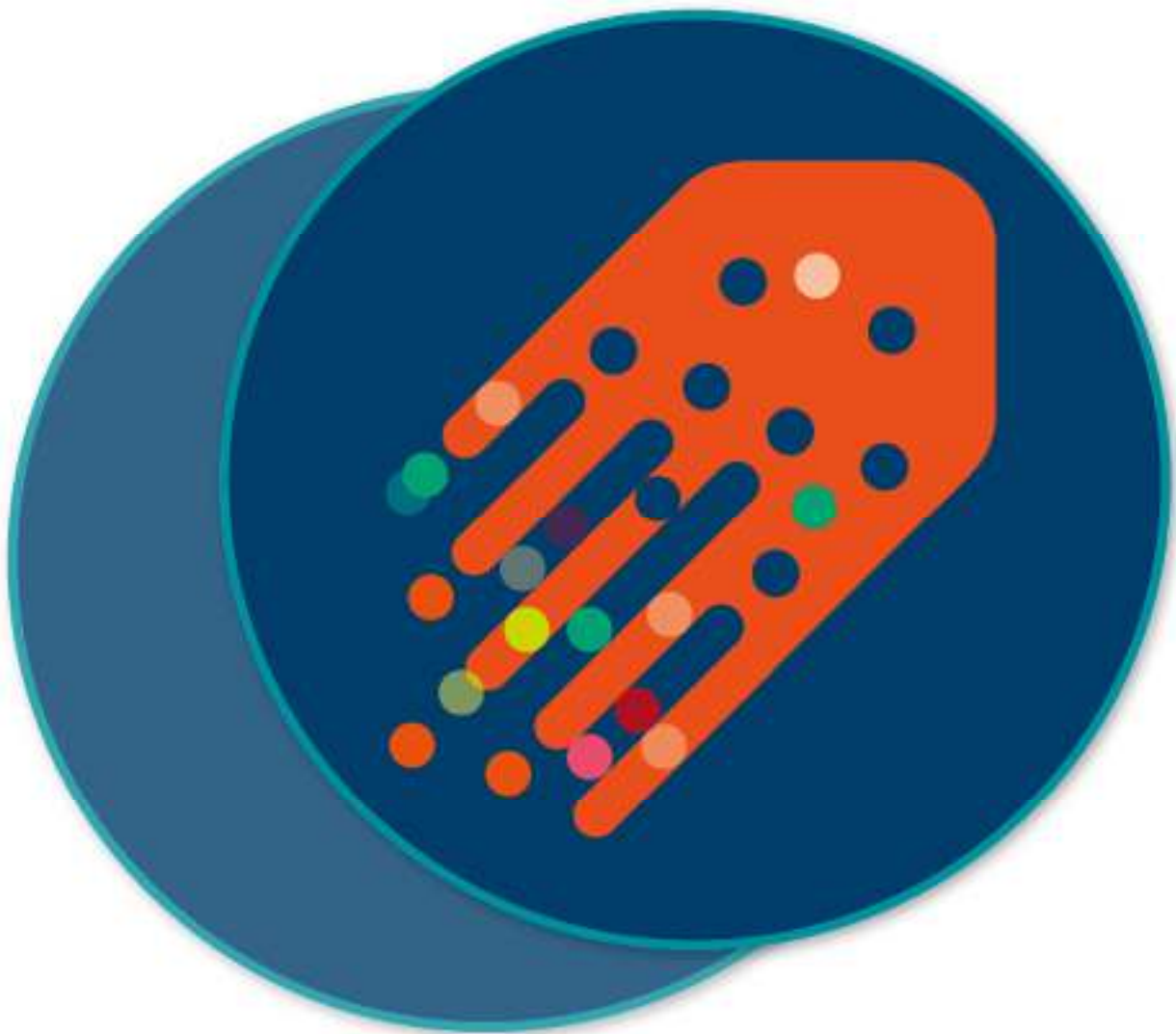


ACT Practice Paper

Certificate in Treasury Unit 4

Practice Paper



Practice paper for the Certificate in Treasury Unit 4

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 4 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.
Total	64	100	

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 no formulae sheet for this unit.

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 Non-compliance penalties for Sarbanes-Oxley are focused on the:

- A chief executive officer and the chief financial officer.
- B company's legal counsel.
- C regulator.
- D treasurer.

