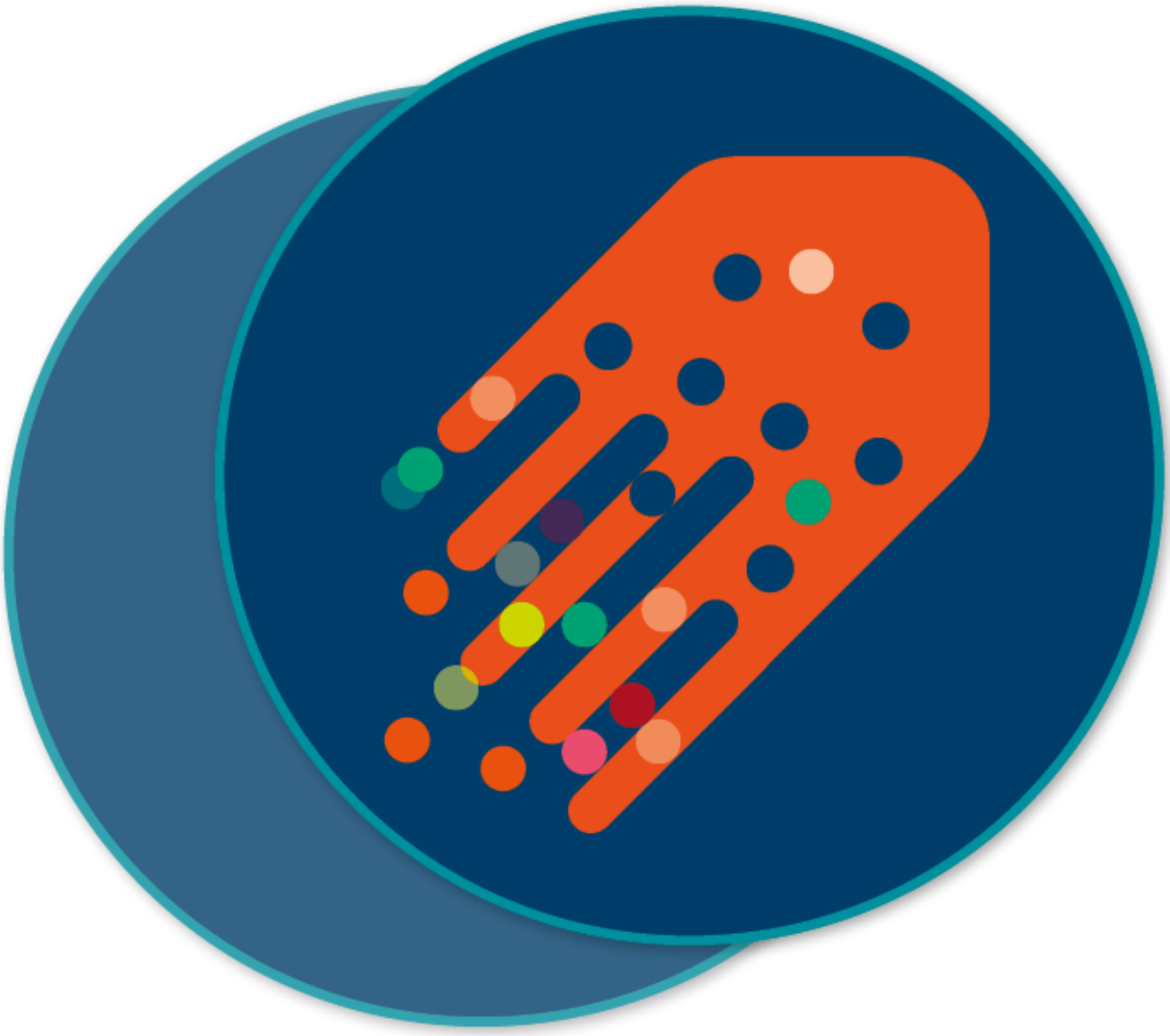
ACT Practice Paper

Certificate in Treasury – MicroCredentials
Corporate finance

Practice Paper



Practice paper for the Certificate in Treasury – MicroCredential – Corporate finance (CF)

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 CF 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 CF 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 CF 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: CF

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

CF MicroTest specification:

Section	Number of questions	Marks available	Question format
Section A	13 Multiple Choice questions (MCQs) and 2 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 CF 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 13 Multiple Choice questions and 2 Multiple Response questions and is worth a total of 15 marks.

