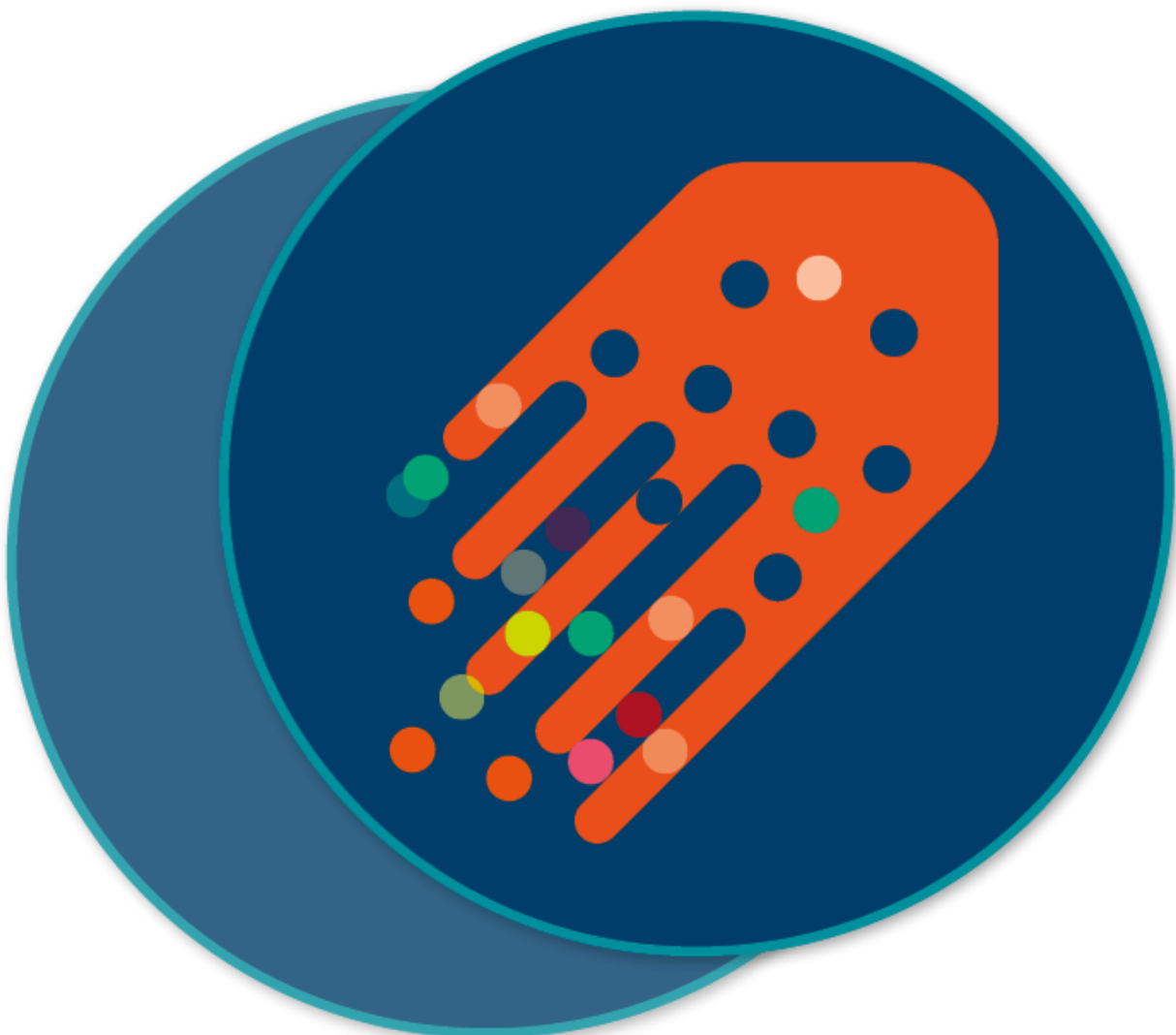


ACT Practice Paper

Certificate in Treasury – MicroCredentials
Capital markets & funding

Practice Paper



Practice paper for the Certificate in Treasury – MicroCredential – Capital markets & funding (CMF)

Based on the syllabus assessed from 07 October 2025.

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 CMF 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 CMF 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 CMF 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: CMF

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 CMF assessment consist of 22 questions, split into sections A, B and C; and is worth a total of 40 marks.

CMF MicroTest specification:

Section	Number of questions	Marks available	Question format
Section A	11 Multiple Choice questions (MCQs) and 4 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 CMF 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.

Questions

SECTION A

Section A is made up of 11 Multiple Choice questions and 4 Multiple Response questions and is worth a total of 15 marks.

