultaneously holds both cash and debt and the interest payable rate is lower than the receivable rate.

**A21 Which TWO of the following are potential disadvantages for a company that increases the credit period it provides to its customers?**

- A A reduction in accounts receivable leading to higher working capital levels.
- B Delayed cashflow caused by an increase in accounts payable.
- C Higher costs associated with debt collection.
- D Higher interest costs due to delayed cashflow.
- E Poor customer retention due to changed credit terms.

**A22 Which TWO of the following are advantages of a revolving credit facility (RCF) compared to an uncommitted bank line?**

**An RCF:**

- A is a committed facility and hence there is certainty of funding.
- B is an uncommitted line requiring less management administration time.
- C is more flexible as liquidity needs can be better matched to the business.
- D provides an alternative source of funding diversification.
- E usually has a fixed rate of interest and so funding costs are certain.

**A23 Which THREE of the following are characteristics of the domestic US commercial paper (USCP) market?**

- A Market returns are quoted at a discount rate.
- B Market returns are quoted on a yield basis.
- C The day convention used for issues is 365 days.
- D The maximum tenor for USCP is shorter than that available for Euro commercial paper.
- E The secondary market is very liquid.

**A24 Which TWO of the following are characteristics of factoring?**

- A It is a form of asset backed financing where the receivables are sold to a SPV.
- B It is mainly used by large companies as a method of financing their working capital.
- C The receivables are sold and debts can be on a non-recourse basis.
- D The sale of the receivables is on a confidential basis and the company retains control of the sales ledger.
- E The sales ledger is managed by the factoring agent.

**A25 Which of the following are reasons why a large corporate might prefer to fund a subsidiary with debt rather than equity?**

**Select ALL that apply.**

- A A subsidiary has limited cashflow to pay dividends.
- B Debt is a cheaper source of funding due to the tax shield.
- C Increased debt levels will help reduce thin capitalisation restrictions.
- D Interest payments on inter-company loans provide more certainty of cashflows.
- E The credit risk to the group is reduced by issuing group debt rather than equity.

**A26 Which of the following are the specific costs involved in holding currency bank accounts?**

**Select ALL that apply.**

- A Administrative overheads of account reconciliation.
- B Costs for electronic reporting feeds.
- C Delayed value dates for currency receipts.
- D Low interest rates on overdrawn balances.
- E Withholding tax on interest receivable.

**A27 Which of the following does a bank mandate typically include?**

**Select ALL that apply.**

- A A list of bank accounts and their purpose, i.e. receipts or payments.
- B A list of financial instruments that are authorised for use.
- C A list of signatories to the account for payments.
- D Details of the ownership structure.
- E Instructions as to how changes to the mandate can be authorised.



**A28 Which of the following are advantages of using a network bank rather than a correspondent bank?**

**Select ALL that apply.**

- A By using a network bank the company is diversifying its payment options and reducing group payment risk.
- B It is easier to place a trace on a payment that has gone missing.
- C Payments can potentially be received on a same day value basis for some currencies.
- D The costs of a non-urgent payment are likely to be lower with a network bank.
- E The coverage of the network bank is likely to be better in remote areas than that provided by a correspondent network.

**A29 Which THREE of the following are disadvantages of receiving local currency cheques?**

- A Administrative time to apply the funds and account for them.
- B Currency cheques receive high charges as they have to be discounted.
- C Delay in receipt of good value due to post and float times.
- D Lack of finality as funds received from the cheques could be returned.
- E The funds appear as a cleared balance and lead to extra reconciliation to the ledger balance.

**A30 Which TWO of the following are methods of reducing the credit risk of an investment portfolio?**

- A Changing investment instruments from certificate of deposit to commercial paper.
- B Investing in higher yield assets to help diversify the portfolio return.
- C Investing with the same institution in order to build a stronger bank relationship.
- D Setting counterparty limits based on credit ratings.
- E Shortening the maturity of the investments.

