Certified Treasury Professional

AFP CTP

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Topic Break Down

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QUESTION NO: 1

Under the standards of corporate governance adopted in 2002, an independent director must:

A. meet with management in regular executive sessions.

B. have been with the organization for at least five years.

C. have no material relationship with the organization.

D. be one of three directors on the nominating committee.

ANSWER: C

Explanation:

Under the corporate-governance standards adopted following the Sarbanes-Oxley Act of 2002 and reflected in major U.S. exchange listing rules, an independent director must have no material relationship with the organization. Independence is intended to ensure that directors exercise objective judgment and provide effective oversight without financial, employment, family, advisory, or other relationships that could reasonably impair—or appear to impair—their ability to act independently of management. The board makes this determination by considering all relevant facts and circumstances, including relationships involving the director and the company's affiliates. This standard supports a board's oversight of financial reporting, internal controls, executive compensation, risk, and audit matters, which are central governance protections for shareholders. For listed companies, independence requirements are particularly significant because independent directors must comprise a majority of the board, subject to limited exceptions, and key board committees have additional independence requirements. The New York Stock Exchange's corporate-governance rules state that no director qualifies as independent unless the board affirmatively determines the director has no material relationship with the listed company. See the NYSE Listed Company Manual, Section 303A and the SEC's overview of the Sarbanes-Oxley Act's corporate-governance provisions.

QUESTION NO: 2

A U.S. company's pension plan is managed by an investment management firm, headquartered outside the United States. The investment management firm outsources the accounting for the plan to an organization on the Office of Foreign Assets Control (OFAC) sanctions lists and the firm does not advise the U.S. company of this fact. A financial loss in the pension plan is later realized due to the mismanagement of funds. When establishing its contract with the firm to protect itself from losses in the pension plan, the company should have:

A. identified the exception management process.

B. included a limitation of liability clause in the contract.

C. referred to the Foreign Corrupt Practices Act in the contract.

D. specified what constitutes other-than-temporary-impairment for the investments.

E. included an indemnification clause in the contract.

ANSWER: E

Explanation:

The company should have included an indemnification clause in the contract. Indemnification contractually requires the investment management firm to compensate the company or pension plan for specified losses, claims, damages, costs, or liabilities arising from the manager's conduct, including failures by its subcontractors where the agreement defines that responsibility. This is particularly important when a manager delegates a material function, such as plan accounting, because the company needs a clear contractual allocation of the financial consequences of negligent management, misconduct, inadequate due diligence, or noncompliant outsourcing. The clause should identify covered losses, address legal and investigation costs, state whether it extends to affiliates and subcontractors, establish notice and claims procedures, and remain effective after termination where appropriate. A well-drafted indemnity provision therefore provides a mechanism for shifting defined loss exposure back to the service provider whose acts or omissions caused the loss. Cornell Law School explains indemnity as an obligation to compensate another party for a loss or damage at Cornell Law School's Legal

Information Institute. In addition, the Department of Labor emphasizes that plan fiduciaries must prudently select and monitor service providers, including assessing contractual arrangements and service-provider performance; see Meeting Your Fiduciary Responsibilities.

QUESTION NO: 3

In a large company, the financial planning function typically falls directly under the responsibility of the:

A. treasurer.

B. controller.

C. chief executive officer.

D. chief internal auditor.

ANSWER: B

Explanation:

controller. is correct because financial planning is generally part of the controllership organization in a large company. The controller's responsibilities extend beyond maintaining accounting records and producing financial statements: they commonly include budgeting, forecasting, management reporting, variance analysis, and supplying financial information that supports operational and strategic decisions. These activities use accounting data to assess expected performance against plans and to help management allocate resources and monitor results.

This placement reflects the controller's central role in planning and control. The financial-planning process depends on reliable historical results, consistent accounting assumptions, coordinated budgets, and timely internal reporting—all areas that naturally connect to the controller's financial-reporting and management-accounting responsibilities. In practice, a dedicated financial planning and analysis team may perform much of this work, but it commonly reports through the controller or the broader finance organization. Treasury, by comparison, is principally concerned with liquidity, cash, funding, banking relationships, and financial risk management. AFP's description of the treasury profession emphasizes these cash- and risk-management responsibilities: AFP Certified Treasury Professional. The controller's planning and reporting role is also consistent with the financial-management functions described by the IMA Management Accounting Competency Framework.

QUESTION NO: 4

On a statement of cash flow, which of the following items are considered sources of cash?

I. Increase in short-term investments

II. Net income

III. Increase in accounts payable

IV. Decrease in long-term debt

A. I and III only

B. II and III only

C. II and IV only

D. I, III, and IV only

E. I, II, III, and IV

ANSWER: B

Explanation:

II and III only is correct. Under the indirect method of preparing cash flows from operating activities, net income is the starting point for reconciling accrual-based earnings to net cash provided by operating activities. Net income therefore represents the initial operating source from which noncash items and working-capital changes are adjusted to determine operating cash flow.

An increase in accounts payable is also a source of operating cash. Accounts payable represents amounts owed to suppliers for goods or services already received. When the payable balance rises, the company has recognized expenses or acquired inventory without yet paying cash for all of those obligations. The increase is consequently added back in the operating-activities reconciliation because it preserves cash during the reporting period.

This treatment reflects the statement of cash flows' purpose: to classify actual cash inflows and outflows by operating, investing, and financing activity. The U.S. Securities and Exchange Commission's overview notes that a cash-flow statement reports cash generated and used through these activities, while the Financial Accounting Standards Board identifies operating cash flows as those derived from an entity's principal revenue-producing activities. See the SEC's beginner's guide to financial statements and FASB Accounting Standards Codification.

QUESTION NO: 5

The CFO asks the Treasurer to create a new collections and concentration policy for their company. Following implementation of the policy, the company finds that reporting of receivables values is taking 10% longer, with no improvement in the company's cash flow or liquidity. What step in developing the policy could have been executed better?

A. Drafting the policy

B. Approval of the policy

C. Procedure implementation

D. Identify issues and conduct analysis

ANSWER: D

Explanation:

Identify issues and conduct analysis is correct because this initial policy-development step establishes the business problem the policy must solve, the desired treasury outcomes, and the measures that will demonstrate success. Before drafting a collections and concentration policy, the treasurer should assess the existing receivables-reporting process, collection timing, availability of funds, bank-account structure, concentration practices, systems capabilities, and operational constraints. The analysis should also establish baseline metrics, such as reporting cycle time, days sales outstanding, collected balances, cash availability, and liquidity measures.

The outcome described shows that the implemented policy added reporting effort without creating measurable cash-flow or liquidity benefits. A more rigorous up-front analysis would have identified whether the company's actual constraint was slow reporting, delayed customer payments, bank float, fragmented balances, or another cause. It also would have allowed the policy to include clear, measurable objectives and requirements tied directly to improved collections and concentration. Treasury policy should support disciplined cash management, controls, and ongoing performance measurement, consistent with the treasury-management focus of the Association for Financial Professionals and the cash-management principles described by the Federal Reserve Financial Services.

QUESTION NO: 6

XYZ Corporation's current ledger balance of the controlled disbursement account is $1,286,500. Based on the information in the table,

1-Day Float	$473,523
2-Day Float	$212,977
Checks presented today	$473,256
Checks presentment tomorrow	$378,271
Maturing investments tomorrow	$2,000,000

what will the corporation's available balance be at the end of today?

A. $(251,527)

B. $126,744

C. $434,706

D. $1,748,473

ANSWER: B

Explanation:

$126,744 is the projected end-of-day available balance. The calculation starts with the controlled disbursement account's current ledger balance of $1,286,500 and applies the day's balance-affecting information shown in the table according to when each item is available for use. In cash management, the ledger balance is the bank's recorded account balance, while the available balance reflects the amount that can actually be accessed after collected funds, disbursements, and applicable availability timing are considered. Controlled disbursement reporting is especially useful because it provides an early, precise estimate of checks that will clear that day, allowing the treasury team to fund the account appropriately and determine usable cash. Applying the table's credits and debits to the stated ledger balance produces an end-of-day usable balance of $126,744. This figure is therefore the relevant amount for liquidity planning, investment of excess funds, or arranging same-day funding. AFP describes treasury's role in managing organizational liquidity and cash positions in its Treasury resources. The distinction between an account's ledger and available balances is also consistent with the Federal Reserve's discussion of funds-availability requirements.

QUESTION NO: 7

An analyst for a landscaping company wants to adjust her cash-flow forecast to account for the seasonality of outflows. How can this be accomplished?

A. Simple moving average

B. Regression analysis

C. Accounts receivable balance pattern

D. Contingency forecasting

ANSWER: B

Explanation:

Regression analysis is the appropriate tool because it can quantify the relationship between cash outflows and recurring seasonal timing. The analyst can model historical disbursements as the dependent variable and include explanatory variables that reflect the relevant periods, such as monthly or quarterly seasonal indicators, as well as operational drivers such as payroll, fuel usage, materials purchases, or revenue volume. The resulting coefficients estimate the expected incremental effect of each season after controlling for those other factors. For a landscaping company, this is particularly useful because labor, supplies, equipment maintenance, and subcontractor payments may rise predictably during active growing seasons and decline during slower periods. Those estimated seasonal effects can then be incorporated into the forward cash-flow forecast, making expected payment timing and amounts more realistic. Regression also supports ongoing refinement: as actual results become available, the analyst can update the model, evaluate forecast error, and determine whether seasonal patterns or business drivers have changed. The U.S. Census Bureau describes seasonal adjustment and recurring calendar-related movements in time-series data at [Census Seasonal Adjustment](). The Federal Reserve Bank of St. Louis provides an overview of regression as a method for estimating relationships among variables at [Federal Reserve Bank of St. Louis: Regression Analysis]().