11 Multiple Choice questions: 11 x 1 mark questions.

4 Multiple Response questions: 4 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 is the present value of a receipt of SGD100m which is expected in two years' time if the appropriate cost of capital is 3.5%?

Options

- A SGD96.6m.
- B* SGD93.4m.
- C SGD99.7m.
- D SGD95.2m.

Mark/Score: 1

2 Question Text:

A business has to meet an interest expense budget of USD2.5m, so needs to manage its level of borrowing. Its budgeted interest rate is 4.5% and opening borrowings are USD80m.

What is the minimum closing balance the organisation must achieve to meet its budget?

Options

- A USD65m.
- B USD125m.
- C* USD31m.
- D USD70m.

Mark/Score: 1

3 Question Text:

A proposed investment is expected to produce annual net cashflows of EUR2m for 20 years, starting in one year's time, the annual effective cost of capital being 2.75%.

Using an annuity factor to calculate the present value of these cashflows, which of the following is the value of the proposed investment?

Options

- A*** EUR30.45m.
- B** EUR20.14m.
- C** EUR32.33m.
- D** EUR22.21m.

Mark/Score: 1

4 Question Text:

A diversified market portfolio of GBP50m returns 5% and the risk free rate of return is 2%.

What is the required return on a security with a Beta of 0.8?

Options

- A** 6.0%.
- B** 4.2%.
- C** 7.0%.
- D*** 4.4%.

Mark/Score: 1

5 Question Text:

A company has just paid an annual dividend of USD0.15 per share. The current share price is USD3.10. Dividends are forecast to grow at 4% per annum.

What is the cost of equity?

Options

- A*** 0.090322581.
- B** 0.048387097.
- C** 0.012903226.
- D** 0.266666667.

Mark/Score: 1

6 Question Text:

A share lies above the security market line.

Which of the following describes how the share price and share return would be expected to change?

Options

- A*** Increase in share price and decrease in share return.
- B** Decrease in share price and increase in share return.
- C** Decrease in share price and decrease in share return.
- D** Increase in share price and increase in share return.

Mark/Score: 1

7 Question Text:

Which of the following describes the theoretical optimal capital structure?

Options

- A** The theoretical optimal structure maximises the tax shield.
- B*** The theoretical optimal structure minimises the Weighted Average Cost of Capital.
- C** The theoretical optimal structure maximises financial slack.
- D** The theoretical optimal structure minimises the debt to equity ratio.

Mark/Score: 1

8 Question Text:

Which of the following describes the preferred ranking of capital sources under pecking order theory?

Options

- A** New equity is preferred to debt which is preferred to retained earnings.
- B*** Retained earnings are preferred to debt which is preferred to new equity.
- C** Retained earnings are preferred to new equity which is preferred to debt.
- D** Debt is preferred to retained earnings which are preferred to new equity.

Mark/Score: 1

9 Question Text:

What effect would a reduction in the corporate tax rate have on a company's effective cost of debt and Weighted Average Cost of Capital (WACC)?

Options

- A*** Increases the effective cost of debt and increases WACC.
- B** Decreases the effective cost of debt and decreases WACC.
- C** No effect on either the effective cost of debt or WACC.
- D** Decreases the effective cost of debt and increases WACC.

Mark/Score: 1

10 Question Text:

Which of the following is the process to raise new capital from existing shareholders?

Options

- A*** A rights issue.
- B** An initial public offering.
- C** A private placement.
- D** A share split.

Mark/Score: 1

11 Question Text:

If a rights issue is deeply discounted what is the likely impact?

Options

- A** The amount of new capital raised is likely to be reduced.
- B*** The existing shareholders are more likely to take up the rights.
- C** The market is less likely to interpret the issue as a sign of financial distress.
- D** The underwriting fee is likely to increase.

Mark/Score: 1

12 Question Text:

Which of the following are examples of annuities?

Select **ALL** that apply.

Options

- A*** Annual pension payments.
- B** Certificates of deposit.
- C** Zero coupon bonds.
- D** Corporate issued floating rate notes.
- E*** Fixed rate interest payments on loans.

Mark/Score: 1

13 Question Text:

The risk-free rate of return is 3% and the equity risk premium is 5%.

Which **TWO** of the following investments would the rational investor choose?

Options

- A** A security with a Beta of 0.6 and total return of 5.8%.
- B*** A security with a Beta of 0.8 and total return of 7.2%.
- C*** A security with a Beta of 1.0 and total return of 8.2%.
- D** A security with a Beta of 1.2 and total return of 8.4%.
- E** A security with a Beta of 1.5 and total return of 10%.

Mark/Score: 1

14 Question Text:

Which **THREE** of the following are implications of the Efficient Market Hypothesis?

