ACT

PRACTICE

PAPER

Certificate in International Cash Management – MicroCredentials

Liquidity, Funding & Financial Decisions (LFFD)

Practice paper for the Certificate in International Cash Management – MicroCredentials – Liquidity, Funding & Financial Decisions (LFFD)

Based on the syllabus assessed from 16 March 2026.

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 LFFD MicroTest. It contains a practice assessment for the specified MicroTopic as well as practice answers.

Ideally, you should have completed the majority of your studies for LFFD before attempting this practice paper. You should allow yourself 45 minutes to complete the exam. You should then review your performance to identify areas of weakness on which to concentrate the remainder of your study time.

Although the practice paper in this guide is typical of a LFFD assessment, it should be noted that it is not possible to test every single aspect of the Learning Outcomes in any one particular assessment. To prepare properly for the MicroTest, you should make full use of the tuition options where available and read as widely as possible to ensure that all Learning Outcomes have been covered.

Assessment technique: LFFD

The best approach to multiple choice assessments is to work methodically through the questions.
You should not spend too much time on any one question. If you cannot make up your mind, you 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 LFFD assessment consists of 22 questions, split into sections A, B and C; and is worth a total of 40 marks.

LFFD MicroTest specification:

Section	Number of questions	Marks available	Question format
Section A	10 multiple choice questions (MCQs) and 5 multiple response questions (MRQs).	15	This section will test a cross-section of knowledge to achieve breadth of syllabus coverage.
Section B	1 mini scenario with 5 accompanying MCQs.	5	This section will test a cross-section of knowledge to achieve breadth of syllabus coverage.
Section C	2 longer form questions.	20	This section will be based on mini-scenarios common to practice. Questions will test knowledge, analysis, application and justification as appropriate.
Total	22	40	

Under exam conditions, 45 minutes is allowed for the LFFD MicroTest.

When you take your actual MicroTest, 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.

Please note that an asterisk **(*)** is used to indicate all correct answers (keys) for MCQs and MRQs in the practice assessment.

Questions

SECTION A

Section A is made up of 15 multiple choice questions and 5 multiple response questions and is worth a total of 15 marks.

10 Multiple choice questions: 10 x 1 mark questions.

5 Multiple response questions: 5 x 1 mark questions.

The purpose of this section is to test a cross-section of knowledge to achieve breadth of syllabus coverage.

1 Question Text:

Which of the following banking solutions is most likely to work best for the majority of large multinational corporates? Maintaining:

Options

A a single bank in each region of operation.

B a single global bank.

C a small number of banks per operating unit.

D* a small number of banks per region of operation.

Mark/Score: 1

2 Question Text:

When using exponential smoothing on a moving average forecast, an ‘α’ of 0.2 indicates that:

Options

A a high smoothing constant is needed to adjust the forecast.

B a strong trend continues to affect cash flows.

C* recent cash flows have been anomalous.

D there is a seasonal pattern to cash flows.

Mark/Score: 1

3 Question Text:

'Leading and lagging' intercompany transactions can be used as a tool to:

Options

A automate the consolidation of cash balances.

B improve the accuracy of cash flow forecasts.

C* manage restricted cash balances.

D reduce the value of payments operating through ACH systems.

Mark/Score: 1

4 Question Text:

Revaluations resulting from the translation of currency balances will typically need to be accounted for in the:

Options

A balance sheet.

B cash flow statement.

C* income statement.

D statement of shareholders' equity.

Mark/Score: 1

5 Question Text:

Which of the following ratios is a government most likely to impose as part of its thin capitalisation rules?

Options

A* Debt to equity ratio.

B Interest coverage ratio.

C Liquidity ratio.

D Net debt to EBITDA ratio.

Mark/Score: 1

6 Question Text:

The impact of which of the following taxes is the most important to consider when arranging a cross-border intercompany dividend payment?

Options

A Import duty.

B Stamp duty.

C Value-added tax.

D* Withholding tax.

Mark/Score: 1

7 Question Text:

Which of the following actions is an organisation most likely to take first when considering ways to improve visibility of its cash balances?

Options

A* An audit of its bank accounts.

B A large-scale closure of bank accounts.

C An implementation of SWIFT reporting.

D A rationalisation of its bank relationships.

Mark/Score: 1

8 Question Text:

Which of the following best describes the ACT’s Ethical Code? The Code is:

Options

A* a binding set of principles that members must follow.

B a guidance document for corporates to minimise reputational risk.

C an advisory professional standards framework aimed at student members.

D a procedures template for good treasury governance.

Mark/Score: 1

9 Question Text:

Which of the following best describes the correct hierarchy that should be used in treasury when making short-term investment decisions?