**This section consists of MCQs based on mini scenarios  
(One scenario with five accompanying MCQs)**

**Case study 1**

CF is a European engineering business that produces farming machinery components. The company has been attempting to grow its business, but the impact of poor economic growth has meant sales are static. The company had sales of EUR75m and on the balance sheet accounts payable of EUR20m, accounts receivable of EUR35m and inventory of EUR25m last year. Next year it is expecting its working capital balances to increase by 30% with no change in sales. Sales tend to be better in the summer than winter which puts more pressure on liquidity. Cashflow is constricted, with the business already using 70% of its EUR100m revolving credit facility to fund its working capital. There is a target headroom of 80% and CF also has a EUR5m overdraft which is unused.

Its treasury department produces a 13-week cashflow forecast that is updated each week. The treasury analyst carries out a variance analysis and has recently started using moving averages to calculate receivables. An independent external consultant (XC) who has been reviewing the treasury operation, has suggested that exponential smoothing would be better than using a simple moving average. A further recommendation by XC is to review the terms and payment methods used for CF suppliers. Domestic payment terms vary from 15 to 60 days and for late invoices, many of these payments are made by bank transfer.

**B01 Based on last year's financial results, what is the days receivable for CF?**

- A 97.
- B 121.
- C 170.
- D 267.

**B02 Why would the external consultants suggest exponential smoothing for forecasting?**

- A Better accuracy as more recent data points have greater weight.
- B It is a more sophisticated technique and would satisfy internal auditors.
- C It takes account of CF's cashflow seasonality.
- D It will always help reduce forecast error.

**B03 Given the nature of CF's cashflows which forecasting approach should be recommended?**

- A Adopt long term forecasting.
- B Continue with the 13-week forecast as it is currently applied.
- C Extend forecast to an annual time basis.
- D Use discretionary and non-discretionary forecasting.

**B04 For next year, what is the likely impact for CF regarding the funding of its working capital needs?**

- A It will breach its headroom target and require funding from its overdraft.
- B It will breach its target headroom but not draw on its overdraft.
- C It will exceed both its RCF and overdraft and become insolvent.
- D It will remain at the same level of usage for its RCF.

**B05 Supplier payment efficiency can be improved for CF through use of which of the following mechanisms?**

- A ACH.
- B Cheque issuance.
- C Direct debit.
- D Standing Order.

**Case study 2**

XY is a cosmetics retailer based in the UK. It imports its products from Asia and sells to the UK and European market.

It has been expanding its business and to help finance its growth it needs extra working capital. Inventory levels were GBP650m at year end on sales of GBP5bn, cost of goods sold GBP3.5m and purchases of GBP2.5m. It has recently started paying dividends to its shareholders and its share price has been rising based on its projected profitability.

It currently has an overdraft, revolving credit facility and is now considering establishing a European commercial paper programme (ECP) to help diversify its funding sources. The market for ECP is much less liquid compared to levels before the financial crisis of 2008. The RCF is due for renewal in less than six months' time and this has been on a syndicated fund with ten of its relationship banks. The syndicate is likely to push for an increase in margins on the funding and potentially reduce the size of their funding contribution. However, XY is keen to negotiate and wishes to increase the size of the facility by widening the panel of banks.

XY has business units across Europe and Asia and uses one of its main relationship banks for cash concentration in Europe and Asia with daily sweeps. It is now considering notional pooling across Europe.

**B06 Why might the ECP programme not provide additional funding diversity?**

- A ECP is no different to an RCF in terms of credit risk.
- B It may affect the existing bank relationships.
- C It only allows European investors.
- D There might not be any buyers for its paper.

**B07 With expected increases in borrowing costs for the RCF, why would XY want to increase the size of its RCF facility?**

- A It is an expanding business with higher working capital needs.
- B To allow funding for its dividend payments.
- C To fund its mergers and acquisition plans.
- D To improve its cashflow position.