A02 A key requirement of European Market Infrastructure Regulation is that:

- A corporate governance changes must be reported daily.
- B corporate treasuries must report all derivatives trading in detail.
- C impairment of financial assets must conform to certain standards.
- D Pillar 2 capital add-ons must be incorporated.

A03 When compared to other divisions, operational risk experienced in treasury is considered:

- A higher as the turnover of money is higher.
- B lower as treasury is a back-office function.
- C lower as treasury is not dealing with customers.
- D the same as in other divisions.

A04 Goodwill is classified on the Statement of Financial Position as a:

- A current asset.
- B current liability.
- C non-current asset.
- D non-current liability.

A05 Key performance indicators are most likely to be used to:

- A calculate corporation tax payable.
- B define the remit of external auditors.
- C measure the effectiveness of treasury policy.
- D set the treasury team's future strategic vision.

A06 In the context of European Market Infrastructure Regulation, 'clearing' is defined as the process of:

- A direct dealing and tailoring of financial contracts between counterparties.
- B ensuring that sufficient collateral is held by counterparties within a 24-hour window.
- C resolving disputed transactions within five business days.
- D transmitting, reconciling and confirming payment orders of securities prior to settlement.

A07 The starting figure used to create a statement of cashflows is the:

- A net cash inflow from operating activities.
- B net cash outflow.
- C sales turnover.
- D total equity.

A08 Which of the following shows specifically the scale of investment and bank debt repayment in a financial year?

The statement of:

- A cashflows.
- B changes in equity.
- C financial position.
- D profit or loss and other comprehensive income.

A09 Asset turnover is calculated by:

- A dividing assets in year two by assets in year one.
- B dividing operating profits by revenue.
- C dividing revenue by capital employed.
- D subtracting current liabilities from current assets.

A10 Which of the following is a measure of creditworthiness?

- A Acid test.
- B Asset turnover.
- C Dividend cover.
- D Price to earnings ratio.

A11 Under International Accounting Standards, once an exposure or position is offset by using a derivative, it is referred to as:

- A a hedged item.
- B a vanilla trade.
- C an exposure.
- D an indirect tax.

A12 A parent company has a subsidiary which operates in a foreign jurisdiction. The subsidiary has to pay a dividend to the parent.

Which tax consideration would affect the amount received by the parent?

- A Capital tax.
- B Foreign Entity Capitalisation tax.
- C Income tax.
- D Withholding tax.

A13 Which of the following is a typical penalty for a member of an industry association who fails to comply with its ethical code?

- A Criminal prosecution.
- B Expulsion.
- C Monetary fine.
- D Naming in the national press.

A14 A policy document states:

- A a narrow application of detail and changes frequently.
- B a narrow application of detail and changes infrequently.
- C an overall plan and changes infrequently.
- D information relevant only to the board and changes frequently.

A15 Controls within treasury procedures address how:

- A daily tasks will be performed.
- B financial risk management policy will be implemented.
- C operational risk management policy will be implemented.
- D third party relationships are to be managed and controlled.

A16 The use of spreadsheets for treasury transaction management has been raised as a significant control weakness of firms reporting under the requirements of:

- A Basel III.
- B Dodd-Frank.
- C Sarbanes-Oxley.
- D the UK Corporate Governance Code.

A17 Which of the following is an important characteristic of an effective evaluation system for treasury policy?

It must:

- A be quantifiable and objective whenever possible.
- B contain measurements which are in addition to the stated policy.
- C focus exclusively on internal measurement.
- D measure only one type of risk.

A18 Ultimate responsibility for determining and approving treasury policy lies with the:

- A chief financial officer.
- B main board.
- C treasurer.
- D treasury staff.

A19 Which of the following statements about the principles of Sarbanes-Oxley (SOX) is true?

SOX:

- A increases the governance role of corporate management, accountability in reporting financial results and maintenance of sound internal controls.
- B is a system designed to protect the interests of external auditors and professional advisors when providing financial reporting advice.
- C is only relevant to Japan and is called J-SOX.
- D provides protection for middle and back-office staff.

A20 What guidance is given to treasury staff by ACT's ethical code regarding gifts, services and hospitality?

- A Board approval should be obtained for any gift that is not immaterial.
- B They can be accepted in the usual course of business.
- C They should never be accepted.
- D They should never be accepted if judgement or loyalty might be affected or might appear to be affected.

A21 Which of the following are operational controls provided through the enhanced security within a treasury management system?

Select ALL that apply.