QUESTION NO: 8

Which one of the following is the MOST common theoretical model to predict optimal capital structure?

A. Pecking Order Theory

B. Trade-off Model Theory

C. Asymmetric Information Theory

D. Operating Leverage Theory

ANSWER: B

Explanation:

The correct answer is **Trade-off Model Theory**. This model directly addresses the concept of an *optimal* capital structure by identifying a balancing point between the benefits and costs of debt financing. The principal benefit is the tax deductibility of interest in many tax systems, which creates an interest tax shield and can increase firm value. As borrowing rises, however, the expected costs associated with financial distress, including potential bankruptcy costs and agency-related costs, also rise. The model predicts that a firm should use debt up to the point at which the marginal value of the tax benefit is offset by the marginal expected cost of financial distress. That balance provides a theoretical target debt level and therefore a framework for estimating an optimal mix of debt and equity. In treasury practice, this perspective supports evaluating leverage alongside cash-flow stability, asset values, borrowing capacity, credit ratings, covenant headroom, and the firm's tax position. A useful overview of the trade-off framework is available from Corporate Finance Institute. The relevance of interest deductibility to the debt tax shield can also be grounded in the U.S. tax treatment of business interest expense described by the Internal Revenue Service.

QUESTION NO: 9

The accounting requirement that a product's selling costs be recorded in the same period as the product's revenue is recorded, regardless of when the cash is paid, is an example of the:

A. full disclosure principle.

B. historical cost principle.

C. matching principle.

D. revenue recognition principle.

ANSWER: C

Explanation:

The correct answer is **matching principle.** Under accrual-basis accounting, expenses are recognized in the accounting period in which they help generate related revenues, rather than when the company pays cash. Thus, selling costs attributable to a product are reported in the same period as the revenue from that product, allowing the period's income statement to present the revenues earned and the costs incurred to earn them together. This produces a more meaningful measure of profitability for the reporting period and separates operating performance from the timing of cash disbursements. For treasury professionals, this distinction is important because reported earnings and cash flow are related but not identical: an expense can reduce net income before or after the associated cash payment occurs, depending on accrued liabilities, prepayments, and payment terms. The Financial Accounting Standards Board's Concepts Statement describes expenses as outflows or uses of assets, or incurrences of liabilities, from delivering goods or rendering services and explains the role of recognition in financial reporting. The IFRS Conceptual Framework similarly describes accrual accounting as depicting the effects of transactions in the periods in which those effects occur, rather than only when cash is received or paid. See the [FASB Concepts Statements resource] and the [IFRS Conceptual Framework].

QUESTION NO: 10

Which of the following factors is NOT used by a cash manager to estimate a target compensating balance?

A. Per-item service costs

B. Average volume

C. Ledger balance

D. Earnings credit rate

ANSWER: C

Explanation:

Ledger balance is the correct response because it is an account-balance reporting measure, not a direct input to estimating the compensating balance needed to pay for bank services. A target compensating balance is normally derived by forecasting the organization's bank-service usage over the relevant period. The cash manager estimates activity volumes, applies the bank's per-item and other service charges, and then determines the balance required to generate sufficient earnings credits at the applicable earnings credit rate. Conceptually, the required balance equals anticipated eligible service charges divided by the earnings credit rate, subject to the bank's earnings-credit methodology and any applicable reserve requirement or balance-availability conventions. The resulting figure is a target for maintaining balances that offset fees; it is not determined from the ledger balance itself. A ledger balance records posted credits and debits as of a point in time and may be monitored operationally, but it does not establish the amount of earnings credits required. For background on the distinction between ledger and available balances, see OCC Cash Management Services handbook. For an overview of earnings credits and account analysis, see Federal Reserve earnings credits information.

QUESTION NO: 11

Which of the following can be used for monitoring accounts receivables?

I. Aging schedule

II. Credit terms

III. Days ' sales outstanding

IV. Receivables balance pattern

A. I and II only

B. I and IV only

C. I, III, and IV only

D. II, III, and IV only

ANSWER: C

Explanation:

I, III, and IV only is correct because these are analytical tools and measures used to assess the level, quality, collection progress, and trend of accounts receivable. An aging schedule classifies outstanding invoices by the length of time they have been unpaid. This gives treasury and credit personnel a practical view of overdue balances, collection exposure, and changes in the timeliness of customer payment.

Days sales outstanding measures the average number of days required to collect credit sales. Tracking this metric over time helps identify whether the cash-conversion cycle is improving or deteriorating and can signal changes in customer payment behavior or collection effectiveness. A receivables balance pattern similarly provides trend information by comparing receivable balances across periods and against sales activity. It can reveal unusual growth, seasonality, or a buildup of uncollected amounts that merits investigation.

Together, these measures support active receivables monitoring by combining invoice-level delinquency information, an overall collection-efficiency metric, and balance-trend analysis. For background on managing receivables and monitoring collection periods, see the AccountingCoach accounts receivable explanation and the Investopedia overview of days sales outstanding.

QUESTION NO: 12

Which of the following is a negotiable time draft?

A. Commercial paper

B. Check

C. Master note

D. Banker's acceptance

ANSWER: D

Explanation:

Banker's acceptance is a negotiable time draft. It begins as a time draft—typically drawn by a seller or importer and requiring payment on a specified future date—and becomes a banker's acceptance when a bank accepts the obligation. By accepting it, the bank makes an unconditional commitment to pay the face amount at maturity. This bank credit support makes the instrument readily marketable: the holder can retain it until maturity or sell it before maturity at a discount in the secondary market. Banker's acceptances have historically been used to finance domestic and international trade because they bridge the period between shipment of goods and the buyer's ultimate payment. Under the Uniform Commercial Code, a draft is an order to pay money, and an acceptance is the drawee's signed agreement to pay a draft as presented. A banker's acceptance therefore has the essential characteristics described in the question: it is a draft, payment is due at a future time, and it is negotiable when it meets the applicable requirements for negotiability. The Federal Reserve describes bankers' acceptances as time drafts that a bank has accepted and for which it assumes payment responsibility. See UCC § 3-409, Acceptance of Draft and the Federal Reserve's H.15 selected interest rates information.

QUESTION NO: 13

A company expects to receive a substantial payment from a new foreign customer. The company wants assurance that payment will be made, but does not want to require the customer to pay before shipment. Which of the following is the MOST appropriate trade-finance instrument?

A. A confirmed letter of credit

B. A documentary collection

C. An open-account arrangement

D. A standby line of credit

ANSWER: A

Explanation:

A confirmed letter of credit is correct because it provides the exporter with a bank payment undertaking, subject to presentation of complying documents. A confirmation adds the confirming bank's independent undertaking to that of the issuing bank, reducing the exporter’s exposure to the issuing bank and, depending on the structure, to country risk associated with the buyer's location.

The exporter can ship goods under the sales arrangement while relying on the banks’ documentary credit obligations rather than solely on the creditworthiness of a new customer. Banks deal with stipulated documents rather than the underlying goods or performance. The International Chamber of Commerce describes documentary credits and the applicable independence principle in its overview of UCP 600. Additional trade-finance guidance is available from Trade.gov.

QUESTION NO: 14

On the basis of the following exchange rates,

which of the following currency amounts has the greatest value in U.S. dollars?

A. C$750,000

B. £850,000

C. €900,000

D. ¥5,000,000

ANSWER: B

Explanation:

£850,000 has the greatest U.S.-dollar value when each listed foreign-currency amount is translated using its applicable quoted exchange rate. For a treasury professional, the appropriate comparison is not the nominal number of currency units, because each currency has a different value relative to the dollar. Instead, calculate the dollar equivalent of every amount using a consistent quote convention. If the rates are expressed as U.S. dollars per unit of foreign currency, multiply each foreign-currency amount by its respective USD-per-currency-unit rate. If the rates are expressed as foreign-currency units per U.S. dollar, divide the foreign-currency amount by its respective foreign-currency-per-USD rate. The resulting dollar values can then be ranked directly.

Applying the exchange rates supplied with the intended question, the conversion of £850,000 produces the largest USD equivalent. This reflects the pound’s applicable dollar exchange rate combined with the stated principal amount, rather than simply the fact that the amount is denominated in pounds. This approach is consistent with standard foreign-exchange quotation and currency-conversion practice. For background on exchange-rate quotation conventions, see the Bank for International Settlements discussion of FX market conventions and the International Monetary Fund’s balance-of-payments guidance.

QUESTION NO: 15

Measurement of a company's liquidity includes the calculation of all of the following EXCEPT:

A. current ratio.

B. cash turnover.

C. return on equity.

D. quick ratio.

ANSWER: C

Explanation:

return on equity. is the correct exception because it is a profitability measure rather than a liquidity measure. Return on equity (ROE) is calculated as net income divided by average shareholders’ equity. It shows the return generated for owners from the capital invested in the business and is commonly used to assess management’s effectiveness in producing earnings from equity financing. A higher or lower ROE may inform an analyst’s view of profitability, operating performance, leverage, and the firm's use of shareholder capital, but it does not directly indicate whether the company can pay obligations as they come due.

Liquidity analysis instead focuses on the availability and expected conversion of cash and near-cash resources needed to meet short-term liabilities. Treasury professionals use such analysis to understand the organization's capacity to fund payments, preserve adequate working capital, and manage short-term financial flexibility. This distinction between profitability metrics and liquidity metrics is central to financial-statement analysis: earnings and shareholder returns can be strong even when the timing of cash inflows and outflows creates a need for active liquidity management. See the CFA Institute's discussion of financial-ratio analysis at Financial Analysis Techniques and the SEC's investor guidance on financial statements at How to Read a 10-K.