Options

- A** Information available does not influence security prices.
- B*** Investors receive a fair return consistent with the level of risk.
- C*** It is impossible to consistently outperform the market.
- D** Market price changes are irrelevant.
- E*** Markets have no memory.

Mark/Score: 1

15 Question Text:

Which **THREE** of the following would remain the same after a scrip issue?

Options

- A*** Company's cash balances.
- B*** Market value of the company.
- C** Number of shares issued.
- D** Share price.
- E*** Shareholders' wealth.

Mark/Score: 1

SECTION B

Section B consists of 1 case study based scenarios, each containing 5 multiple choice questions (MCQs), **worth 1 mark each**, relating to the case study.

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 308-1

Healy Sealy (HS) is a public manufacturing company based in the United Kingdom. The company maintains a BBB- credit rating, the lowest investment grade credit rating. The treasurer thinks that the company's capital structure is not at its optimal level. It is HS's first priority to take on more debt to decrease its weighted average cost of capital (WACC) which is currently 10%. It has an interest cover covenant in place which is at its maximum. Breaching this covenant would invoke immediate repayment of all debt. HS has made losses in the past three years and is forecast to make losses over the next three years.

A business opportunity to acquire a competitor, PS, has arisen. Equity finance is not an option. Shareholders and debt holders are reluctant to fund the acquisition.

HS currently has a beta of 1.5 and its shares lie above the security market line. The company currently has a cost of equity of 11% and the risk-free rate is 2%.

16 Question Text:

Which of the following is a sign of financial distress for HS?

Options

- A Covenant is maxed out.
- B* Rating downgrade.
- C Repayment of debt.
- D Tax capacity is finite.

Mark/Score: 1

17 Question Text:

What are the implications for HS if its credit rating is downgraded?

Options

- A*** HS's investors will demand a higher equity return.
- B** Its cost of debt stays the same.
- C** Its interest cover covenant goes up.
- D** Its share price appreciates.

Mark/Score: 1

18 Question Text:

Which of the following about HS's shares is true?

Options

- A** HS investors have the same investment horizon.
- B** HS shares should fall in price.
- C*** Shares are undervalued.
- D** Transaction costs differ for each investor.

Mark/Score: 1

19 Question Text:

What is the equity risk premium that HS investor should request?

Options

- A** 5%.
- B*** 6%.
- C** 8%.
- D** 10%.

Mark/Score: 1

20 Question Text:

Which of the following about HS's beta is true?

Options

- A** Diversifiable risk of HS's shares is rewarded.
- B** HS's beta is 50% lower than market systematic risk.
- C*** Systematic risk of HS's shares is 50% above market portfolio.
- D** Total risk of HS's shares is 50% above market portfolio.

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 questions: 2 x 10 mark questions.

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 C308-6

Star Jacks (SJ) is a successful sports retailer which has its group headquarters in the United States. SJ is considering whether to expand its operations through acquisition.

SJ's treasurer is currently reviewing the information shown in Table 1. This relates to two of SJ's competitors, Athletic footwear (AF) and Exercise Equipment (EE). AF and EE are both listed companies.

Table 1

	AF	EE
Beta	1.20	0.80
Risk-free rate	3.00%	3.00%
Market return	10.00%	10.00%
Debt percentage	30.00%	65.00%
Equity percentage	70.00%	35.00%
Cost of debt	5.00%	4.20%
Tax rate	20.00%	20.00%

The treasurer is analysing this information to understand why the weighted average cost of capital (WACC) differs between the two companies.

If SJ acquired both companies, it would consider combining them into a new, single operating unit.

21 Question Text:

Section C - Case Study 308-6a

Calculate the current cost of equity for AF and EE.

You are required to show your workings.

(2 marks)

Mark/Score: 2

22 Question Text:

Section C - Case Study 308-6b

Calculate, showing your workings, the WACC for:

- I. AF
- II. EE
- III. the new, single operating unit as proposed by SJ.

You are required to show your workings.

(4 marks)

Mark/Score: 4

23 Question Text:
Section C - Case Study 308-6c

Discuss **FOUR** reasons why the current WACC for AF is different to the current WACC for EE.

(4 marks)

Mark/Score: 4

Case Study C308-07

Bishop & Knight (BK) is a UK housing company that specialises in acquiring land and constructing new housing units. The company currently faces a funding challenge as it needs to raise GBP35m for its upcoming projects. In order to raise funds, the company has decided to list the business to raise half the required amount through equity and the remainder through a bank term loan.

BK has a Beta of 0.8, which indicates that it is less volatile than the overall market. The risk-free rate in the UK is 3%, and the equity risk premium is 6.25%.

BK's EBITDA for the last financial year was GBP12m, and its ungeared free cashflows were GBP7m. The company's tax rate in the UK is 20%.