- A Audit trails.
- B IFRS 9 compliant spreadsheets.
- C Limit management.
- D Manual processes.
- E Workflow controls.

A22 Which THREE of the following are sources of operational risk in treasury?

- A Unlawful activity.
- B Foreign exchange.
- C Insurance.
- D Procedures.
- E Systems.

A23 Which TWO of the following are definitions of ethical culture?

- A A formal process which dictates how a group of individuals must act together.
- B A guide to staff on how they should conduct themselves.
- C A moral code of conduct that an organisation applies both internally, and in its dealings with others.
- D A moral code which must be documented to be effective.
- E A set of personal beliefs, values and principles that influence the behaviour of individuals.
- F An acceptance that different individuals may have different principles.

A24 Which THREE of the following do Basel III regulations cover in an attempt to reduce the risk of bank failures?

- A Capital adequacy.
- B Contingency planning.
- C Counter terrorism funding.
- D Liquidity.
- E Money laundering.
- F Sanctions.

A25 Which of the following would be contained in an operational risk report?

Select ALL that apply.

- A Amended deals.
- B Earnings before interest and tax.
- C Limit breaches.
- D Operating costs.
- E Transfer pricing costs.
- F Unreconciled items.

A26 Which of the following are fundamental principles governing the conduct of a member of the ACT?

Select ALL that apply.

- A Capital adequacy.
- B Confidentiality.
- C Courtesy and consideration.
- D Independence.
- E Integrity.
- F Professional competence.

A27 Which THREE of the following obligations does EMIR impose?

- A The clearing obligation.
- B The margin obligation.
- C The settlement obligation.
- D Reporting and record keeping.
- E The currency obligation.

A28 Treasury procedures collated into a treasury manual address which of the following?

Select ALL that apply.

- A Risk management.
- B Controls.
- C Internal operations.
- D Key performance indicators.
- E The role of the risk management committee.

A29 Which TWO of the following statements are true for a company that has no investment activities?

- A If its net cashflows from operating and financing activities are equal and opposite, then there would be no change in its cash position.
- B If net cashflow from operating activities is +100 and net cashflow from financing activities is +500 then the change in cash position is +400.
- C If net cashflow from operating activities is +100 and net cashflow from financing activities is -200 then the change in cash position is -100.
- D the change in cash position and the statement of cashflows must not equal.
- E the statement of cashflow cannot be prepared.

30 Which THREE of the following are generally calculated in a typical statement of cashflows?

Net cash inflow from:

- A audit activities.
- B financing activities.
- C investing activities.
- D operating activities.
- E pension activities.

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

Case study 1

International Aviation Group (IAG) is a global company. Its group treasurer (GT) has become concerned recently about increased internal processing and systems risks. To tackle these issues the GT has introduced new policies aimed at reducing risk. In addition, following an independent review of controls, the GT has made changes that will ensure employees who have initiated transactions cannot also be involved in approving payments.

IAG's accountants have recently completed a financial audit. This revealed a significant increase in new patents which IAG has recently registered in relation to several new product development initiatives. These patents are of considerable value and will need to be accounted for in next year's financial statements. The IAG finance team has also undertaken a comprehensive review of next year's financial plan. The plan shows a very positive picture of what lies ahead for the business, with cash and other current assets increasing whilst short-term liabilities will reduce.

IAG has been implementing a digitisation programme across the business. It has achieved considerable efficiency gains through transaction entry and approval without the need for any manual intervention. This has removed the previous need for considerable input from staff and management at various stages.

B01 The GT's new policies are aimed specifically at reducing which of the following risks?

- A Counterparty risk.
- B Credit risk.
- C Market risk.
- D Operational risk.

B02 Which of the following has been introduced following the independent review of controls?

- A Code of ethics.
- B Corporate governance.
- C Performance management process.
- D Segregation of duties.

B03 Which of the following will occur as a direct result of IAG's new product development activities?

- A Inventory levels will fall.
- B Intangible assets will increase.
- C Profit margins will reduce.
- D The amount of debt will grow.

B04 Which of the following will happen based on next year's financial plan?

IAG's:

- A current ratio will show improvement.
- B earnings per share will decline.
- C gearing will deteriorate.
- D revenues growth will exceed inflation.

B05 Efficiency gains have been achieved through which of the following?

- A Batch payment authorisations.
- B Delegated limits.
- C Encrypted messaging.
- D Straight through processing.