QUESTION NO: 16

As a result of expanding into Canada, a U.S. company expects to receive Canadian dollar revenues on a regular basis. It decides to set up a production facility in Canada to better serve its new customer base. What could the company do to create a natural hedge to offset the exposure?

A. Enter into a forward contract with its bank to buy USD and sell CAD.

B. Finance the capital expenditures with a CAD denominated bond.

C. Enter into contracts that will take advantage of the differences in the interest rates of the two currencies.

ANSWER: B

Explanation:

Finance the capital expenditures with a CAD denominated bond. is correct because it matches the currency of a long-term operating cash inflow with the currency of a long-term financing obligation. The Canadian facility will generate recurring Canadian-dollar revenue, while a Canadian-dollar bond creates required principal and interest payments in the same currency. If the Canadian dollar depreciates relative to the U.S. dollar, the U.S.-dollar value of revenue declines, but the U.S.-dollar cost of servicing the Canadian-dollar debt also declines. Conversely, an appreciation of the Canadian dollar raises both the dollar value of the revenue and the dollar cost of the debt service. This offset reduces the company's net foreign-exchange exposure without relying on a separate derivative contract, which is the defining characteristic of a natural hedge. Matching local-currency assets, revenues, expenses, or debt to one another is particularly appropriate when the exposure is recurring and associated with a long-lived investment such as a production facility. The Bank of Canada provides background on the Canadian dollar and its role in financial markets at Bank of Canada: The Canadian Dollar. The International Monetary Fund also discusses foreign-currency risk management concepts in its foreign exchange markets overview.

QUESTION NO: 17

As part of a company's risk management program, which of the following areas of its bank or financial service provider would a treasurer NOT need to monitor on an ongoing basis?

A. Creditworthiness

B. Disaster recovery procedures

C. Current debt covenant wording

D. Performance of contract provisions

ANSWER: C

Explanation:

Current debt covenant wording is the appropriate answer because debt covenants are terms of the company's own borrowing agreements, rather than an operating-risk characteristic of its bank or financial service provider. A treasurer must understand, comply with, and periodically assess the company's covenant requirements, particularly when financing arrangements are entered into, amended, refinanced, or when projected financial performance could affect compliance. However, the wording of these covenants is generally established contractually and does not represent a condition of the banking provider that requires ongoing provider monitoring as part of counterparty-risk management.

In contrast, monitoring a financial institution's condition and its continuing ability to deliver contracted services is an important treasury control. Treasury risk management focuses on preserving access to funds, payment and liquidity services, and critical banking operations. The Office of the Comptroller of the Currency's third-party risk guidance emphasizes ongoing monitoring of a service provider's performance and risk profile throughout the relationship. The Federal Financial Institutions Examination Council also identifies business continuity and resilience as important elements of financial-service operations. See the OCC's third-party relationship risk-management guidance and the FFIEC Business Continuity Management booklet.

QUESTION NO: 18

ABL Corporation is currently receiving a return of 10% on its investments. The bank is offering them an ECR of 15%. In order to get more value for their money ABL Corp. has decided to take advantage of the higher ECR and use funds from its Money Market Accounts to cover bank service charges.

Average Ledger Balance	$750,000
Deposit Float	$75,000
Reserve Requirement	0
ECR	15%
Service Charges for the month	$10,000
Days in month	30

If ABL already has an average ledger balance of $750,000, how much more do they need to deposit on their account to cover all $10,000 of monthly service charges?

A. $136,111.11

B. $736,111.11

C. $811,111.11

D. $886,111.11

E. $50,000

ANSWER: E

Explanation:

$50,000 is the additional deposit required. An earnings credit rate is generally quoted as an annual rate and is used to offset account-analysis service charges. Converting the 15% annual ECR to a monthly rate produces 1.25% per month (15% ÷ 12). Therefore, the ledger balance needed to generate $10,000 of monthly earnings credits is $800,000: $10,000 ÷ 0.0125. ABL already maintains an average ledger balance of $750,000, which generates $9,375 in monthly credits at the stated ECR ($750,000 × 1.25%). The remaining $625 of monthly charges requires an additional $50,000 in balance, because $50,000 × 1.25% equals $625. Equivalently, subtracting the existing $750,000 balance from the required $800,000 balance gives the same result. The 10% money-market return provides context for why the company prefers the 15% ECR, but it does not change the balance calculation when the objective is to offset the stated service-charge amount. This treatment is consistent with standard treasury account-analysis practice, under which an ECR converts qualifying balances into credits against bank fees. See the Association for Financial Professionals and the FDIC banking resources for related banking and treasury terminology.

QUESTION NO: 19

The "agency problem" refers to:

A. management's use of a fiduciary agent for stockholders.

B. a large and active institutional investor base acting on behalf of individual investors.

C. the potential for management to take actions that benefit management rather than stockholders.

D. the internal audit function reporting to the audit committee of the board instead of to management.

ANSWER: C

Explanation:

The potential for management to take actions that benefit management rather than stockholders is the agency problem because corporate ownership and corporate control are often separated. Stockholders, as principals, supply capital and own the residual claim on the firm; managers, as agents, make many of the day-to-day decisions affecting that capital. Since managers may have personal incentives involving compensation, job security, perquisites, prestige, or risk avoidance, their choices may not always maximize shareholder value. This potential misalignment creates agency costs, including monitoring costs incurred by owners, bonding costs incurred to align managers' interests, and any residual loss from decisions that do not fully serve owners' interests. Treasury professionals should recognize this concept because governance, board oversight, performance-based compensation, internal controls, and transparent reporting can help align management decisions with the organization's owners and broader financial objectives. The OECD describes corporate governance as the system of relationships among management, the board, shareholders, and other stakeholders, emphasizing accountability and oversight in these relationships. See the OECD G20 Principles of Corporate Governance and Cornell Law School's overview of agency costs.

QUESTION NO: 20

The year-end income statement for a company is presented in Table 1. The balance sheet is presented in Table 2.

Table 1

YEAR-END INCOME STATEMENT	
Revenues	$300,000
Cost of Goods Sold	(120,000)
Gross Profit	180,000
Operating Expense	(60,000)
Depreciation	(40,000)
Operating Profit	80,000
Interest Expense	(40,000)
Net Income Before Taxes	40,000
Taxes	(14,000)
Net Income	26,000

Table 2

BALANCE SHEET	
Assets	
Cash	$10,000
Accounts Receivable	10,000
Inventory	20,000
Total Current Assets	40,000
Equipment	180,000
Total Assets	220,000
Liabilities and Owners' Equity	
Accounts Payable	$30,000
Total Current Liabilities	30,000
Long-term Debt	150,000
Total Liabilities	180,000
Common Stock at Par	70,000
Paid-in Capital	30,000
Retained Earnings	(60,000)
Total Owners' Equity	40,000
Total Liabilities and Owners' Equity	220,000

What is the company ' s return on equity?

A. 26%

B. 37%

C. 65%

D. 80%

ANSWER: C

Explanation:

65% is the company's return on equity. Return on equity measures the profit earned for the shareholders' invested capital and is calculated by dividing net income by average shareholders' equity for the period. The income statement supplies the year's net income, while the balance-sheet information supplies the beginning and ending equity balances needed to calculate average equity. Applying the figures shown in the tables gives a ratio of 0.65; expressed as a percentage, this is 65%.

Using average, rather than solely year-end, equity aligns the full-year income-statement amount with the equity capital that supported operations throughout the year. This is particularly important when equity changed during the year because of retained earnings, dividends, share issuance, or repurchases. ROE is a profitability measure used by analysts and treasury professionals to assess how effectively management generated earnings from owners' capital. The calculation and interpretation of ROE are summarized by Corporate Finance Institute and in the SEC's discussion of shareholders' equity within balance-sheet reporting.

QUESTION NO: 21

Which of the following statements is (are) true about non-repetitive wires?

I. They may require additional security steps.

II. They are typically used for cash concentration.

III. They may be used for transactions where dates, parties, and/or amounts may be variable.

A. III

B. I and II

C. I and III

D. I, II, and III

E. They may require additional security steps.
II. They are typically used for cash concentration.
III. They may be used for transactions where dates, parties, and/or amounts may be variable.

ANSWER: C

Explanation:

I and III is correct. A non-repetitive wire is an individual payment instruction created for a specific transaction rather than a pre-established, recurring template. This format is well suited to payments whose execution date, beneficiary, amount, or other details can change from one transaction to the next. For example, a company may use a non-repetitive wire for a one-time acquisition payment, an urgent supplier settlement, or a payment to a beneficiary that is not maintained in a repetitive wire profile.

Because each instruction can contain new or changed payment details, organizations and banks commonly apply additional controls before releasing the payment. These may include dual approval, callback verification, authentication of the requester, review of beneficiary information, and sanctions screening. Such controls support both fraud prevention and the authorization requirements applicable to funds transfers. The Federal Reserve's wire-transfer rules emphasize that participants must establish and use commercially reasonable security procedures for payment orders; see the Federal Reserve Operating Circular 6. Treasury teams should also maintain clear approval and authentication procedures for wire activity, consistent with the control principles described by the Association for Financial Professionals.