Options

A* Security first, followed by liquidity, and then yield.

B Yield first, followed by liquidity, and then security.

C Liquidity first, followed by yield, and then security.

D Yield first, followed by security, and then liquidity.

Mark/Score: 1

10 Question Text:

Which of the following represents the typical sequencing of funding sources, in order of priority, used by corporates in short-term liquidity management?

Options

A* Internal cash, committed revolving credit facilities, commercial paper, overdrafts.

B Commercial paper, internal cash, overdrafts, committed revolving credit facilities.

C Overdrafts, commercial paper, committed revolving credit facilities, internal cash.

D Committed revolving credit facilities, overdrafts, internal cash, commercial paper.

Mark/Score: 1

11 Question Text:

Which **TWO** of the following types of system can include cash flow forecasting tools?

Options

A* Enterprise resource planning systems (ERPs)

B Multilateral netting systems.

C Net settlement systems (NSSs).

D Real time gross settlement (RTGS) systems.

E* Treasury and cash management systems (TMSs).

Mark/Score: 1

12 Question Text:

Which **TWO** of the following drivers are most likely to lead a business to build up a cash 'mountain' at head office?

Options

A* Conservative cash management.

B* Economy-wide financial crisis.

C High interest rate environment.

D Stable banking conditions.

E Strong economic growth.

Mark/Score: 1

13 Question Text:

According to IAS 7, which of the following characteristics define 'cash equivalents'?

Select **ALL** that apply.

Options

A Held for resale.

B* Highly liquid.

C Long-term.

D* Readily convertible.

E* Stable in value.

Mark/Score: 1

14 Question Text:

Which of the following statements specifically refer to the role that robotic process automation (RPA) can play in cashflow forecasting?

Select **ALL** that apply.

RPA has the capability to:

Options

A* take out repetitive manual tasks from the activity.

B* improve the timeliness and accuracy of data provision.

C analyse aggregated data by using graphs and charts.

D generate computer algorithms within the process.

E remove the need for an online banking portal.

Mark/Score: 1

15 Question Text:

Which **THREE** of the following processes are specific to building a range forecast?

Options

A* Analysis of risks and opportunities within the business unit cashflows provided.

B* Assessment of the likelihoods of outcomes projected by business unit cashflows.

C* Production of a statistical probability curve based on different predictions for cashflow outcomes.

D Calculation of a ‘single point’ cashflow forecast.

E Application of working capital ratios onto a projected sales forecast.

F Apportionment of the total forecast cashflows in a period into individual business unit cashflows.

Mark/Score: 1

SECTION B

Section B consists of 1 case study-based scenario, containing 5 multiple choice questions (MCQs), **worth 1 mark each**.

These questions are all single response MCQs.

Section B will focus on smaller sections of the syllabus and requires more depth of knowledge and application to practice.

Section B – Case Study

The consolidated balance sheets of **Arena Torena** (AT) contain the following information:

	Two years ago (GBP'000)	**Last year (GBP'000)**
Assets		
Plant and equipment	2,000	2,300
Vehicles	1,500	1,800
Total non-current assets	**3,500**	**4,100**
Current assets		
Cash and cash equivalents	3,452	3,765
Marketable securities	2,900	4,356
Inventories	1,022	1,076
Accounts receivable	2,774	2,895
Total current assets	**10,148**	**12,092**
Total assets	**13,648**	**16,192**
Current liabilities		
Accounts payable	1,811	1,913
Short-term debt	1,092	1,117
Taxes payable	1,012	928
Total current liabilities	**3,915**	**3,958**

AT is considering an investment in a six-month certificate of deposit. The treasurer is checking with the accounting team which asset classification would apply.

AT's treasurer is researching invoice financing solutions and has discovered that different options exist. If AT proceeds, the treasurer does not wish to increase the company's reported gearing and has also discussed how the derecognition implications of IFRS9 can be avoided with AT's accounting team.

It is now 31 July and the accounting team is reviewing how AT will need to report its non-current liabilities in future based on the Accounting Standards Board's clarification of what constitutes 'a right to defer settlement'. AT's reporting period ends on 31 December.

AT has a multi-bank revolving credit facility (RCF) which it arranged on 2 February last year for a four-year term. The RCF was classified as a non-current liability in last year's accounts. The credit facility documents require compliance reporting annually from date of inception.

AT is domiciled for tax purposes in the UK and earns GBP400,000 on a global basis, which counts as its domestic income. This income includes USD30,000 its subsidiary company generated from operations in the US. The tax rate in the UK is 25% and the tax rate in the US is 15%. The GBP/USD exchange rate is 1.4000.

A tax treaty is in place which allows AT to use the overseas tax it pays to offset and reduce the amount of tax due in the UK.