Case study 2

A cash management consultant (CMC) is delivering a one-day workshop at Power Components Inc (PCI). The first session focuses on financial ratios. The CMC tells attendees, in their opinion, the most important ratio measures how much the company is financed by debt relative to its equity. The CMC also explains how to calculate the current ratio, which they say is relevant for understanding liquidity.

PCI's latest financials are:

CCY'000	20X2	20X1
Total current assets	3,505,000	4,072,000
Revenues	17,975,000	16,540,000
Retained profit	1,617,750	1,001,500
Total current liabilities	2,690,000	2,545,000
Long-term loan (15 years)	3,750,000	3,995,000

The second session focuses on treasury policy and procedures. The CMC explains a commonly used practice of only communicating issues internally to senior management when there is a breach of policy or if something unplanned that happens.

In the day's final session, the CMC discusses treasury management systems (TMS). They explain PCI's TMS which has been built by its own development team and to PCI's very precise and unique requirements. Whilst PCI's is a unique system, the CMC explains that PCI used a specific technique to gather market intelligence to inform its decisions about what to incorporate within its own TMS.

B06 The CMC believes which of the following is the most important ratio?

- A Gearing.
- B Interest cover.
- C Margin.
- D Return on investment.

B07 Based on the CMC's comments, what is the ratio percentage in relation to PCI's liquidity in 20X2?

- A 0.54%.
- B 0.75%.
- C 1.3%.
- D 1.6%.

B08 In the second session of the workshop the commonly used practice explained by the CMC is which of the following?

- A Exception reporting.
- B Management information.
- C Project management.
- D Regulatory monitoring.

B09 PCI's TMS is best described as which of the following?

- A In-house bespoke.
- B Off-the-shelf.
- C Standard solution.
- D Third-party developed.

B10 Which of the following did PCI use to inform its decision-making about its TMS?

- A Data analysis report.
- B Internal benchmarking study.
- C Key performance indicators.
- D Request for information.

Case study 3

The board of **Consumer Services Group (CSG)** is concerned about declining revenues and profitability.

CSG's recent financials are:

CCY'000	20X2	20X1
Operating profits	4,619	12,266
Inventory	55,225	53,000
Equity	31,700	31,700
Current liabilities	64,000	61,850
Revenues	153,950	175,225

To drive revenues, CSG will be promoting to the market its new strategy which focuses on reducing its greenhouse gas emissions.

Some of CSG's stakeholders are frustrated by the behaviour of the business and so the board has decided to introduce a clear policy on what it considers to be acceptable and unacceptable behaviour. The policy is effectively a set of principles that all employees must follow. One particular aspect requires employees to report any situations where their decision-making might be impacted by their relationships with third parties. Recently, a CSG procurement manager awarded a contract to a supplier which was owned by a relation of the procurement manager.

The board also has concerns about the security of its technology. In particular it is worried that the information CSG holds might be lost or corrupted and the impact this would have on business if this information could not be easily restored. An IT consultant has recommended an immediate improvement.

B11 CSG's operating profit margin for 20X2 is:

- A 1.5%.
- B 3%.
- C 6%.
- D 7%.

B12 CSG's strategy is focused primarily on which of the following considerations?

- A Community.
- B Environmental.
- C Governance.
- D Social.

B13 The board of CSG has introduced which of the following?

- A Ethical code.
- B Performance framework.
- C Regulatory guidance.
- D Training needs analysis.

B14 The situation between the procurement manager and the supplier is best described as which of the following?

- A Breach of confidentiality.
- B Bribery.
- C Conflict of interest.
- D Fraud.

B15 The IT consultant has most likely recommended that CSG makes immediate improvements to which of the following?

- A Authorisation limits.
- B Back-up data.
- C Digital signatures.
- D Encrypted messaging.

Case study 4

International Treasury Monthly (ITM) is a highly regarded online magazine for corporate treasury professionals. Each month it focuses on a wide range of highly relevant and topical issues. Its lead article this month is about EMIR (European Market Infrastructure Regulation) and its implications for treasury. It also includes an interesting report this month on how the Sarbanes-Oxley Act has impacted major organisations, their policies and frameworks of management. This month's edition includes a special feature supplement comprising an update from the Financial Action Task Force (FATF) including a range of measures that can be taken by all organisations to help combat criminal activities. This month's guest writer is the group treasurer from Major Conglomerate Group (MCG). MCG is well known to have embraced emerging technologies across its business. It has a fully integrated business-wide system, used by all of its different functional areas. The group treasurer sets out the process that MCG used to select the best system. Having finally narrowed the choice down to three potential suppliers MCG issued a document to all three bidders which enabled a final decision to be made, with bids assessed against criteria reflecting MCG's specific requirements.