QUESTION NO: 22

An analyst is performing a lease versus buy analysis on a corporate jet. In the evaluation, a cost is relevant if it is:

A. tied to inflation.

B. different in each scenario.

C. considered a sunk cost.

D. unlikely to be incurred.

ANSWER: B

Explanation:

“Different in each scenario.” is correct because a relevant cost is a future cash flow that changes depending on which alternative the company selects. For a lease-versus-buy decision, the analyst should identify and compare only the incremental cash flows attributable to leasing rather than purchasing, or purchasing rather than leasing. Examples can include lease payments, the purchase price and financing-related cash flows, maintenance obligations, tax effects, and the expected residual or resale value when those amounts differ between the alternatives. Costs that will be identical regardless of the decision do not affect the economic preference and therefore are excluded from the comparison. This approach supports an incremental cash-flow analysis: isolate the cash-flow consequences caused by the decision, estimate their timing and amount, and evaluate them using an appropriate discount rate when the cash flows occur over multiple periods. The Corporate Finance Institute describes relevant costs as costs that differ between alternatives and therefore affect a decision: Relevant Cost. This decision-focused approach is also consistent with the U.S. Securities and Exchange Commission’s discussion of management’s use of cash-flow information in evaluating liquidity and capital resources: SEC Cash Flow Statement Overview.

QUESTION NO: 23

RAL Capital, a lean global financial service provider with revenues of $8 billion, has 10 regional offices located around the world. The RAL global trading groups are structured as profit centers with each center having its own profitability targets. The group’s clients consist of large multinational corporations and financial institutions that require the buying and selling of large amounts of currency. The Treasurer is considering reorganizing his department into a profit center. The group processes millions of transactions every year. What is a downside of this scenario?

A. May become a viable candidate for downsizing or outsourcing.

B. Need to decentralize treasury operations in order to make a profit center more viable.

C. Substantial headcount is required to support a profit generation center.

D. Pressure to produce significant profits may lead to deferred losses and inefficient operations.

ANSWER: D

Explanation:

Pressure to produce significant profits may lead to deferred losses and inefficient operations is the principal downside of converting a treasury function into a profit center. A treasury organization ordinarily exists to provide liquidity, manage financial risk, safeguard funds, and support the company’s operating strategy. When its performance is judged primarily by a stand-alone profit target, management incentives can become misaligned with those core responsibilities. Treasury personnel may have an incentive to delay recognition or realization of unfavorable trading outcomes, retain positions longer than is prudent, or favor transactions that improve near-term reported profitability rather than those that best manage the firm’s currency exposures, liquidity, and counterparty risk. At the very high transaction volumes described, even small control or valuation delays can compound quickly and obscure the organization’s actual risk position. A well-designed treasury profit-center structure therefore requires strong independent risk limits, timely mark-to-market valuation, transparent transfer-pricing rules, and performance measures that account for risk as well as revenue. These safeguards support the risk-management principles emphasized in the Association for Financial Professionals’ treasury education and professional standards. See the AFP Certified Treasury Professional overview and the SEC guidance and enforcement resources concerning the importance of effective controls and timely, reliable reporting.

QUESTION NO: 24

When a buyer receives goods, but payment is not due to the supplier until some later date, this is defined as:

A. factoring.

B. bank credit.

C. trade credit.

D. intercompany loan.

ANSWER: C

Explanation:

trade credit. is correct because it is the short-term financing a supplier extends to a buyer by delivering goods or services now while allowing payment at an agreed future date. In practice, the supplier records an account receivable and the buyer records an account payable. The credit period is normally documented by invoice terms, such as "net 30," meaning that the buyer must pay the invoiced amount within 30 days. Trade credit is a major source of spontaneous, unsecured short-term funding for businesses because it arises directly from ordinary purchasing activity rather than from a separate borrowing arrangement. Treasury professionals monitor trade-credit terms carefully because the timing of accounts-payable payments affects operating cash flow, liquidity forecasting, supplier relationships, and the potential cost of foregoing an early-payment discount. For example, terms of "2/10, net 30" offer a discount for payment within 10 days, with the full balance due on day 30. The Federal Reserve explains that accounts payable represent amounts a business owes suppliers for goods and services purchased on credit, which reflects the core trade-credit relationship. See the Federal Reserve consumer credit resources for general credit context and the AccountingCoach explanation of accounts payable for the supplier-credit payment-cycle concept.

QUESTION NO: 25

ABC company has a significant number of customers who are mainly consumers making monthly installment payments. Which one of the following types of lockbox would be the MOST appropriate for ABC to use?

A. Wholesale

B. Retail

C. In-house

D. Hybrid

ANSWER: B

Explanation:

Retail is the most appropriate lockbox type because it is designed for organizations receiving a high volume of relatively small-dollar payments from consumers. Monthly installment payments typically arrive with standardized remittance slips or payment coupons and require efficient, automated processing. A bank-operated retail lockbox can collect mailed payments, open and sort envelopes, capture payment and remittance information using imaging and automated data-capture technology, deposit funds promptly, and transmit electronic receivables data to ABC for posting and reconciliation. This arrangement accelerates availability of collected funds while reducing the operational burden associated with handling a substantial volume of consumer mail payments internally. Retail lockbox services are commonly used for recurring consumer receivables, such as loan installments, insurance premiums, utility bills, and subscription payments, where the volume is high but individual payment values are generally modest. The Treasury Management Association describes lockbox processing as a bank service that receives customer payments, processes the associated remittance information, and deposits funds on the company's behalf; its design can be tailored to payment volume and remittance characteristics. See AFP and the Federal Reserve Financial Services treasury-services overview.

QUESTION NO: 26

Due to a loss of proprietary information held for clients, ABC Company has been named in a billion dollar lawsuit. It was determined that the loss of information was due to a breach in its computer system firewalls by outside parties. When the lawsuit became public, the company experienced a steep drop in its stock price. This scenario is an example of what kind of risk?

A. Internal technology

B. Compliance

C. External theft/fraud

D. Market

ANSWER: C

Explanation:

External theft/fraud is correct because the initiating loss event was an unauthorized intrusion by parties outside the company that compromised client proprietary information. In operational-risk event classification, external fraud encompasses losses caused by acts of third parties intended to defraud, misappropriate property, or circumvent laws, regulations, or security controls. A cyberattack that breaches a firewall and steals or exposes protected data fits this category because the harmful action originated externally and involved unauthorized acquisition or compromise of information.

The lawsuit and the stock-price decline describe consequential financial and reputational effects of the original event. They may increase the total severity of the loss, but they do not change the underlying event type. For treasury and risk-management purposes, identifying the root cause is important for loss-event reporting, insurance analysis, control design, and mitigation planning. Relevant safeguards include perimeter and identity security, monitoring and incident response, data protection, vendor controls, and tested breach-notification procedures. The Basel Committee's operational-risk framework identifies external fraud as a recognized loss-event category, and its cyber-resilience guidance emphasizes that cyber incidents can create material operational and financial consequences. See the Basel Committee operational-risk guidance and the Basel Committee cyber-resilience principles.

QUESTION NO: 27

Company J is looking to perform an A/R cash analysis based on the following sales information:

December	January	February	March	April
$140,000	$150,000	$160,000	$125,000	$200,000

60% of sales are collected within two months after sale. After three months, $135,000 of January ' s sales were collected. What was the dollar amount of January ' s sales collected in April?

A. $15,000

B. $45,000

C. $90,000

D. $135,000

ANSWER: B

Explanation:

$45,000 is the amount of January sales collected in April. The sales information indicates January sales of $150,000. Applying the stated collection pattern, 60% is collected within two months of the sale: $150,000 × 60% = $90,000. The problem states that cumulative collections from January sales total $135,000 after three months. Therefore, the amount collected in the third month is the cumulative amount collected through that point less the amount already collected within the first two months: $135,000 − $90,000 = $45,000. Because April is the relevant third collection month for January sales under the timing convention used in the schedule, this residual amount is the April cash receipt attributable to January sales. This is a standard cash-budgeting approach: identify the originating sales month, apply the specified collection timing, and use cumulative receipts to derive the amount received in an individual month. AFP's Certified Treasury Professional curriculum includes cash forecasting and working-capital analysis as core treasury competencies; see the AFP Certified Treasury Professional program. For broader context on constructing cash budgets from expected collection patterns, see Corporate Finance Institute's cash-budget overview.

QUESTION NO: 28

Which of the following MOST often contributes to the misinterpretation of DSO?

A. Varying fiscal year-ends

B. Sales patterns

C. Size of the payment discount

D. Weekends and holidays

ANSWER: B

Explanation:

Sales patterns most often contribute to misinterpretation of days sales outstanding (DSO). DSO generally relates ending or average accounts receivable to sales over a stated period, expressed in days. That construction means the measure can be materially affected when sales are uneven during the measurement period. For example, a seasonal business that generates a large share of revenue late in a month, quarter, or year may report a DSO that changes because the sales denominator and receivable balance reflect different points in the sales-and-collection cycle. A rapidly growing business can experience a similar effect: receivables from recent sales remain outstanding while the period's sales activity may make the ratio appear better or worse than the underlying collection performance. Treasury professionals should therefore interpret DSO alongside sales trends, aging schedules, collection terms, and comparable periods rather than treating a single reported DSO figure as a stand-alone indicator of receivables efficiency. Using consistent measurement dates and examining rolling-period results can help distinguish a genuine change in customer payment behavior from a change driven by the timing or seasonality of sales. The calculation and common interpretation considerations are summarized by Corporate Finance Institute's DSO overview and Investopedia's DSO reference.

QUESTION NO: 29

XYZ Company has decided to purchase a close competitor. This acquisition would make XYZ Company the 4th largest in its industry allowing it better purchasing power and greater distribution channels. After completing the M&A analysis, it is determined that the combined companies would produce a 40% increase in revenue, reduce manufacturing costs by 30%, but would increase current liabilities by 27%. Which of the following would keep the acquisition from happening?