**B08 Why is it important for XY to have an overdraft facility?**

- A Helps build stronger bank relationships.
- B Helps provide fees to its relationship banks.
- C In case the RCF negotiations fail or are delayed.
- D It is likely to be the cheapest source of funding.

**B09** What was the inventory days level at year end?

- A 48.
- B 52.
- C 68.
- D 95.

**B10** Why would XY limit notional pooling to Europe only?

- A High withholding taxes may be levied in some jurisdictions.
- B Low daily transaction fees in some regions.
- C Regulatory reasons may prevent it being extended to all jurisdictions.
- D To minimise the impact of issuing new loan agreements.

**Case study 3**

TTG is a French technology company that supplies personal finance software to the investment industry. It has a large customer base across Europe and customers typically pay by direct debit or standing order. The company provides a cloud-based solution and charges its customers a monthly fee for the use of its software. As the business has grown over the last five years, it has seen profitability rise with increased revenues outpacing development costs.

It has recently acquired another business in South America with the aim of increasing its customer base in that region. Customer payment terms are more varied than Europe and reliant on quarterly invoicing which is settled by the domestic automated clearing house (ACH) system a month later. The acquired company has several legacy bank relationships and banks accounts with less favourable bank arrangements and fees. The company is keen to keep costs to a minimum but embrace the latest technology from the banking sector using apps for invoicing and payment tracking. One concern is the rising banking costs but it is also essential for TTG to have full visibility of cash across the business and as close to real time as possible. Additionally, TTG is rolling out monthly cash forecasting to its subsidiaries in Europe and South America on a receipts and payments basis for one month time horizons.

**B11 Which bank service is likely to be the most important consideration for TTG to consider?**

- A Access to sources of funding.
- B Efficient collection of customer funds.
- C Interest rate on current accounts.
- D Lowest bank fees.

**B12 Funding costs for the acquired company are likely to be higher due to:**

- A higher payment fees.
- B higher transaction receipt fees.
- C interest apportionment fees.
- D less favourable value dating.

**B13 Which of the following is most important in facilitating the banking services that TTG uses?**

- A Application programming interfaces.
- B Blockchain.
- C Electronic data interchange.
- D Machine learning.

**B14 What is likely to be the immediate impact on TTG's banking after the acquisition?**

- A Higher credit risk.
- B Improved diversity of funding.
- C Lower bank fees.
- D Weaker group cash visibility.

**B15** The roll out of the proposed forecasting will be of benefit to TTG as it will:

- A help increase the number of bank accounts.
- B help optimise medium term funding requirements.
- C help understand long term cash trends.
- D provide visibility of FX exposures.

**Case study 4**

BK is a US bicycle maker that has operations across Europe and America. Its manufacturing is done in the US and it sources many of its components from Europe. A shared service centre (SSC) based in Poland is now providing finance services to its European operations including supplier payments. It currently uses a number of banks across Europe to settle these payments. Group treasury, who manage the bank relationships for the group, is proposing using one of its key banks as a network bank, which can make all European supplier payments. Additionally, the network bank, provides competitive pricing for real time gross settlement (RTGS) payments which could also be used to pay suppliers. As it is close to year end, the finance function has asked the SCC to only pay key suppliers and delay payments for smaller suppliers to a date after the year end.

BK has over 50 business units across 30 countries in Europe and the US. There is a central treasury function in New York which manages group exposures and debt. It also manages intercompany loans. The three largest business units (excluding the group based in the US) are DM (Germany), FR (France) and GB (UK). DM is profitable and is generating a good cashflow. FR generates strong cashflow but is no longer profitable and GB is profitable and the cashflow is moderate. DM is funded by group debt only, GB has local debt financing and FR has a 5% minority shareholder. All three business units have been remitting dividends back to the Group.

**B16 What would be a key advantage for the SSC of adopting the proposal by group treasury?**

- A Better traceability of payments.
- B Improved share of the wallet.
- C Lower operational risk.
- D There is lower cost for non-urgent payments.