B16 This month's ITM lead article is most relevant to readers who use which of the following?

- A Debt.
- B Derivatives.
- C Equity.
- D Technology.

B17 This month's report focuses on which of the following?

- A Business ethics.
- B Corporate governance.
- C Organisational culture.
- D Performance monitoring.

B18 The special feature supplement relates specifically to which of the following?

- A Cyber-crime.
- B Fraud.
- C Identity theft.
- D Money laundering.

B19 MCG has which of the following?

- A Accounts payable module.
- B Automated reconciliation platform.
- C Enterprise resource planning system.
- D Treasury reporting interface.

B20 MCG used which of the following documents?

- A Application form.
- B Bank mandate.
- C Confidentiality agreement.
- D Request for proposal.

Case study 5

A business analyst (BA) has been hired by **Automotive Manufacturing Inc** (AMI) to undertake an assessment of Component Parts Group (CPG), which AMI is hoping to acquire. There are some concerns, amongst AMI's board members, that CPG's culture does not align with AMI's. They are particularly concerned about AMI's pursuit of risk and its risk capacity. In addition, CPG has received some negative media coverage in the past about unethical practices amongst its sales and procurement teams. The BA has already highlighted this as a risk for AMI if the acquisition goes ahead. The BA has also raised concerns about the large amount of debt CPG has to finance especially as it has very low profitability. A key financial ratio has been deteriorating annually in relation to this concern.

More positively, CPG has state-of-the-art systems which could easily be extended across the enlarged business. CPG's treasury management system (TMS) includes automated bank reporting and reconciliation tools with cash positions updated continually throughout the day, reflecting any changes as payments are made and collections received. CPG's system also includes very clear and detailed records of all transactions, who approved them, when they were processed and by who.

B21 The concerns of some AMI board members relate to which of the following? CPG's:

- A risk appetite.
- B risk management.
- C risk recording.
- D risk reporting.

B22 The BA has highlighted which type of risk for AMI?

- A Counterparty risk.
- B Credit risk.
- C Reputational risk.
- D Systemic risk.

B23 Which is the key financial ratio that relates to the BA's concerns about CPG's financial situation?

- A Earnings per share.
- B Interest cover.
- C Leverage ratio.
- D Return on capital.

B24 CPG's treasury management system includes which of the following?

- A Hedge accounting software.
- B Real-time reporting.
- C Sales management tools.
- D Spreadsheet analysis.

B25 CPG's system provides which of the following?

- A Audit trail.
- B Continuity management.
- C Encrypted messaging.
- D Risk management.

Case study 6

Fun-time Group (FTG) is an international toys and games manufacturer. An extract from its latest financial statements is as follows:

CCY'000	20X2	20X1
Operating Profits	29,525	30,700
Revenue	718,000	695,750
Total capital employed	64,600	57,920
Intangible assets	16,070	14,200

Representatives from treasury and finance are working on a project to identify improvements to FTG's return on capital. The project team is also identifying how to improve FTG's liquidity. The project team has data showing total current assets and total current liabilities, but cannot calculate the quick ratio.

The FTG board has hired a consultant to assess two areas for the business. The first is a review of FTG's ethical code of conduct as the board wishes to encourage employees to report any examples of unethical practices and wants to enable them to do this anonymously. The second area relates to digitisation of the business and how to combat cyber risks. In particular the FTG board is keen to explore new opportunities especially the use of crypto currencies. The FTG board is also seeking improvements to tighten the security of its internal systems in particular to prevent attacks by programs designed to disrupt or damage its platform and data records.

B26 What is FTG's return on capital employed in 20X2?

- A 4.1%.
- B 36.6%.
- C 45.7%.
- D 53.0%.

B27 What additional information does the project team require to complete the calculation?

- A Accounts payable.
- B Accounts receivable.
- C Cash.
- D Inventories.

B28 What is the consultant most likely to recommend to the board within the first review?

- A External reporting.
- B Health and safety records.
- C Regulatory training.
- D Whistleblowing policy.

B29 Which of the following is an example of the type of opportunity the FTG board is keen to explore?

- A Bitcoin.
- B Derivatives.
- C Futures.
- D Options.

B30 Which of the following would achieve the improvement to FTG's systems?