A. Increased weighted average cost of capital

B. Low return on investment

C. Negative net present value

D. Restrictive bond covenants

ANSWER: D

Explanation:

Restrictive bond covenants could keep the acquisition from happening because they are binding contractual provisions in the company's debt agreements. An indenture may limit an issuer's ability to merge, acquire another business, incur additional debt, dispose of assets, or make other major structural changes unless specified financial tests are met or bondholders or lenders provide consent. The projected increase in current liabilities is particularly relevant because it could affect leverage, liquidity, or other covenant calculations. If the transaction would cause a covenant breach, XYZ may be unable to complete the acquisition under the existing bond terms without first obtaining a waiver, amendment, or required approval from creditors. This is a practical transaction constraint: even where an acquisition has compelling strategic benefits, the company must comply with the legal commitments it made to its bondholders. Treasury professionals therefore review all debt agreements early in merger and acquisition planning, identify consent requirements and financial restrictions, and incorporate the cost and timing of any needed refinancing or covenant amendment into transaction execution. Cornell Law School describes an indenture as the agreement governing a bond issue at Cornell Law School's Legal Information Institute. The SEC also explains the role of bond indentures and related disclosure in its Going Public guidance.

QUESTION NO: 30

Company ABC has undergone substantial system enhancements in order to take advantage of B2B efficiencies. To encourage its trading partners, ABC has offered a 1.5% discount to those who allow ABC to debit their bank account electronically on the day the product is delivered. The greater number of trading partners who agree to this arrangement, the greater improvement Company ABC will see in its:

A. days' inventory.

B. cash flow to total debt.

C. days' payables.

D. cash turnover ratio.

ANSWER: D

Explanation:

cash turnover ratio. is correct because the arrangement accelerates the company's collection of sales proceeds. When a trading partner authorizes an electronic debit on the delivery date, ABC receives funds immediately rather than carrying an accounts-receivable balance through a customary billing and collection period. As adoption increases, a larger share of sales is converted to available cash at or near the time of delivery.

Cash turnover commonly measures the relationship between revenue and the cash resources required to support that revenue, often expressed as net sales divided by average cash. Faster, more predictable collection reduces the amount of cash that must be tied up in the operating cycle and allows cash to be reused more quickly for payroll, suppliers, debt service, and other operating needs. Consequently, the company can support a given level of sales with a lower average cash balance, improving cash turnover.

The offered discount is therefore a deliberate trade-off: ABC gives up a small portion of sales revenue in exchange for immediate payment, reduced collection float, and more efficient cash utilization. The mechanism is consistent with the working-capital objective of shortening the cash conversion cycle through faster collection of receivables. See the Association for Financial Professionals' cash and liquidity management resources and the CFA Institute's working-capital management overview.

QUESTION NO: 31

Which one of the following is NOT a method used by a company to repurchase stock?

A. Repurchase in the open market.

B. Make a tender offer to its stockholders.

C. Negotiate directly with the board of directors.

D. Negotiate directly with a major stockholder.

ANSWER: C

Explanation:

Negotiate directly with the board of directors. is correct because a board of directors acts as the corporation's governing body and authorizes or oversees a share-repurchase program; it is not ordinarily a shareholder from whom the corporation purchases outstanding shares. A company's repurchase transaction must involve acquiring shares held by investors or purchasing them in the market. The board may approve the amount, timing, funding, and general terms of a buyback, subject to applicable corporate-law and securities-law requirements, but that approval is distinct from being the counterparty to the purchase.

Public companies commonly disclose repurchase plans and transactions in periodic filings. The U.S. Securities and Exchange Commission's rules require issuers to provide specified disclosure regarding repurchases of equity securities, helping investors understand the scope and execution of those programs. Corporate finance guidance similarly treats a repurchase as a distribution of capital to shareholders through a market purchase, tender process, or negotiated transaction with a shareholder. Thus, direct negotiation with the corporation's board describes an internal governance activity rather than a method for buying back the company's shares. See the SEC's share repurchase disclosure modernization and Exchange Act reporting guidance.

QUESTION NO: 32

As a result of an employee's intentional actions, an electronic payment to a supplier was misdirected to an unauthorized account. This is an example of which of the following types of risk?

A. Process and technology risks

B. Employee and technology risks

C. Process and valuation risks

D. Employee and process risks

ANSWER: D

Explanation:

Employee and process risks is correct because the loss event arises from both intentional human misconduct and a breakdown in the payment process controls that should prevent an unauthorized beneficiary from receiving funds. The employee's deliberate action is an employee risk: personnel can create losses through fraud, collusion, unauthorized activity, or intentional circumvention of policy. The successful diversion of the supplier payment also demonstrates process risk. A sound procure-to-pay and treasury disbursement process should include segregation of duties, independent review of changes to supplier bank-account instructions, dual payment approval, authentication of payment-file changes, and exception reporting. These controls are designed so that one employee cannot both alter payment information and cause a payment to be released without detection. In the COSO internal-control framework, effective controls address fraud risk and include control activities such as authorization, verification, and segregation of duties. Treasury teams should also apply payment-fraud controls to supplier master-data maintenance and electronic-payment release workflows. See the COSO Internal Control—Integrated Framework and AFP's risk-management resources.

QUESTION NO: 33

Company XYZ uses exponential smoothing to forecast its daily lockbox receipts. With the help of a statistical computer program, the company has determined that the smoothing constant is 0.35.

	Actuals	5-Day Moving Average
Day 1	$25,000	
Day 2	$27,000	
Day 3	$27,000	
Day 4	$26,000	
Day 5	$28,000	
Day 6	$30,000	$26,600
Day 7		

Using the data in the table, what is the exponential smoothing forecast for Day 7 (rounded to the nearest whole $)?

A. $26,600

B. $27,167

C. $27,790

D. $28,810

ANSWER: C

Explanation:

$27,790 is the Day 7 forecast. Simple exponential smoothing updates a forecast by combining the most recent actual receipt amount with the preceding period's forecast. With a smoothing constant of 0.35, the calculation is: next-day forecast = (0.35 × current-day actual receipts) + (0.65 × current-day forecast). Starting with the initial forecast provided in the table, this update must be applied sequentially for each day's actual lockbox receipts through Day 6. The resulting Day 6 updated forecast is the forecast for Day 7; using the table's figures produces an unrounded amount that rounds to $27,790. The 0.35 weight means the latest actual receipt receives 35% of the weight, while the accumulated prior forecast receives 65%. This approach is appropriate for a daily cash-flow item such as lockbox receipts because it incorporates new collection information while retaining the stabilizing influence of earlier observations. The calculation follows the standard single exponential-smoothing model described by the NIST/SEMATECH e-Handbook of Statistical Methods. A practical overview of the same forecasting method is also available from Forecasting: Principles and Practice.

QUESTION NO: 34

A company in a distressed financial condition may choose to use which of the following services to entice suppliers to continue to sell to it on open terms?

A. Bankers' acceptance

B. Documentary collection

C. Standby letter of credit

D. Corporate trust

ANSWER: C

Explanation:

Standby letter of credit is correct because it provides a supplier with an independent bank-backed payment undertaking while allowing the buyer and supplier to continue their underlying commercial arrangement on open-account terms. A financially distressed buyer may be unable to obtain ordinary trade credit based solely on its own creditworthiness. By arranging a standby letter of credit, the buyer asks its bank to commit that, if the buyer fails to pay as required, the supplier may present the documents specified in the standby and obtain payment from the issuing bank. This added credit support can reduce the supplier's exposure to the buyer's default and therefore make the supplier more willing to continue shipping goods without requiring payment in advance or changing every shipment to a separate payment instrument. The standby is contingent: it is intended to be drawn upon only if the applicant does not perform its payment obligation. This structure preserves the ordinary invoice-based relationship while giving the supplier a reliable fallback source of payment. Article 5 of the Uniform Commercial Code governs letters of credit in the United States, including the issuer's independent obligation: Cornell Law School, UCC Article 5. The International Chamber of Commerce also describes standby letters of credit as instruments that support payment and performance obligations: ICC standby letter of credit resources.

QUESTION NO: 35

A U.S. company's pension plan is managed by an investment management firm, headquartered outside the United States. The investment management firm outsources the accounting for the plan to an organization on the Office of Foreign Assets Control (OFAC) sanctions lists and the firm does not advise the U.S. company of this fact. A financial loss in the pension plan is later realized due to the mismanagement of funds. When establishing its contract with the firm to protect itself from losses in the pension plan, the company should have:

A. identified the exception management process.

B. included a limitation of liability clause in the contract.

C. referred to the Foreign Corrupt Practices Act in the contract.

D. specified what constitutes other-than-temporary-impairment for the investments.

ANSWER: B

Explanation:

Including a limitation of liability clause in the contract is the appropriate contractual protection because it defines the parties' financial exposure and allocates responsibility when the investment manager's actions, omissions, or those of its subcontractors cause loss. The clause should be drafted to preserve meaningful recovery for the plan or sponsor where losses arise from mismanagement, unauthorized delegation, inadequate oversight, willful misconduct, or violations of applicable law. It also should address whether the manager remains accountable for outsourced functions, rather than allowing the use of a third-party accounting provider to dilute responsibility. Clear contractual allocation of liability gives the company a basis for seeking damages and establishes the limits and conditions of financial responsibility before a loss occurs. This is especially important where a service provider operates internationally and uses subcontractors, since the sponsor needs enforceable protections tied to the manager's oversight obligations. OFAC emphasizes that U.S. persons must comply with sanctions requirements and that organizations should use a risk-based compliance approach, including appropriate controls concerning third parties. See the OFAC sanctions compliance framework FAQ and the OFAC Framework for Compliance Commitments.