13 Multiple Choice questions: 13 x 1 mark questions.

2 Multiple Response questions: 2 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:

Pitch Technologies is a privately owned smart device company. An offer was recently made to buy the company. Its previous financial year earnings were GBP22,750,000. The average P/E ratio for listed companies in the sector is 12. The risk free interest rate is 5.5%.

What would be a reasonable valuation estimate of the business?

Options

A GBP148m.

B GBP22.75m.

C* GBP273.

D GBP68m.

Mark/Score: 1

2 Question Text:

Panther Products is an FMCG company and has been offered the option to acquire one of its key suppliers. The transaction is expected to cost GBP1,200 000. Panther expects to save GBP320 000 per annum over the next seven years.

What is the investment's payback period?

Options

A 3 years 2 months.

B* 3 years 9 months.

C 4 years.

D 7 years.

Mark/Score: 1

3 Question Text:

If the cashflows from a project adopted by a company have a present value of GBP150,000 and the required investment is GBP55,000 the effect of the project is:

Options

A that shareholder wealth goes down by the GBP55,000 invested.

B that the wealth of the shareholders increases by GBP150,000.

C* that the wealth of the shareholders increases by GBP95,000.

D that there is no effect on shareholder wealth.

Mark/Score: 1

4 Question Text:

While appraising a potential project, the treasurer notes that: Project A has a payback period of 4.2 years, an accounting rate of return of 15% and a net present value of GBP750 000 Project B has a payback period of 3.2 years, an accounting rate of return of 13% and a net present value of GBP500 000.

Which project should the treasurer advise the company to pursue?

Options

A Project A should be selected as it gives the longest payback period.

B* Project A should be selected because it will yield the highest NPV.

C Project B should be selected because it will yield the lowest NPV.

D The ARR is the most meaningful investment appraisal technique and hence Project A should be selected.

Mark/Score: 1

5 Question Text:

A company has a profit attributable to ordinary shareholders of EUR400,000. The number of ordinary shares in issue during the year was 800,000. The market value of the company's shares at the year-end was EUR5 per share. What would be the price/earnings (P/E) ratio for the company?

Options

A 0.5.

B* 10.

C 2.

D 5.

Mark/Score: 1

6 Question Text:

Which appraisal technique is most relevant for a company concerned with achieving positive cashflows in the shortest period of time?

Options

A Net Present Value.

B Accounting Rate of Return.

C Profitability Index.

D* Payback.

Mark/Score: 1

7 Question Text:

Which of the following describes the cashflows and discount rate required by the entity valuation method?

Options

A The geared free cashflows discounted by the cost of equity.

B* The ungeared free cashflows discounted by the Weighted Average Cost of Capital.

C The ungeared free cashflows discounted by the cost of equity.

D The geared free cashflows discounted by the Weighted Average Cost of Capital.

Mark/Score: 1

8 Question Text:

Which of the following is a limitation of the Internal Rate of Return (IRR) appraisal technique?

Options

A* IRR does not consider the size of the project.

B IRR is based on accounting values.

C IRR encourages short termism.

D IRR is a non-discounted cashflow technique.

Mark/Score: 1

9 Question Text:

Which of the following is a limitation of the Net Asset Value (NAV) technique?

NAV ignores:

Options

A market values.

B replacement cost values.

C liquidity.

D* intangible assets.

Mark/Score: 1

10 Question Text:

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

Options

A current asset.

B current liability.

C* non-current asset.

D non-current liability.

Mark/Score: 1

11 Question Text:

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

Options

A* net cash inflow from operating activities.

B net cash outflow.

C sales turnover.

D total equity.

Mark/Score: 1

12 Question Text:

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

The statement of:

Options

A* cashflows.

B changes in equity.

C financial position.

D profit or loss and other comprehensive income.

Mark/Score: 1

13 Question Text:

Asset turnover is calculated by:

Options

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.