16 Question Text:

Which of the following figures included in AT's balance sheet for last year represents the asset(s) with the best liquidity?

Options

A GBP1,076.

B GBP2,300.

C GBP2,895.

D* GBP4,356.

Mark/Score: 1

17 Question Text:

How would the investment the treasurer is considering be classified?

Options

A Account receivable.

B Cash equivalent.

C* Marketable security.

D Non-current asset.

Mark/Score: 1

18 Question Text:

When would AT need to confirm compliance with the credit facility conditions each year from now on?

Options

A 2 February only.

B 31 December only.

C* Both 31 December and 2 February.

D Both 31 July and 31 December.

Mark/Score: 1

19 Question Text:

What advice should the accounting team have given the treasurer regarding the invoice financing solution?

Options

A* AT should avoid paying the financing costs and financing should be on a non-recourse basis.

B AT should avoid paying the financing costs and financing should be on a recourse basis.

C AT should pay the financing costs and financing should be on a non-recourse basis.

D AT should pay the financing costs and financing should be on a recourse basis.

Mark/Score: 1

20 Question Text:

Which of the following shows AT's Quick Ratio for the previous financial year?

Options

A* 2.78

B 3.06

C 2.33

D 2.59

Mark/Score: 1

SECTION C

Section C is made up of 2 case study questions and is worth a total of 20 marks.

2 longer form question: 2 x 10 mark question.

Please note that some questions may be broken into sub-questions (for example a,b,c) on the next page.

Questions will be based on mini-scenarios common to practice. Questions will test knowledge, analysis, application and justification as appropriate to level descriptors.

Please ensure you open and read the associated Case Study information before answering the question. This can be found above the answer box.

Case Study C1

Chinese energy company, **Shen Zin** (SZ), is headquartered in Shenzhen where the head office and treasury are based. It has three separate operating subsidiaries in Shanghai, Beijing and Tianjin. Each subsidiary runs autonomously and separately from the others.

There is a longstanding rivalry between the subsidiaries, which have always been financially incentivised in return for strong performance. While this competitive culture has provided SZ with impressive results for many years, the management team wants to make changes by bringing the business back together and leveraging its economies of scale.

SZ is a big issuer in the onshore Chinese bond market with an outstanding borrowing of RMB15bn at an average borrowing rate of 4.25%. Bond issues are the responsibility of the central treasury team.

Until recently, treasury has mainly focused on debt management for the company, but is now turning its attention towards cash management.

The three subsidiaries have surplus cash balances, as follows:

• Shanghai - RMB243m

• Beijing - RMB71m

• Tianjin - RMB65m.

The treasurer wants to improve cash optimisation within SZ overall by implementing a new cash management structure and rationalising the number of bank accounts held. A single banking partner would be selected to manage the new structure, whereas currently each subsidiary uses a different banking partner.

The treasurer also considers that the group cashflow forecasting process needs to be reviewed and improved in line with best practice. The current cashflow forecasting process involves uploading subsidiaries' data from SZ's enterprise resource planning system (ERP) into a few large spreadsheets for analysis and consolidation purposes. SZ's group forecasts take time to produce and are often out of date by the time they are finalised.

SZ's system landscape is well established with the whole group using a single ERP system. The treasury team has implemented a sophisticated treasury management system (TMS), although it has focused mainly on developing the 'debt side' of the system. The TMS offers an advanced cashflow forecasting module which includes artificial intelligence (AI) and machine learning (ML) capabilities.

21 Question Text:

Section C - Case Study 1a

Discuss the quantitative and qualitative benefits that SZ could gain if the proposed new structure is implemented.

(5 marks)

Mark/Score: 5

Section C - Case Study 1b

Discuss how AI and ML could help SZ improve its cashflow forecasting process.

You are required to include brief definitions of each within your answer.

(5 marks)

Mark/Score: 5

Case Study C3

Guard Advisors (GA) is an Indian investment firm which is seeking expansion opportunities in Southeast Asia, most notably through a new venture in Thailand, which will be called GA Thailand.

In order to provide its full range of services, GA Thailand needs to be established and become regulated by the Bank of Thailand.

GA is investigating the tax implications for any future profits that could be made from its new venture. The tax team has confirmed that India and Thailand have a tax treaty (double taxation agreement) in place and are investigating which of the three types of treaty it is.

As part of its customer service, GA provides regular updates to its customers on key financial trends. Its latest update is an information document, based on the academic writing of Andreas Antonopoulos, about three types of cryptocurrencies:

1. Money of the People
2. Money of the Government
3. Money of the Corporation.

23 Question Text:

Section C - Case Study 3a

Explain the purpose of a tax treaty and the **THREE** types of treaty GA's tax team are investigating.