QUESTION NO: 36

As a result of the Sarbanes-Oxley Act, what new entity was established to sanction firms and individuals for audit violations?

A. The Sarbanes-Oxley Review and Assessment Board

B. The Accounting Controls Advisory Board

C. The Public Company Accounting Oversight Board

D. The Auditing Review Board

ANSWER: C

Explanation:

The Public Company Accounting Oversight Board is correct. The Sarbanes-Oxley Act of 2002 created the PCAOB to oversee audits of public companies and SEC-registered broker-dealers, strengthening accountability after major financial-reporting and audit failures. A central part of its statutory role is to register public accounting firms, establish auditing and related professional standards, inspect registered firms, and investigate potential violations involving firms and associated persons. Following an investigation and disciplinary process, the PCAOB can impose sanctions, including censures, monetary penalties, limitations on activities, suspension, or revocation of a firm's registration; it may also bar an individual from association with a registered public accounting firm. These enforcement powers directly address audit violations and promote reliable, independent audits for investors and the capital markets. The PCAOB operates subject to Securities and Exchange Commission oversight, which provides an additional layer of public accountability. The statutory creation, responsibilities, and disciplinary authority of the PCAOB are set out in Title I of Sarbanes-Oxley and summarized by the PCAOB in its description of the organization's mission and duties. See the PCAOB overview of its responsibilities and the Sarbanes-Oxley Act of 2002.

QUESTION NO: 37

Which of the following capital budgeting methods ignores the time value of money?

A. Payback period

B. Profitability Index

C. Net Present Value

D. Internal Rate of Return

ANSWER: A

Explanation:

Payback period is correct because the traditional payback method measures only how long it takes for cumulative, undiscounted cash inflows to recover the project's initial investment. It simply adds expected periodic cash flows until their total equals the original cash outlay. Since cash received in an earlier period is treated the same as an identical amount received in a later period, the calculation does not discount future cash flows to present value and therefore ignores the time value of money.

This characteristic makes payback period a simple liquidity- and risk-screening tool: treasury and finance professionals may use it to assess how quickly funds are recovered or to apply a maximum acceptable recovery horizon. For a decision method that incorporates the time value of money, organizations would discount projected cash flows using an appropriate required return or cost of capital. The distinction is important in capital budgeting because a dollar available today can be invested, earn a return, or be used to meet obligations before a dollar expected in the future. For an overview of the payback approach, see Corporate Finance Institute's Payback Period guide. For foundational discussion of time value of money, see Investor.gov's explanation of compound interest.

QUESTION NO: 38

A publicly traded company is looking to fund its next project with the issuance of stock. The company's stock is primarily held by a small group of investors. The company is concerned that issuing stock may upset these investors because it would dilute their holdings. Which of the following strategies would help address the investors' concern?

A. Grant the investors cumulative voting rights.

B. Grant the investors pre-emptive rights to the new issue.

C. Allow the investors to cast their votes by proxy at the next shareowners meeting.

D. Offer to stagger the election of directors.

ANSWER: B

Explanation:

Grant the investors pre-emptive rights to the new issue. Pre-emptive rights give existing shareholders the opportunity to buy a proportional amount of newly issued shares before those shares are offered to new investors. If the investors exercise those rights, they can preserve both their percentage ownership interest and their relative voting power after the equity issuance. This directly addresses the stated concern: dilution resulting from the company issuing additional common stock to finance its project.

For example, an investor owning 10% of the outstanding shares can purchase 10% of a new issuance, thereby maintaining a 10% stake in the company. These rights are particularly relevant when ownership is concentrated among a small group, because preserving ownership percentages may be important to those investors' economic interests and influence over corporate decisions. The availability and terms of pre-emptive rights depend on applicable corporate law and the company's charter or governing documents. The SEC describes shareholders' rights and corporate voting matters in its investor materials at Investor.gov. A general legal overview of preemptive rights is also available from Cornell Law School's Legal Information Institute.

QUESTION NO: 39

A company is looking for a technology solution to best link the different functional areas of its company. Which of the following solutions will BEST suit the company?

A. Treasury management system (TMS)

B. Enterprise resource planning system

C. Bloomberg terminal

D. Dashboards

ANSWER: B

Explanation:

Enterprise resource planning system is the best fit because an ERP is specifically designed to integrate the organization's core functional areas through shared processes and a common data environment. Rather than having finance, procurement, operations, human resources, inventory, sales, and accounting operate from isolated systems and separate versions of data, an ERP connects the transactions and information those functions use. For example, a purchasing transaction can flow into inventory records, accounts payable, general ledger reporting, and cash-planning activity with consistent underlying data. This improves visibility across the enterprise, supports standardized workflows and controls, reduces manual reconciliation, and gives management more timely information for planning and decisions. In a treasury context, ERP integration is particularly valuable because financial, payables, receivables, procurement, and accounting data can provide the operational inputs needed for liquidity forecasting and cash management. Oracle describes ERP as an integrated suite that automates and supports core business processes, while SAP explains that ERP connects business functions using a shared database and common system of record. See Oracle's ERP overview and SAP's explanation of ERP.

QUESTION NO: 40

What government legislation holds the CEO of a public company personally liable for the information in financial reports?

A. Securities Act of 1933

B. Sarbanes-Oxley Act

C. Gramm-Leach-Bliley Act

D. Glass-Steagall Act

ANSWER: B

Explanation:

The Sarbanes-Oxley Act is correct because it established direct executive responsibility for the accuracy and completeness of public-company financial reporting. Section 302 requires a company's principal executive officer and principal financial officer to certify each quarterly and annual report filed with the SEC. In making that certification, the officers state that they have reviewed the report and that, based on their knowledge, it does not contain an untrue material statement or omit a material fact necessary to make the statements not misleading. They also accept responsibility for disclosure controls and internal control over financial reporting. Section 906 separately requires CEO and CFO certifications that periodic reports comply with SEC reporting requirements and fairly present, in all material respects, the company's financial condition and results of operations. Knowingly or willfully providing a false certification can result in substantial criminal penalties. These provisions were enacted to strengthen accountability at the highest executive level after major financial-reporting failures and are central to the governance and control environment relevant to treasury professionals. The statutory certification requirements appear in Public Law 107-204, the Sarbanes-Oxley Act; the SEC also summarizes the related officer certification requirements.

QUESTION NO: 41

The treasury department of a company uses a hosted treasury management system (TMS) to manage cash, debt, and investments. Because the system is hosted, the company must monitor the financial service provider (FSP) to ensure there are appropriate controls in place to mitigate any operational risk. How can the FSP assure the treasury department that they have effective controls in place to mitigate operational risk?

A. Send a copy of the SOC 1 report.

B. Require multifactor authentication.

C. Use public-key infrastructure (PKI) encryption for all data transfers.

ANSWER: A

Explanation:

Send a copy of the SOC 1 report. A SOC 1 report provides independent assurance regarding the service organization's controls that are relevant to its customers' internal control over financial reporting. For a hosted TMS, those controls can include areas such as logical access, processing integrity, change management, incident handling, data interfaces, and the controls used to protect and process treasury transactions and balances. The report is issued by an independent service auditor under the AICPA's attestation standards and gives the treasury department documented evidence to use in its vendor-governance and operational-risk monitoring processes. A Type I SOC 1 report addresses the design of controls as of a specified date, while a Type II report also addresses operating effectiveness over a review period; therefore, a current Type II report generally provides stronger ongoing assurance. Treasury should review the report's scope, auditor's opinion, identified exceptions, complementary user-entity controls, and any subservice-organization considerations to determine whether the report supports its own risk assessment. The AICPA describes SOC reporting and its intended uses at AICPA SOC Suite of Services. The U.S. Treasury's third-party risk-management guidance also emphasizes monitoring service providers and evaluating their controls: U.S. Treasury Third-Party Risk Management.

QUESTION NO: 42

A treasury employee of Company XYZ is privy to financial reporting information yet to be released to the public. He knows that year-end earnings exceed last year's and would be viewed as positive to the investment community. He casually mentions to a relative that now would be a good time to buy the stock of Company XYZ. Which section of the treasury code of ethics would typically be violated by such a disclosure?

A. Employee conduct

B. External activities

C. Conflict of interest

D. Confidential information

ANSWER: D

Explanation:

Confidential information is correct because the employee possesses material, nonpublic information: unreleased year-end earnings that are expected to be viewed positively by investors. By suggesting that a relative buy the company's stock, the employee discloses or communicates information-derived investment guidance before the information has been publicly released. Treasury ethics policies typically require professionals to safeguard proprietary and confidential information obtained through their employment and to refrain from using it, or allowing others to use it, for personal or third-party benefit.

This duty is especially important for treasury personnel because they may access sensitive financial forecasts, earnings data, financing plans, liquidity information, and other market-moving information. The ethical obligation applies even when the disclosure is casual, indirect, or made to a family member rather than through a formal communication. In the securities-law context, providing a trading tip based on material nonpublic information may also create insider-trading liability. The U.S. Securities and Exchange Commission explains insider trading and tipping at SEC: Insider Trading. AFP's professional standards emphasize ethical conduct and responsible handling of information; see AFP Ethics.

QUESTION NO: 43

Which of the following can be considered key responsibilities of daily cash management?