- A Encryption.
- B Digital signatures.
- C Malware protection.
- D Passwords.

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

Question 1

EXpresso (EX) is a large and mature European corporate group. It sources, blends, roasts, packages and distributes coffee. EX has a global presence, with some form of business activity in over 75 different countries (many of which are in Africa, South America and Asia, given its core product).

While EX attempts to prioritise clear client communication and risk management, it has recently experienced two significant operational shortcomings. The first led to an important client being invoiced in the wrong currency and the second led to a large invoice not being raised at all.

As a result, the senior leadership team and the treasurer have agreed that it is a strategic priority to update the legacy management systems that currently exist across the EX group. A significant budget for the update has just been approved by EX's board. Ample funds will be made available to pay for any one of the four broad categories of treasury management system (TMS), as long as the system chosen meets the needs of EX in the most cost-effective way.

The treasurer is leading an implementation project with the objective of delivering a new TMS which is capable of:

- managing multiple currencies
- streamlining client communications
- prioritising risk reporting across the group.

The detailed requirements for the new system have now been completed and are signed off by EX's senior leadership team.

- a. Recommend and justify the most effective TMS solution from the four broad categories available which will meet the stated requirements of EX.

(7 marks)

- b. Outline the **THREE** initial selection process steps EX should take to identify a suitable provider for its new TMS.

(3 marks)

(Total 10 marks)

Question 2

In order to maximise shareholder wealth, companies seek to legitimately minimise their tax costs as returns to shareholders are paid out of taxed profits. In addition to minimising tax costs, tax payments represent a substantial cash outflow that treasurers should be aware of in order to manage cash in line with achieving corporate goals.

You work for a multinational company, with subsidiaries based all over the world. At the moment, many of the subsidiaries have their own treasury department, but a recent review of the treasury function has recommended that treasury is centralised. This will facilitate efficiency and control over the treasury function.

Specifically, from this centralised treasury function, control will be exerted over:

- treasury fees charged to each subsidiary relative to their use of the centralised treasury function
- administration and management of loans to subsidiaries, ensuring a tax-efficient balance between equity and debt is achieved
- prices at which goods and services are traded between group entities
- awareness of the tax consequences when setting up new operations overseas and the terms of jurisdictional bilateral tax treaties.

a. Compare the underlying concepts of accounting profit with taxable profits.

(4 marks)

b. Discuss the potential tax effects of the proposal set out in the scenario above.

(6 marks)

(Total 10 marks)

Question 3

You have recently been offered a promoted position as a treasury manager with **Azluz plc**, and you are considering whether to accept or not. You have become aware, from articles in the financial press, that concern has been raised about the corporate governance of Azluz plc and about the chair of the board of directors.

You decide to look at the Azluz plc's Corporate Governance Report and find the following:

“although our current board structure is out of line with the UK Corporate Governance Code, we believe that robust governance is maintained to enable an effective board of directors and ensure oversight of executive decisions. We recognise the concerns that have been raised by our internal review of corporate governance and, in order to meet the main principles of the Code, we are considering recruiting more independent directors to increase the diversity on the board”.

You notice that the chair of the board of directors is also the chief executive of the company and chairs the audit committee. The nominations committee and remuneration committee are constituted by executive directors. Looking at the directors' remuneration report, you can see that each director earns a very competitive salary with benefits linked to company performance.

- a. Summarise the main principles of the UK Corporate Governance Code.

(4 marks)

- b. Discuss the actions that Azluz plc should take to comply with the UK Corporate Governance Code.

(6 marks)

(Total 10 marks)

Question 4

You work in the treasury front office as a dealer. One of your duties is to monitor company performance using financial statement analysis in order to identify potential equity purchases and make recommendations to your manager.

You have been asked to analyse the position and performance of Beta Ltd and Zeeko Ltd to evaluate whether an equity share in one of these companies might proceed to purchase. In this respect, you requested to see the primary financial statements of each company in order to calculate key ratios to inform your recommendation.