Your explanation must include the type of treaty the tax team would prefer.

(5 marks)

Mark/Score: 5

24 Question Text:

Section C - Case Study 3b

Describe the information GA is likely to include within its latest customer update.

(5 marks)

Mark/Score: 5

Case Study – Mark scheme

C1a	**LO 2.2**	SZ's subsidiaries are holding a total cash balance of RMB379m. This is a large sum and if mobilised, could mean that SZ could reduce its external borrowing and thus interest payable, which would then improve the company's profitability. As SZ's debt is in the corporate bond market, it would be difficult to repay debt immediately, but there may be upcoming debt maturities that could be financed internally. Implementation of a cash optimisation solution may improve visibility and controls and reduce risk. Treasury has not been focused on the group's bank accounts so may find that there are redundant or unnecessary accounts still open. Every open bank account represents a control risk and a cost to the business so rationalisation could be beneficial. Once subsidiaries' bank accounts have been analysed, and rationalised if required, treasury may be able to offer more support with managing bank accounts, funding and providing more advisor services. A big benefit to SZ of consolidating cash resources will be the strength of having treasury managing the relationship with the single bank chosen and leveraging the company's full size to ensure fees are competitive and efficiencies are implemented to reduce transaction costs where possible. This will contribute to the business objective of leveraging economies of scale.
C1b	**LO 2.2**	**Artificial Intelligence** (AI) is a description of the technology that enables computer systems to perform tasks that previously required human intelligence. Specialty cashflow forecasting systems have now incorporated AI in their solution to improve the accuracy of cashflow forecasting. **Machine learning** (ML) is the application of computer algorithms that allows computer programmes to automatically improve through experience. ML uses statistical analysis techniques to build patterns based on pre-existing trends. ML has the ability to process large amounts of data, so would help SZ with the analysis side of the cashflow forecasting process.

		However, data needs to be accurate before a ML programmer can start to build algorithms and train the model to analyse patterns in the data and make predictions, so a significant amount of pre-analysis would need to be performed. If the algorithms and hypotheses are correct, the machine will learn from the inputs it receives, and it will start to create stronger correlations in patterns and refine its forecasts over time. As new data and drivers become known or available, they can be used to update the model, becoming part of the iteration loop and hence improving accuracy of the forecast going forwards.

C3a	**LO 2.5**	Tax treaties (also known as double taxation agreements) are a set of bilateral agreements between two countries that set out the taxation rights of each country in respect of tax charged in the other. They are designed to facilitate international trade. When a company receives income from an overseas territory that has been taxed at the local level, there are **three options** in dealing with the potential for double taxation: 1. If the tax treaty calls for **participation exemption** (which prevents the same income from being taxed twice), the income may not be taxed again at the shareholder level. For GA this would be the most preferable tax treaty as it would result in the smallest tax liability on profits earned in Thailand. 2. The overseas tax is used to **offset and reduce** any domestic tax liability, i.e., the amount of the tax already paid reduces the amount of the tax due at home by an equal or percentage amount. This deduction in taxes would present a smaller tax saving compared to the participation exemption treaty for GA. 3. The overseas tax may simply be allowed as a **tax deduction against the domestic tax liability**, i.e., the tax paid overseas is used as a deduction against domestic income, reducing taxable income. The income in question could be profits of a foreign branch of the company itself, or a payment received from another company resident in the other territory (for example, a dividend, a royalty, or an interest payment). For GA, this would be the least preferable type of tax treaty, as profits earned in Thailand would not reduce the local tax bill as much as the other two options.
C3b	**LO 2.5**	<u>**Money of the People**</u> Examples include Bitcoin and Ethereum. These are fully decentralised cryptocurrencies. They are open, borderless, neutral and censorship resistant. Decentralised cryptocurrencies are maintained and improved by a core developer group which governs by consensus. It is this consensus that maintains the integrity of the currency and reduces the risk of fraud.

		Money of the Government Central Bank Digital Currencies (CBDC) are still in their infancy, but these are most similar to fiat currencies, but in digital form. Central banks could reduce financial service delivery costs and boost transactional efficiency by issuing a cryptocurrency. These currencies would have the most benefits in countries where citizens have difficulty accessing traditional banking channels. **Money of the Corporation** Corporate currencies are at proposal stages within huge tech company headquarters. As an example, Facebook has been considering the development of its own cryptocurrency. Consumer-facing but controlled cryptocurrency use is also emerging through PayPal, who declared in 2020 that they would allow transactions in Bitcoin on their platform. The caveat is that coins cannot be deposited or withdrawn, but they are facilitating instant settlement cross border.

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