The company estimates the cost of debt to be 6%. The company's beta is attractive to conservative investors looking for stable and low-risk capital growth over time. One such investor is a local council pension fund which has a discount rate of 7.5% on its investments.

24 Question Text:

Section C - Case Study 308-07-7a

Discuss **FOUR** assumptions that would need to be made when using the Capital Asset Pricing Model (CAPM). You are also required to justify why the pension fund could invest in BK's equity offering.

(6 marks)

Mark/Score: 6

25 Question Text:

Section C - Case Study 308-07-7b

Discuss the potential benefits and drawbacks of using equity financing and why a combination of both debt and equity is likely to be the most beneficial.

(4 marks)

Mark/Score: 4

Case study mark scheme

Case study C308-6

308-6a	<p>AF $K_e = 0.03 + (1.20 \times (0.10 - 0.03)) = 11.40\%$</p> <p>EE $K_e = 0.03 + (0.80 \times (0.10 - 0.03)) = 8.60\%$</p> <p>Note for markers – only reward marks for fully correct cost of equity. If the row isn't fully correct, zero marks.</p>	<p>1 mark</p> <p>1 mark</p> <p>(maximum 2 marks)</p>
308-6ab	<p>AF Cost of debt = $(0.05 \times (1 - 0.20)) = 4.00\%$ WACC = $(0.70 \times 0.114) + (0.30 \times 0.04) = 9.18\%$</p> <p>EE Cost of debt = $(0.042 \times (1 - 0.20)) = 3.36\%$ WACC = $(0.35 \times 0.086) + (0.65 \times 0.0336) = 5.19\%$</p> <p>Project WACC $(9.18\% + 5.19\%) / 2 = 7.19\%$</p> <p>Note for markers - apply 'own figure rule' for carry through errors relating to K_e calculations in Q3a.</p>	<p>½ mark Kd 1 mark WACC</p> <p>½ mark Kd 1 mark WACC</p> <p>1 mark</p> <p>(maximum 4 marks)</p>
308-6c	<ul style="list-style-type: none"> The beta for EE is 0.8, lower than the beta for AF at 1.2. EE, therefore, has a lower systematic risk than AF. The lower risk is reflected in a lower cost of equity, the return that investors demand to accept systematic risk. The cost of debt for EE is 4.20%, whereas, for AF, it is 5.00%. The proportion of debt to equity for EE is 65/35, whereas, for AF, it is 30/70. As equity costs are significantly higher than debt costs for both companies, this makes a significant difference in overall WACC. According to the theory of Miller & Modigliani, shareholders benefit from a tax shield on debts, so EE's higher proportion of debt compared to AF will have a greater impact on lowering EE's WACC compared to AF. 	<p>Up to 1 mark per bullet point discussed</p>

	Syllabus refs:	(maximum 4 marks)
		Total: 10 marks

Case study C308-07

308-07-7a	<p>The CAPM model is built on the following assumptions:</p> <ul style="list-style-type: none"> • equity investors aim to maximise their wealth • investors make choices based on risk-weighted required returns • all investors have access to the same information, including expectations about the future • all investors can lend or borrow at the risk-free interest rate • there are no market imperfections such as illiquidity, nor are there any tax or transaction costs • all investors have the same time horizon. <p>CAPM formula is $K_e = R_f + [B \times (R_m - R_f)]$.</p> <p>$= 3\% + (0.8 \times 6.25\%)$ $= 3\% + 5\% = 8\%$</p> <p>8% is above the pension fund's hurdle rate, so the pension fund can invest in BK.</p>	<p>1 mark/point (Max 4 marks)</p>
308-07-7ab	<p>Benefits:</p> <p>The main benefit of using equity rather than debt is the lower risk to the issuer of equity.</p> <p>Being listed on an exchange with access to public equity markets is popular for large companies because:</p> <ul style="list-style-type: none"> • it gives access to a source of new capital for funding a company's growth or for acquisitions • it allows a market value to be given to its shares and hence allows owners to sell shares and realise gains • it gives credibility in dealings with customers and other stakeholders. <p>Drawbacks:</p>	<p>1 mark</p> <p>1 mark</p> <p>(maximum 6 marks)</p> <p>1 mark</p> <p>1 mark</p>

	The main drawbacks of using equity are its greater cost, the time taken to issue and the lack of flexibility to raise smaller amounts.	1 mark
	Raising funds through equity has a lower level of risk, but debt financing typically has a lower cost. When interest is tax-deductible, it leads to a lower overall cost of capital and increased value for shareholders.	1 mark
	Syllabus Ref:	(maximum 4 marks)
		Total: 10 marks

ACT (Administration) Limited

10 Lower Thames Street

London

EC3R 6AF

www.treasurers.org

Copyright © ACT (Administration) Limited 2025

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.