**B17 Which subsidiary(ies) is (are) best positioned to service intercompany debt?**

- A DM and FR.
- B DM and GB.
- C DM, GB and FR.
- D DM only.

**B18 What issue might the GB business present for BK in relation to its funding sources?**

- A Cross guarantees.
- B Outside shareholder influence.
- C Structural subordination.
- D Thin capitalisation.

**B19 What would be the main reason BK would wish to limit the use of RTGS payments by the SSC?**

- A It can only be used for domestic payments.
- B It has immediate finality.
- C It makes bank reconciliation more difficult.
- D There are lower cost payment methods.



**B20** What impact will the request from the finance function have on working capital ratios?

- A Creditor days will decrease.
- B Debtor days will decrease.
- C Debtor days will increase.
- D Net working capital will decrease.

## Case study 5

KP is a European business involved in manufacturing and distributing electric car batteries. It has 10 business units across the European Union and is planning to set up a cash pool. It has decided to setup a notional cash pool with its main relationship bank, initially with only three business units and a header account. This will be at its head office in the Netherlands. The average annual balances for each of the three business units and the current respective bank debit and credit interest rates are shown in Figure 1. Obtaining balance forecast from the Italy (IT) and Spain (ES) business units has been difficult as they both have not kept any historical records of bank balances. The proposed notional cash pool has a debit rate of 3% and a credit rate of 0.50%. The treasurer is keen to go ahead with the cash pool project as they are convinced that a cash pool would be beneficial to the company.

Figure 1

Business Unit	Avg Balance EUR '000s	Interest rate	
		Credit	Debit
NL	300	1.00%	4.00%
IT	(200)	1.00%	4.00%
ES	100	1.00%	4.00%

KP has had an issue with its main supplier of battery components, which is based in Asia. Deliveries have recently been late and is causing a bottleneck in production. There are only a few suppliers of these components and changing supplier would take at least six months to conclude. Currently payment is by documentary collection but the supplier is now insisting on using letters of credit (LC).

**B21 What is the most likely reason IT and ES have not been able to provide accurate cash forecasts.**

- A Due to lack and quality of data.
- B Lack of cash forecasting processes.
- C Other priorities have taken priority.
- D Unreliability of the timing of customer payments.

**B22 What is the main risk to KP if it does not accept the supplier's request for LCs?**

- A Early payment terms.
- B Late product deliveries.
- C Poor quality components.
- D Single supplier risk.

**B23 What is the net EUR interest cost or benefit of using the cash pool for a year?**

- A (1,000).
- B 1,000.
- C 4,000.
- D 5,000.

**B24 If KP accepts the supplier's demand, what impact does this have?**

- A It ensures that the supplier will improve its delivery times.
- B It must pay even if the goods are of poor quality.
- C It will be forced to pay more promptly.
- D It will not be able to enter into an agreement with a new supplier.

**B25 If the notional cash pool is expanded to all 10 business units, the impact will:**

- A depend on the balances and relative interest rates.
- B improve it.
- C make no difference as the costs are fixed in the short term.
- D most likely weaken it.

**Case study 6**

PS is a UK-based supplier of pet accessories and toys. It sources its product from Asia and typically sells to its domestic market of retailers and directly to the customer from its website. It has noticed an increase in its costs for importing goods and is looking at reviewing its supply chain. It uses letters of credit extensively for its contracts with these suppliers but there is some concern with the banks that are involved. There has also been a recent change of government with a significant change in foreign policy in that country. PS's plan next year, is to establish a factory in country, to be able to source at least 50% of its product locally. Though the government is seeking to promote new investments in the country, there is strict financial requirements to be followed by investors around guaranteeing the successful completion of projects. Furthermore, PS has identified a contractor and agreed the project terms with an agreed timeline.