Mark/Score: 1

14 Question Text:

Which **THREE** of the following investment appraisal techniques take account of the time value of money?

Options

A Accounting rate of return.

B Earnings multiples.

C* Internal Rate of Return.

D* Net Present Value.

E Payback.

F* Profitability Index.

Mark/Score: 1

15 Question Text:

Which of the following are relevant cashflows to include in a discounted cash flow appraisal?

Select **ALL** that apply.

Options

A Dividend cashflows.

B Financing cash flows.

C Sunk cost cash flows.

D* Terminal value cash flows.

E* Ungeared free cash flows.

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 309-5

Xi Company (XC) operates in the construction industry where the average return is 11% while the rate of return on government treasury bills is 6%. Its beta is 1.3. XC is deciding whether to invest in one of the following five different projects as shown in Table 1. XC's hurdle rate is 8%. XC always uses the internal rate of return, the hurdle rate and the cost of capital to select appropriate projects.

TABLE 1

Project	Internal Rate of Return	Investment amount USD'000
A	10%	500
B	14%	200
C	6%	1,500
D	11.5%	100
E	12.5%	1,000

A year later, XC has recognised the weaknesses in its investment appraisal process. It has decided to evaluate projects using the profitability index. Due to capital constraints and the increase in construction costs, XC's initial view was that it would only be able to pursue one of the five projects below.

TABLE 2

Project	Net Present Value (NPV)	Capital Investment USD'000
F	120	1,000
G	230	1,500
H	(50)	2,000
I	150	1,000
J	130	1,200

Three months later as cash flow has improved, XC decided that it can now pursue several projects instead of only one in the list F to J inclusive shown in Table 2. Its capital is restricted to USD2m for combined projects and the projects are divisible. XC still uses the profitability index to evaluate all feasible projects.

16 Question Text:

What is an appropriate cost of capital for XC?

Options

A 11%.

B* 12.5%.

C 13.8%.

D 20.3%.

Mark/Score: 1

17 Question Text:

Which of the following project is the most profitable investment option for XC?

Options

A Project A.

B* Project B.

C Project C.

D Project D.

Mark/Score: 1

18 Question Text:

Which of the following is a limitation of XC's investment appraisal process?

Options

A Cash generated by the project is reinvested at multiple rates.

B Cashflows shifting from positive to negative multiple times do not adjust the IRR.

C* Failure to allow for the size of the project.

D The hurdle rate should be used as the sole rate to select a project.

Mark/Score: 1

19 Question Text:

Which of the following projects F to J inclusive should XC pursue?

Options

A Project F.

B* Project G.

C Project I.

D Project J.

Mark/Score: 1

20 Question Text:

Which of the projects should XC pursue under the soft capital rationing criteria?

Options

A Project G and I.

B* Project G and part of project I.

C Project G and part of project J.

D Project J and part of project F.

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 C309-2

You work as a treasury analyst for Antea Fabrications (AF), a mid-sized steel manufacturer based in Holland. The company aims to become carbon neutral within the next eight years and considers the best way to achieve this objective is to merge with a competitor.

AF's treasurer asked you to analyse the company's forecast free cashflows for the next three financial years ahead of an upcoming strategy meeting. At the meeting, AF's entity value will be discussed before more detailed merger negotiations commence.

You have been provided with the following financial information:

	Year 1	**Year 2**	**Year 3**
	EURm	EURm	EURm
Earnings before Interest and Tax (EBIT)	100	125	132
Depreciation (included in EBIT)	15	16	18
Capital expenditure	20	25	28
Tax payments	30	32	32
(increase)/decrease of working capital	(2)	5	(3)
Interest payments	11	11	15

AF operates in a cyclical sector. Nevertheless, it has increased profitability year after year, despite its business being both capital and labour intensive.

When you present your analysis to the treasury team as the basis for a discounted cashflow valuation, a colleague raised concerns about the reliability of the forecast free cashflows you calculated. They pointed out that other valuation methods are available and may be more appropriate to assess AF's entity value.

21 Question Text:

Section C - Case Study 309-2a

Calculate AF's forecast free cashflow for Year 1, Year 2 and Year 3.