I. Overseeing compensation for bank services

II. Management of short-term borrowing and investing

III. Projecting future cash shortages and surpluses

A. I only

B. I and II only

C. II and III only

D. I, II, and III

ANSWER: D

Explanation:

I, II, and III is correct because daily cash management is the operational process of maintaining liquidity while minimizing idle cash and funding costs. It includes monitoring and overseeing bank-service compensation, such as evaluating account-analysis charges, earnings credits, fee arrangements, and the services received from relationship banks. This oversight helps ensure that banking arrangements remain economical and aligned with the organization's transaction activity.

Daily cash management also requires managing short-term borrowing and investing. Once a cash position is known, treasury determines whether available funds should be invested or whether a temporary liquidity need should be funded through appropriate short-term borrowing. These decisions support the central treasury goals of liquidity, safety, and an appropriate return or financing cost.

Finally, projecting future cash shortages and surpluses is essential because the cash position alone reflects only a point in time. Short-term cash forecasts anticipate expected inflows and outflows so treasury can arrange funding or investments before a need or excess arises. The Association for Financial Professionals identifies cash and liquidity management as a core treasury area; see AFP Cash and Liquidity Management. Related U.S. Treasury guidance also recognizes cash forecasting as fundamental to effective cash management: U.S. Treasury Cash Management.

QUESTION NO: 44

The treasurer of XYZ Company reached out to its local banker for a $7MM line of credit. The banker is able to offer the facility for an all-in interest rate of 6% for a service fee of 45 basis points. Additionally, there is a commitment fee of 75 basis points for the unused portion. XYZ uses $5.5MM of the facility in the first year. What is the annual borrowing cost for XYZ (round to two decimal places)?

A. 4.88%

B. 6.00%

C. 6.21%

D. 6.25%

E. 6.78%

ANSWER: E

Explanation:

The annual borrowing cost is **6.78%**. This calculation incorporates every stated annual cost of maintaining and using the credit facility, then expresses those costs relative to the amount actually borrowed. Interest on the $5.5 million outstanding balance is $330,000 ($5,500,000 × 6.00%). The 45-basis-point service fee is $31,500 ($7,000,000 × 0.45%) because it is a fee for the facility. The unused commitment is $1.5 million, so the commitment fee is $11,250 ($1,500,000 × 0.75%). Total annual financing cost is therefore $372,750. Dividing this amount by the $5.5 million amount used produces 0.0677727, or 6.78% when rounded to two decimal places. This approach reflects the treasury principle that the effective cost of a committed borrowing arrangement includes both interest on drawn funds and facility-related charges, particularly the commitment fee paid to preserve access to undrawn liquidity. AFP's CTP program covers credit facilities and borrowing-cost analysis in its treasury body of knowledge; see AFP's Certified Treasury Professional information. For a general banking description of commitment fees, see the OCC Commercial Lending handbook.

QUESTION NO: 45

Which of the following is the MOST accurate statement regarding the passage of the Sarbanes-Oxley Act?

A. It is the latest in a long line of corporate governance acts.

B. It was the first corporate governance act in American history.

C. It was a drastic change in the regulation of corporate governance.

D. It had little effect on corporate governance.

ANSWER: C

Explanation:

"It was a drastic change in the regulation of corporate governance." is the most accurate statement. Enacted in 2002 after prominent accounting failures and loss of investor confidence, the Sarbanes-Oxley Act substantially expanded federal requirements affecting how public companies are overseen, how they report financial results, and how their audit functions operate. Its governance impact was broad and structural: it established the Public Company Accounting Oversight Board to oversee audits of public companies; strengthened audit-committee independence and responsibilities; required senior executives to certify financial reports; and required management to assess, with auditor attestation requirements for applicable issuers, internal control over financial reporting. These requirements made boards, audit committees, executives, external auditors, and internal-control processes subject to a far more prescriptive regulatory framework than before. The Act therefore represented a major shift in the practical regulation of public-company governance and financial-reporting accountability, rather than a minor adjustment. The SEC summarizes the Act's central reforms and implementation materials at its Sarbanes-Oxley Act spotlight page. The enacted law, including provisions establishing the PCAOB and executive-certification requirements, is available through GovInfo.

QUESTION NO: 46

In a publicly traded company, internal auditors typically report directly to the:

A. CEO.

B. CFO.

C. treasurer.

D. board of directors.

ANSWER: D

Explanation:

board of directors. is correct because an effective internal-audit function must have organizational independence from the operating executives and financial managers whose activities it evaluates. In a publicly traded company, the chief audit executive normally has functional reporting responsibility to the board, generally through its audit committee. This reporting structure enables the board or audit committee to approve the internal-audit charter, risk-based audit plan, budget, appointment or removal of the chief audit executive, and compensation decisions. It also gives internal audit unrestricted access to raise issues involving financial reporting, internal controls, risk management, governance, or management conduct without undue influence.

This governance relationship is particularly important for public issuers because the audit committee has specific oversight responsibilities for accounting and financial-reporting processes and for audits. The Institute of Internal Auditors' Global Internal Audit Standards state that the board should establish conditions that allow internal audit to fulfill its mandate independently, including direct interaction between the chief audit executive and the board. In practice, internal audit may report administratively to a senior executive for day-to-day matters, but its essential functional reporting line is to the board/audit committee. See the IIA Global Internal Audit Standards and the SEC overview of public-company governance.

QUESTION NO: 47

A treasurer is evaluating a project that will cost $1,000 but will return cash flows of $225, $225, $300, $750, and $750 in years 1 through 5, respectively. The company's interest rate on its debt is 10% and its marginal cost of capital is 15%. What is the Net Present Value (NPV) of this project?

A. $364.74

B. $459.48

C. $593.84

D. $643.47

ANSWER: A

Explanation:

$364.74 is the project's NPV when the firm's 15% marginal cost of capital is used as the discount rate. NPV measures the excess of the present value of expected future cash inflows over the initial investment. Because the project is being evaluated as an investment for the firm, its cash flows should be discounted at the marginal cost of capital—the required return for incremental capital—not merely at the stated interest rate on debt. This reflects the opportunity cost of funds used for the project.

Discounting the annual cash flows at 15% gives present values of approximately $195.65 for year 1, $170.13 for year 2, $197.25 for year 3, $428.94 for year 4, and $372.77 for year 5. Their total present value is approximately $1,364.74. Subtracting the $1,000 initial cost produces an NPV of $364.74. A positive NPV indicates that the project is expected to generate value above the return required by the company's providers of capital. For a discussion of NPV and discounting project cash flows, see Investopedia's NPV overview and OpenStax's capital-budgeting guidance.

QUESTION NO: 48

A large multinational company with multiple autonomous operational entities is MOST LIKELY to operate.

A. a decentralized treasury structure.

B. a shared service center.

C. a centralized treasury structure.

D. an in-house bank.

ANSWER: A

Explanation:

a decentralized treasury structure. is correct because autonomous operating entities generally retain meaningful authority over their own financing, banking relationships, liquidity decisions, and financial-risk activities. In a multinational organization, this arrangement can accommodate distinct local markets, currencies, regulations, tax considerations, and commercial practices. Local treasury teams are also closer to each entity's operating cash flows and can respond directly to its funding and payment needs within the organization's overall treasury policies and controls.

Treasury organizational design should follow the company's business model, degree of operating autonomy, geographic footprint, and need for local decision-making. Where subsidiaries function as relatively independent businesses, decentralization is a natural fit because treasury responsibilities remain with the entities that manage the related operational activity and local relationships. The Association for Financial Professionals identifies organizational structure and liquidity management as core treasury subject areas; its Certified Treasury Professional program provides the relevant professional framework. Additional context on the strategic role and operating models of corporate treasury is available from McKinsey's corporate treasury overview.

QUESTION NO: 49

Which of the following would MOST LIKELY cause a decrease in a company's deposited checks availability?

A. The depository bank institutes an earlier deposit deadline.

B. The Federal Reserve implements same-day presentment.

C. The company's lockbox bank implements weekend processing.

D. The company encodes its own checks prior to deposit.

ANSWER: A

Explanation:

The depository bank institutes an earlier deposit deadline. A deposit cutoff time determines whether checks received by the bank are considered deposited on that business day or on the following business day. When the bank moves this deadline earlier, checks delivered after the new cutoff generally receive a next-business-day deposit date. This shifts the availability schedule later and can delay when the company may use collected funds. For a treasury organization that makes frequent deposits, even a modestly earlier cutoff can increase the number of items missing same-day processing and extend the effective float associated with those deposits. Deposit cutoff practices are addressed in Regulation CC's rules on determining the banking day and the time at which a deposit is considered received. The rule permits a bank to establish a cutoff hour, subject to specified requirements, and items deposited after that hour may be treated as deposited on the next banking day. See 12 CFR Part 229 (Regulation CC) and the Federal Reserve's Regulation CC overview.

QUESTION NO: 50

In evaluating alternative capital investments, a company should consider qualitative factors such as:

A. projected cash flows.

B. estimated economic returns.

C. corporate strategy.

D. estimated costs.

ANSWER: C

Explanation:

Corporate strategy. is correct because capital-investment decisions should be assessed not only through financial projections but also according to how well a proposed investment supports the organization's long-term strategic direction. For example, an investment may strengthen a key market position, support entry into a new market, improve product quality, build critical operating capabilities, enhance customer relationships, or advance sustainability and risk-management objectives. These benefits can be material to the company's future even when they cannot be measured precisely or fully incorporated into discounted-cash-flow calculations.

Treasury and finance professionals therefore use qualitative strategic assessment alongside quantitative capital-budgeting methods. A project that is consistent with corporate strategy is more likely to contribute to durable enterprise value and to receive the organizational resources necessary for successful implementation. Strategic alignment also helps management prioritize investments when several projects produce comparable expected financial results. The AFP's Treasury Management Body of Knowledge identifies strategic considerations as part of the broader context for financial decision-making and capital investment analysis. See the Association for Financial Professionals Treasury resources and the U.S. Securities and Exchange Commission's investing basics for related financial decision-making concepts.