The finance function has also been outsourced to a shared service centre in Spain, with only tax, treasury and corporate finance being carried out at head office in the UK. PS have focused on cash forecasting for both short- and long-term cashflows. The treasury function has started using an exponential smoothing, distribution model and obtained estimates from internal experts with high, most likely and low estimates for cashflow outcomes. Regression analysis of monthly sales against cash balances results in a straight-line relationship but many of the data points are not that close to the line.

**B26 What type of possible planning technique is PS using:**

- A distribution model.
- B exponential smoothing.
- C range forecasting.
- D regression analysis.

**B27 What can be inferred from the regression analysis?**

- A As balances increase, sales must thereby increase.
- B Forecast accuracy maybe unreliable.
- C There is a non-linear relationship between sales and cash balances.
- D There is no relationship between sales and cash balances.

**B28 What key supplier risks are evident from the case for PS?**

- A Credit risk of supplier and financial supply chain.
- B Foreign exchange and supplier dependence.
- C Political and financial supply chain.
- D Supplier dependence and political.

**B29 Which of the following would be appropriate for the factory project.**

- A Advance payment to the contractor.
- B Asset securitisation.
- C Municipal bond.
- D Performance bond.

**B30** What type of agreement is relevant to PS's finance function?

- A Interest offset agreement.
- B Non-disclosure agreement.
- C Service level agreement.
- D Terms of trade agreement.

**Section C – 40 marks**  
**This section consists of 4 case study form questions**

**Question 1**

TSH manufactures garden furniture, which it sells through independent retail outlets and directly through on-line sale to individual consumers.

The assistant treasurer of TSH has been asked to review the company's working capital position against that of the industry average and has partially completed this review.

The treasurer of TSH has suggested that a sales discount of 1% for payment on delivery sounds like a very attractive proposition in view of the fact that the company pays 2% interest on short-term borrowings.

The assistant treasurer's analysis of TSH's working capital position is shown below:

<b>TSH annual figures</b>	<b>EUR '000</b>	<b>TSH end of year figures</b>	<b>EUR '000</b>	<b>TSH working capital days</b>	<b>Industry average working capital days</b>
Turnover	200	Accounts receivable	50	91.3	90
Purchases	110	Accounts payable	20		65
Cost of sales	120	Inventory	25		65
		Total working capital			90

- a. Calculate the working capital days required to complete the treasurer's working capital analysis.  
**(3 marks)**
- b. Describe appropriate ways of improving TSH's working capital position in areas where it underperforms against the industry average.  
**(4 marks)**
- c. Discuss the validity of the treasurer's comment with regards to providing a sales discount for payment on delivery.  
**(3 marks)**

**(Total 10 marks)**

**Question 2**

Company Fosytts is exporting goods to company Everlyin, located in a foreign country. Fosytts has previously insisted on payments being made in advance but Everlyin is now seeking to pay by documentary credit instead.

- a. Identify **THREE** risks faced by a company that is involved in international trade as a buyer.  
**(3 marks)**
  
- b. Explain why Everlyin might prefer to make the payment using a documentary credit and why Fosytts is likely to resist such a change.  
**(3 marks)**
  
- c. Explain the role of the issuing bank in the payment made by Everlyin to Fosytts using a documentary credit.  
**(4 marks)**

**(Total 10 marks)**

**Question 3**

Company Bold plans to pay a dividend of EUR20m in 90 days' time. The funds are available now and Bold's treasurer is considering how best to invest these funds in the interim.

The treasurer is considering investing in one or more of the following instruments:

- EUR20m in a 90-day money market deposit with Safe bank at interest of 4.7%
- EUR20.5m nominal of a 180-day certificate of deposit with Secure bank at an issue price of EUR20m, (equivalent to a yield of 5%).

Secure bank has a lower credit rating than Safe bank.

- a. Identify **FOUR** key considerations that a treasurer should take into account when deciding how best to invest surplus cash.