You have been given the information needed on the financial statement:

Statement of comprehensive income for the year to 31 May 2020		
	Beta Ltd	Zeeko Ltd
	EUR	EUR
Revenue	1,540,628	1,185,099
Cost of sales	(1,289,022)	(991,555)
Gross profit	251,607	193,544
Depreciation	(7,048)	(5,422)
Distribution expenses	(17,432)	(13,409)
Administration expenses	(87,622)	(79,402)
Operating profit	139,505	95,311
Interest cost	(3,757)	(5,390)
Taxation	(2,653)	9,959
Profit for the year	133,095	99,881

Statement of financial position for the year ending 31 May 2020				
		Beta Ltd		Zeeko Ltd
	EUR	EUR	EUR	EUR
Non-current assets:				
Plant, property and machinery		139,356		127,197
Intangible assets		56,552		73,502
Total non-current assets		195,908		200,699
Current assets:				
Cash and cash equivalents	3,244		250	
Trade receivables	396,150		304,731	
Inventory	159,484		82,680	
Total current assets	558,877		387,661	
Current Liabilities:				
Trade payables	345,865		356,050	
Short-term borrowings	33,640		25,877	
Total current liabilities	379,505		381,927	

Net current assets		179,372		5,734
Non-current liabilities:				
Borrowings		41,925		55,327
Total net assets		333,356		151,105
being:				
Equity share capital		76,212		31,123
Other reserves		56,459		15,930
Profit for the year		133,095		99,881
Retained earnings brought forward		67,590		4,171
Total equity		333,356		151,105

- a. For each company, prepare the following financial ratios in order to analyse their performance and position: Return on Capital Employed; Operating Profit Margin, Asset Turnover, Current Ratio, Gearing ratio and interest cover.

(8 marks)

- b. Recommend to your manager which company should be chosen for potential investment using the ratio information calculated in Question 4a.

You should comment specifically on performance or liquidity or gearing of each company.

(2 marks)

(Total 10 marks)

Answers and Unit references – Section A

Question	Unit & LO	Correct answer	Question	Unit & Section in Book	Correct answer
A01	Unit 4 (4.1.1) LO10	A	A13	Unit 4 (4.1.3) LO10	B
A02	Unit 4 (4.1.1) LO10	B	A14	Unit 4 (4.1.4) LO10	C
A03	Unit 4 (4.1.2) LO10	A	A15	Unit 4 (4.1.4) LO10	C
A04	Unit 4 (4.2.1) LO11	C	A16	Unit 4 (4.1.1) LO10	C
A05	Unit 4 (4.2.4) LO11	C	A17	Unit 4 (4.2.4) LO11	A
A06	Unit 4 (4.1.1) LO10	D	A18	Unit 4 (4.1.4) LO10	B
A07	Unit 4 (4.2.1) LO11	A	A19	Unit 4 (4.1.1) LO10	A
A08	Unit 4 (4.2.1) LO11	A	A20	Unit 4 (4.1.3) LO10	D
A09	Unit 4 (4.2.1) LO11	C	A21	Unit 4 (4.3.3) LO12	A,C,E
A10	Unit 4 (4.2.1) LO11	A	A22	Unit 4 (4.1.2) LO10	A,D,E
A11	Unit 4 (4.2.2) LO11	A	A23	Unit 4 (4.1.3) LO10	B,C
A12	Unit 4 (4.2.3) LO11	D	A24	Unit 4 (4.1.1) LO10	A,B,D

Question	Unit	Correct answer	Question	Unit	Correct answer
A25	Unit 4 (4.2.4) LO11	A,C,F	A28	Unit 4 (4.1.4) LO10	A,B,C
A26	Unit 4 (4.1.3) LO10	B,C,D,E,F	A29	Unit 4 (4.2.1) LO11	A,C
A27	Unit 4 (4.1.1) LO10	A,B,D	A30	Unit 4 (4.2.1) LO11	B,C,D

Answers and Unit references – Section B

Question	Unit & LO	Correct answer	Question	Unit & Section in Book	Correct answer
B01	Unit 4 LO10	D	B13	Unit 4 LO10	A
B02	Unit 4 LO10	D	B14	Unit 4 LO10	C
B03	Unit 4 LO11	B	B15	Unit 4 LO12	B
B04	Unit 4 LO11	A	B16	Unit 4 LO10	B
B05	Unit 4 LO12	D	B17	Unit 4 LO10	B
B06	Unit 4 LO11	A	B18	Unit 4 LO11	D
B07	Unit 4 LO11	C	B19	Unit 4 LO12	C
B08	Unit 4 LO10	A	B20	Unit 4 LO12	D
B09	Unit 4 LO12	A	B21	Unit 4 LO10	A
B10	Unit 4 LO12	D	B22	Unit 4 LO10	C
B11	Unit 4 LO11	B	B23	Unit 4 LO11	B
B12	Unit 4 LO11	B	B24	Unit 4 LO12	B