You are required to show your workings.

(4 marks)

Mark/Score: 4

22 Question Text:

Section C - Case Study 309-2b

Discuss **TWO** potential shortcomings of forecasting AF's free cashflows accurately if using just the financial information provided.

(4 marks)

Mark/Score: 4

23 Question Text:

Section C - Case Study 309-2c

Recommend **ONE** alternative valuation method that the colleague might consider appropriate to determine the entity value of AF.

(2 marks)

Mark/Score: 2

Case Study C411-4

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**
	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**

24 Question Text:

Section C - Case Study 411-4a

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)

Mark/Score: 8

25 Question Text:

Section C - Case Study 411-4b

Recommend to your manager which company should be chosen for potential investment using the ratio information calculated in Question 411-4a.

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

(2 marks)

Mark/Score: 2

Case study mark scheme

Case study C309-2

309-2a

	Year 1	Year 2	Year 3
	EURm	EURm	EURm
Earnings before Interest and Tax (EBIT)	100	125	132
Less tax payments	(30)	(32)	(32)
Add back depreciation	15	16	18
(increase)/decrease of working capital	(2)	5	(3)
Less Capital expenditure	(20)	(25)	(28)
= net cash flow for discounting	63	89	87

1 mark
1 mark
1 mark
1 mark

(maximum of 4 marks)

309-2b

Underestimated capital expenditure

AF is currently shifting to a carbon neutral business model. It had to forecast capital expenditures but will not have much experience regarding what is required, so placing reliance on historical numbers might result in inaccurate forecasts. It is difficult to accurately quantify capital expenditures and the impact on other areas of its business.

Holistic marking- as a guide 1 mark per problem identified (maximum 2)

Impact on working capital

A strategic shift in a capital-intensive sector such as the steel industry means that working capital is impacted as well. AF will almost certainly have an increased working capital requirement as it moves into new business areas, however changes in working capital in the cash flow forecast are small. Can AF rely on these numbers or are they overstating free cash flow?

Peak years/Cyclicality

AF has increased profitability year after year. A forecast may be based on historical peak year experiences, meaning that EBIT might be overstated and thus, net free cash flow overstated.

1 mark per valid description (maximum 2)

Three year forecast

A strategic shift towards sustainability is a long-term commitment. AF's forecast is only for three years which is not long enough to get a good overview. A perpetuity to calculate entity value is difficult to determine.

NB: Candidates could make other points relevant to the scenario and credit should be awarded for reasonable answers.

(maximum of 4 marks)

309-2c	'Multiple' valuation methods Valuation multiples give the ratio of value to the measure on which the valuation is based. One example is the ratio of the market value of an investment, to the annual net cash flow available to the investor. For example, if the market value is EUR 200m and the annual net cash flow is EUR 10m, the valuation multiple is 200/10 = 20. For AF, we want to determine the entity value. We can use an EBITDA multiple, an EBIT multiple, free cash flow or operating free cash flow multiples.	1 mark for description or generic example 1 mark for example AF (maximum of 2 marks) Total: 10 marks

Case study C308-07

411-4a		Beta Ltd	Zeeko Ltd	
	Capital employed	405,677	232,059	
	Debt	72,321	80,954	
	ROCE (EBIT/ CE)	34.4%	41.1%	
	OPM (Op profit/ turnover)	9.1%	8.0%	
	Asset turnover (sales/ total assets/current liabilities) *	3.8	5.1	
	Current ratio (current assets/ current liabilities)	-1.47	1.0	
	Gearing (debt/equity)	-21.7%	53.6%	
	Interest cover (EBIT/ interest cover)	- 37.1	17.7	8 marks
411-4b	Calculate CE and Debt; 6 ratios Recommendation, specifically commenting on either performance or liquidity or gearing. Capital employed = 405,677 Either (ie for Beta) Equity + debt = 333,356+72,321 Fixed assets + working capital = 195,908 + (396,150+159,484-345,865) = Total			

	Assets Debt – All borrowings (LT and ST) less cash equivalents. Current ratio should include cash	2 marks **Total: 10 marks**

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