**(2 marks)**

- b. Calculate:

- i. the interest for the 90 day period for the money market deposit
- ii. for the CD
- iii. the holding period interest for the CD.

**(5 marks)**

- c. Explain **THREE** factors, which are relevant to the treasurer's decision on whether to invest in the certificate of deposit or money market deposit under consideration.

**(3 marks)**

**(Total 10 marks)**



**Question 4**

RT is a company based in the UK. RT manufactures equipment.

The GBP bank account showed a cleared credit balance of GBP50,000 at the end of Monday 1 July.

RT's latest bank statement shows the following entries:

Ledger date	Value date	Debits (GBP)	Credits (GBP)
28 June	2 July	(20,000)	
1 July	3 July		80,000
2 July	4 July	(10,000)	
3 July	4 July		50,000

Interest is earned on credit balances on a banded basis using the following tiered interest rates:

Range (GBP)	Interest rate
0 – GBP50,000	0%
GBP50,001 to GBP120,000	2%
Above GBP120,000	3%

- a. Describe two types of value dating, giving an example of when each would apply. (3 marks)
  
- b. Calculate the cleared balance, interest rate and interest earned each day. (5 marks)
  
- c. Discuss whether the interest earned would have been higher if interest rates had been set on a stepped basis. (2 marks)

**(Total 10 marks)**

## Formulae sheet: Unit 2 Cash and Liquidity Management

---

### Cash flow forecasts using financial statements:

- change in cash = opening balance +/- income/expense – closing balance
- capex = closing balance + net book value of disposals + depreciation – opening balance
- sale proceeds = net book value of disposals + profit on disposal.

### Working capital:

- receivables days = (accounts receivable/annual sales) x 365
- payables days = (accounts payable/annual purchases) x 365
- inventory days = (inventory/annual cost of goods sold) x 365.

## Answers and Unit references – Section A

Question	Unit & LO	Correct answer	Question	Unit & Section in Book	Correct answer
A01	LO4	C	A13	LO5	B
A02	LO4	D	A14	LO5	C
A03	LO4	B	A15	LO6	B
A04	LO4	A	A16	LO6	B
A05	LO4	C	A17	LO6	B
A06	LO4 Calculation	D	A18	LO6	D
A07	LO4	C	A19	LO6	D
A08	LO4 Calculation	B	A20	LO6	B
A09	LO6	D	A21	LO4	C,D
A10	LO4	B	A22	LO5	A,C
A11	LO5	A	A23	LO5	A,D,E
A12	LO5 Calculation	A	A24	LO5	C,E

<b>Question</b>	<b>Unit</b>	<b>Correct answer</b>	<b>Question</b>	<b>Unit</b>	<b>Correct answer</b>
<b>A25</b>	<b>LO5</b>	<b>B,D</b>	<b>A28</b>	<b>LO6</b>	<b>B,C,D</b>
<b>A26</b>	<b>LO6</b>	<b>A,B</b>	<b>A29</b>	<b>LO6</b>	<b>A,C,D</b>
<b>A27</b>	<b>LO6</b>	<b>C,E</b>	<b>A30</b>	<b>LO6</b>	<b>D,E</b>

## Answers and Unit references – Section B

Question	Unit & LO	Correct answer	Question	Unit & Section in Book	Correct answer
B01	LO4	C	B13	LO6	A
B02	LO4	A	B14	LO4	D
B03	LO4	C	B15	LO4	D
B04	LO5	B	B16	LO6	A
B05	LO6	A	B17	LO5	B
B06	LO5	D	B18	LO5	C
B07	LO5	A	B19	LO6	D
B08	LO5	C	B20	LO4	D
B09	LO4	D	B21	LO4	A
B10	LO6	C	B22	LO5	D
B11	LO6	B	B23	LO6	D
B12	LO6	D	B24	LO5	B