Question	Unit & LO	Correct answer	Question	Unit & Section in Book	Correct answer
B25	Unit 4 LO12	A	B28	Unit 4 LO10	D
B26	Unit 4 LO11	C	B29	Unit 4 LO12	A
B27	Unit 4 LO11	D	B30	Unit 4 LO12	C

<p>C1a</p>	<p>Syllabus refs: LO12 4.3.2</p>	<p>Mark Scheme</p> <p>There are four primary models of TMS; features as follows.</p> <p>In-house solutions</p> <ul style="list-style-type: none"> • Designed and built systems generally meet the requirements of the larger more complex treasuries. • Organisations with the resources to build and to maintain such a solution are provided with a custom build that is specifically tailored to meet their own particular needs. • Although no longer common, in-house bespoke systems are still used. <p>Off the shelf solutions</p> <ul style="list-style-type: none"> • Dedicated treasury management systems provided by specialist software suppliers. • Evolved from being relatively simple transaction management systems to becoming very powerful stand-alone treasury tools embracing a great deal of flexibility. <p>‘Best of Breed’ configuration</p> <ul style="list-style-type: none"> • Utilised where highly specialised solutions are required. • Some or all of the systems may come from different suppliers. • Complex systems integration and the need for multiple in-house systems expertise are required. <p>Treasury modules of group-wide ERP systems</p> <ul style="list-style-type: none"> • If an ERP solution is being used for financial and other purposes across the group, then there is a natural business logic in also implementing the treasury module. • However, due to the non-specialised nature of this solution, and the fact that an ERP solution is typically driven by a wider Group transformation and integration drive, this option should be considered as part of a thorough selection process to ensure that the specific, defined needs of the treasury operation are best served. <p>Justification and recommendation</p> <p>Key facts relevant to the eventual TMS selection:</p> <ul style="list-style-type: none"> • EX has complex needs (multi-currency and multi-jurisdiction) • EX is seeking multiple points of integration (potentially CRM and ERP) • EX is bringing multiple legacy systems together. <p>There is the potential for either a:</p> <ul style="list-style-type: none"> • best of Breed solution; or 	<p>½ mark per model solution named</p> <p>½ mark per appropriate brief description of the models drawn from the bullet points shown</p> <p>For markers: comments regarding delivery options (i.e. hosted vs on-prem) may be considered but must be relevant to the case and the recommendation</p> <p>(max 4 marks)</p> <p>Up to 2 marks for the justification and 1 mark for the recommendation</p>
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<p align="center">C1b</p>		<ul style="list-style-type: none"> ERP solution (and specific/ bespoke modules) to offer EX its required performance against each of these critical criteria. <p>Both will likely incur significant cost but as the case suggests, it is of high importance to EX and therefore the expense may be justified.</p> <p>The three initial steps of EX’s selection process should be:</p> <ul style="list-style-type: none"> initial research vendor demonstrations request for proposal. <p>(students may outline RFI as an independent step) ½ mark per model solution named</p> <p>½ mark per appropriate brief description of the models drawn from the bullet points shown</p> <p>For markers: comments regarding delivery options (i.e. hosted vs on-prem) may be considered but must be relevant to the case and the recommendation</p>	<p align="center">(max 3 marks)</p> <p align="center">1 mark for each appropriate step named (up to 3 marks)</p> <p align="center">Total 10 marks</p>
<p align="center">C2a</p>	<p>Syllabus refs: 4.2.3 – LO11</p>	<p>Accounting profit – determined through the application of accrual accounting and adherence to accounting standards.</p> <ul style="list-style-type: none"> Taxable profits – determined by state tax legislation. Therefore, tax may follow accounting treatment, cash receipts/payments or other tax rules allocating transactions as appropriate. <p>The candidate should be able to identify these as potential tax-minimising strategies and should also point out that they will attract attention from the tax authorities as potential unethical tax avoidance or illegal tax evasion.</p> <ul style="list-style-type: none"> Treasury fee – shifting profit from high tax province to lower tax province. Administering loans and capital balance – concepts of thin capitalisation, therefore interest paid on loans being tax deductible will lower taxable profits. Pricing goods and services between group entities – transfer pricing, explain. Bilateral agreements – awareness of double taxation and ensuring group income is only taxed once. 	<p align="center">4 marks</p> <p align="center">6 marks</p> <p align="center">Total 10 marks</p>

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