<b>Question</b>	<b>Unit</b>	<b>Correct answer</b>	<b>Question</b>	<b>Unit</b>	<b>Correct answer</b>
<b>B25</b>	<b>LO6</b>	<b>A</b>	<b>B28</b>	<b>LO5</b>	<b>C</b>
<b>B26</b>	<b>LO4</b>	<b>C</b>	<b>B29</b>	<b>LO5</b>	<b>D</b>
<b>B27</b>	<b>LO4</b>	<b>B</b>	<b>B30</b>	<b>LO6</b>	<b>C</b>

C1a	Syllabus refs: U2:1.3 & 1.4: LO4	<b>Mark Scheme</b>				1 mark per calculation  (3 marks)		
		<b>TSH annual figures</b>	<b>EUR '000</b>	<b>TSH end of year figures</b>	<b>EUR '000</b>		<b>TSH working capital days</b>	<b>Industry average working capital days</b>
		<b>Turnover</b>	200	Accounts receivable	50		91.3	90
		<b>Purchases</b>	110	Accounts payable	20		66.4 (= 20/110 x 365)	65
		<b>Cost of sales</b>	120	Inventory	25		76.0 (= 25/120 x 365)	65
		Total working capital	55	100.4 (= 55/200 x 365)	90			
C1b		<ul style="list-style-type: none"> <li>• TSH should focus on improving control of inventory as its inventory days are considerably higher than the industry average.</li> <li>• Inventory can be improved by keeping inventory levels low as possible but still be able to meet customer requirements.</li> <li>• Mathematical models can be used to determine optimum reordering levels.</li> <li>• Just-in-time (JIT) can also be used to minimise raw material storage.</li> <li>• (No marks for mentioning consignment inventory arrangements as these would increase rather than reduce inventory levels for TSH.)</li> </ul>				1 mark per point up  (4 marks)		
C1c		<p>Mr T is not correct, as the sales discount is more expensive than borrowing.</p> <p>The sales discount only releases funds 90 days earlier at a cost of 1% which is approximately equivalent to 4% a year.</p> <p>The borrowing rate on short-term funds is considerably lower at 2% a year.</p>				1 mark per point  (3 marks)		
<b>Total 10 marks</b>								

C2a	<b>Syllabus refs:</b> <b>U2:2.4:</b> <b>LO5</b>	<p>Risks for an international trade buyer/importer:</p> <ul style="list-style-type: none"> <li>• harder to assess the credit risk of a foreign supplier</li> <li>• credit and political risk on country</li> <li>• credit risk on banks used to process payment</li> <li>• quality and timeliness of receipt to goods</li> </ul>	<p>1 mark per point up</p> <p><b>(up to 3 marks)</b></p>
C2b		<p>Everlyin would prefer a documentary credit as it has greater reassurance that it will receive the goods. However, it still has no assurance that the goods are acceptable. Payment is made against correct documentation rather than acceptable quality of goods. Fosytts would prefer payment in advance so that payment is received as early as possible.</p>	<p>1 mark per point</p> <p><b>(3 marks)</b></p>
C2c		<p>The issuing bank:</p> <ul style="list-style-type: none"> <li>• issues the documentary credit on instruction from Everlyin</li> <li>• inspects the documents under the documentary credit and approves payment</li> <li>• charges Everlyin's bank account with the cost of the goods</li> <li>• pays Fosytts after inspecting the documents.</li> </ul>	<p>1 mark per point</p> <p><b>(4 marks)</b></p> <p><b>Total 10 marks</b></p>
C3a	<b>Syllabus refs:</b> <b>U2:3.4:</b> <b>LO6</b>	<p>Factors to take account of for surplus cash:</p> <ul style="list-style-type: none"> <li>• security</li> <li>• liquidity</li> <li>• maturity</li> <li>• yield.</li> </ul>	<p><math>\frac{1}{2}</math> mark per point</p> <p><b>(up to 2 marks)</b></p>
C3b		<p>Interest calculations</p> <p>i. MMD deposit = <math>20m \times 90 / 360 \times 4.70\% = 235,000</math></p> <p>ii. CD = <math>20.5m / (1 + 5\% \times 90/360) = 20,246,913.58</math> Interest = 246,913.58</p> <p>iii. Holding period interest = <math>(20,246,913.58 / 20,000,000 - 1) \times (360/90) = 4.9383\%</math></p>	<p><b>1 mark</b></p> <p><b>2 marks</b></p> <p><b>2 marks</b></p> <p><b>(5 marks)</b></p>
C3c		<p>Relevant factors for a decision on CD:</p> <ul style="list-style-type: none"> <li>• <b>security:</b> Secure bank issuing the CD has a lower credit rating than Safe bank</li> <li>• <b>liquidity:</b> the CD can be sold before maturity but the MM deposit cannot</li> <li>• <b>yield:</b> the CD has a higher return than the MMD which is surprising given it has more flexibility/liquidity.</li> </ul>	<p><b>1 mark per point</b></p> <p><b>(3 marks)</b></p> <p><b>Total 10 marks</b></p>



C4a	<b>Syllabus refs:</b> <b>U2:3.1</b> <b>&amp; 3.2:</b> <b>LO6</b>	<p>Forward value dating is where the customer is given a later value date and the bank earns interest on the funds up to that date e.g. collect value for cheque day two and give customer value day four.</p>	<p><b>1 ½ mark per point</b></p>																				
C4b		<p>Back value dating is where the customer is given a value date earlier than the date that the bank obtains value for the funds. E.g. to correct a bank error.</p>	<p><b>(up 3 marks)</b></p>																				
C4c		<table border="1" data-bbox="352 613 895 815"> <thead> <tr> <th>Date</th> <th>Cleared balance</th> <th>Int Rate</th> <th>Interest per day</th> </tr> </thead> <tbody> <tr> <td>01-Jul</td> <td>50,000</td> <td>-</td> <td>0</td> </tr> <tr> <td>02-Jul</td> <td>30,000</td> <td>-</td> <td>0</td> </tr> <tr> <td>03-Jul</td> <td>110,000</td> <td>2%</td> <td>6</td> </tr> <tr> <td>04-Jul</td> <td>150,000</td> <td>3%</td> <td>12</td> </tr> </tbody> </table> <p>On a <i>stepped basis</i> interest is calculated in increments on the balance.</p> <p>For example, the balance of GBP 110,000 would only earn 2% interest on GBP 60,000, the value above GBP 50,000.</p> <p>The company would therefore prefer a banded basis.</p>	Date	Cleared balance	Int Rate	Interest per day	01-Jul	50,000	-	0	02-Jul	30,000	-	0	03-Jul	110,000	2%	6	04-Jul	150,000	3%	12	<p><b>½ mark each number in table (ignore – dashes)</b></p> <p><b>(up to 5 marks)</b></p> <p><b>1 mark per point</b></p> <p><b>(up to 2 marks)</b></p> <p><b>Total: 10 marks</b></p>
Date	Cleared balance	Int Rate	Interest per day																				
01-Jul	50,000	-	0																				
02-Jul	30,000	-	0																				
03-Jul	110,000	2%	6																				
04-Jul	150,000	3%	12																				

ACT (Administration) Limited  
150 Minories  
London  
EC3N 1LS

[www.treasurers.org](http://www.treasurers.org)

Copyright © ACT (Administration) Limited 2022

All rights reserved. Except as permitted under current legislation you may not photocopy, store in a retrieval system, publish, perform in public, adapt, broadcast, transmit, record or reproduce in any form or by any means or medium any part of this work without ACT (Administration) Limited's permission.

We intend this publication as a guide and not professional advice. Although we have made every effort to ensure that the contents are correct at the time of publication, ACT (Administration) Limited makes no warranty that the information in this publication is accurate or complete and accepts no liability for any loss or damage suffered by any person acting or refraining from acting as a result of anything in this publication.