QUESTION NO: 51

Which of the following are commonly used for financing accounts receivable?

I. Factoring

II. Issuing credit cards

III. Revolving bank loans

IV. Letters of credit

A. I and II only

B. I and III only

C. III and IV only

D. I, II, and III only

ANSWER: B

Explanation:

I and III only is correct because both factoring and revolving bank loans are established methods of converting the value tied up in receivables into usable liquidity. In a factoring arrangement, a company sells its accounts receivable to a factor, typically receiving an immediate advance on their value. The factor then collects from the customers and remits any remaining balance, net of its fees and applicable reserves. This structure can provide funding that grows with sales and the receivables portfolio, making it especially useful when cash is needed before customers' invoices come due.

A revolving bank loan can also finance receivables, commonly through an asset-based lending facility. The lender establishes a borrowing base and permits the borrower to draw and repay funds repeatedly up to a committed limit. Eligible accounts receivable are often a principal component of that borrowing base, so increases in qualifying receivables can support additional borrowing availability. The borrower retains ownership and collection responsibility for the receivables while using them as collateral. This makes a revolving facility a flexible working-capital tool for funding the operating cycle. The U.S. Small Business Administration describes factoring as financing based on outstanding invoices, and the OCC discusses receivables as collateral in asset-based lending: SBA funding guidance; OCC Asset-Based Lending Handbook.

QUESTION NO: 52

XYZ Company is a publicly held manufacturing company that has decided to branch out into the international market. Five million dollars is needed to set up management and hire the factory workers, $2 million for various government certifications in order to begin business in Poland, and $1 million for miscellaneous expenses. While looking for funding, XYZ found that local banks in Poland were not willing to provide financing without which of the following?

A. A Full Guarantee

B. A Comfort Letter

C. A Personal Guarantee from the CEO

D. A Certified Workers Compensation Policy

ANSWER: A

Explanation:

A Full Guarantee is correct because a Polish lender financing a newly established local operation will commonly require enforceable credit support from the financially stronger parent company. The Polish venture may have no operating history, established local assets, or independent cash flow sufficient to support an $8 million start-up borrowing. A full parent guarantee directly obligates XYZ Company to satisfy the subsidiary's debt obligations if the Polish operation does not pay. This converts the lender's credit assessment from one focused solely on the new local entity to one that also incorporates the credit quality and resources of the publicly held parent.

For treasury purposes, this arrangement is a standard way to support cross-border subsidiary borrowing while allowing financing to be raised locally, potentially matching the subsidiary's funding and operating-currency needs. A guarantee must be documented carefully, including its scope, amount, duration, governing law, and any parent-company approval requirements. The International Finance Corporation describes guarantees as instruments through which a guarantor assumes responsibility for specified payment obligations: IFC Guarantees. The U.S. Securities and Exchange Commission also addresses disclosure considerations for guarantees of securities issued by subsidiaries and affiliates in SEC Regulation S-X, Rule 3-10.

QUESTION NO: 53

Company XYZ had the following sales over the last 5 years:

The company raised funds to invest in its operations. Considering the companyâ€™s growth, it is interested in future options that will allow it to maintain its debt level and keep debt costs low. The company is not concerned about changes to the working capital structure. Which security did the company issue?

A. Unsecured bond

B. Bond with an equity kicker

C. Zero-coupon bond

D. Convertible security

ANSWER: D

Explanation:

Convertible security is correct because it gives a growing company debt financing at a relatively low stated interest cost while embedding a future equity-conversion feature. Investors accept a lower coupon than they would require on comparable straight debt because they receive the potential to participate in future appreciation of the company's common stock. This lowers the company's current borrowing cost and supports financing operational investment during a growth period.

If conversion occurs, the debt is exchanged for equity rather than repaid in cash. That feature provides flexibility in the company's future capital structure: the issuer can initially use debt financing, while conversion can reduce outstanding debt and strengthen equity if the company performs well. Importantly, conversion itself is generally a noncash exchange of a debt claim for equity, so it does not depend on generating cash through a change in working-capital balances. This aligns with the stated lack of concern about working-capital-structure effects.

The U.S. Securities and Exchange Commission describes convertible securities as instruments that may be converted into common stock under specified terms: SEC Investor Bulletin on Convertible Securities. Additional background on convertibles and their equity-conversion feature is available from CFA Institute.

QUESTION NO: 54

Which of the following actions would the CFO of a Canadian multinational conglomerate MOST LIKELY take to repatriate profits from its international subsidiaries?

A. Re-invoicing

B. Multilateral netting

C. Unbundle cash flows

D. Pooling

ANSWER: C

Explanation:

Unbundle cash flows is the most appropriate action because it enables a multinational to identify and separately manage the distinct components embedded in cross-border intercompany transactions. Rather than treating all value transfers as one undifferentiated payment, treasury and tax teams can structure supportable payments for such items as dividends, management services, royalties, interest, and goods or services. This helps move earnings from subsidiaries to the parent in forms that reflect the underlying economic activity and the group's legal agreements.

For a Canadian multinational, repatriation must be coordinated with local corporate-law requirements, withholding taxes, treaty benefits, foreign-exchange controls, and transfer-pricing rules. Unbundling creates visibility over the purpose, timing, currency, documentation, and tax treatment of each component, allowing the CFO to select and execute compliant methods of returning value to Canada. The underlying allocations must be arm's length and supported by contemporaneous records. The Canada Revenue Agency explains Canada's transfer-pricing expectations at CRA: Transfer pricing. Internationally, the arm's-length principle and methods for evaluating related-party transactions are detailed in the OECD Transfer Pricing Guidelines.

QUESTION NO: 55

USA Tires, LLC is a U.S. company that manufactures a high performance tire. It has $500 million in annual domestic sales. Customer A is located 50 miles from the USA Tires warehouse. Customer A orders 1,000 high performance tires per month at a price of $50 per tire. It has credit terms of 30 days. Customer B is located 40 miles from the USA Tires warehouse. Customer B orders 1,000 high performance tires per month at a price of $60 per tire. Customer B has credit terms of 20 days. Which legislation is being violated in the scenario?

A. Glass-Steagall Act (1933)

B. Robinson-Patman Act (1936)

C. Fair Credit Billing Act (1975)

D. Fair Debt Collection Practices Act (1978)

ANSWER: B

Explanation:

The **Robinson-Patman Act (1936)** addresses unlawful price discrimination in sales of commodities to different purchasers. The scenario presents sales of the same high-performance tire in equivalent monthly quantities—1,000 tires—to two customers located at broadly comparable distances from the warehouse. Yet one customer is charged $50 per tire while the other is charged $60 per tire. The customers also receive materially different credit terms: 30 days versus 20 days. Credit terms are part of the effective price and terms of sale because longer payment periods provide an economic benefit to the purchaser.

The Act does not prohibit every price difference; it focuses on discriminatory pricing that may harm competition, subject to defenses such as justified cost differences or a good-faith response to competition. On the stated facts, no cost justification, differing quantity level, or competitive justification is provided for the different prices and payment terms. Thus, the facts describe the type of differential treatment between competing purchasers of like commodities that the Robinson-Patman Act was enacted to regulate. The Federal Trade Commission describes the Act as prohibiting certain discriminatory prices and related promotional allowances in sales to different purchasers. See the FTC's Robinson-Patman Act guidance and the statutory text at 15 U.S.C. § 13.

QUESTION NO: 56

Liquidity reserves for opportunistic requirements are typically maintained in the form of:

A. short-term investments.

B. short-term borrowing facilities.

C. working capital.

D. long-term investments.

ANSWER: A

Explanation:

short-term investments. are the appropriate form of liquidity reserves for opportunistic requirements because they provide a readily accessible pool of funds while allowing the organization to earn a modest return until an opportunity arises. Opportunistic needs, such as taking advantage of a favorable purchase, investment, or acquisition-related event, are uncertain in timing and may require cash on short notice. Treasury therefore generally places these reserves in highly liquid, low-risk instruments with short maturities, so principal can be converted to cash quickly with limited market-value volatility. This approach supports the central liquidity-management objective of having funds available when needed without maintaining all surplus cash in non-earning bank balances. The investment policy should define permitted instruments, maturity limits, credit-quality standards, diversification, and liquidity requirements so that availability of the reserve is preserved. The Federal Reserve describes money market instruments as short-term debt instruments, a characteristic that supports their use in managing near-term liquidity: Federal Reserve: Money Market Instruments. Treasury's broader responsibility for managing cash and liquidity is also outlined by AFP at AFP Treasury Resources.

QUESTION NO: 57

ACCOUNTS RECEIVABLE AT THE END OF MARCH

Month	Sales	$ Amount	% of Sales
December	$420	$0	0%
January	$300	$30	10%
February	$400	$260	65%
March	$500	$425	85%

On the basis of the accounts receivable balance pattern above and April sales of $600, the cash flow forecast for April is:

A. $440.

B. $715.

C. $875.

D. $925.

ANSWER: A

Explanation:

$440. is the April cash-flow forecast because a receivables-based cash forecast measures expected customer collections during the forecast month, rather than simply treating the month's sales amount as immediate cash. The accounts-receivable pattern at the end of March identifies the portion of outstanding receivables expected to convert to cash in April and, when applied to the stated April sales level, produces forecast collections of $440. This is the relevant cash inflow for an April cash budget.

In treasury forecasting, sales and cash receipts are often separated because credit sales create receivables first and are collected according to the organization's observed collection pattern. The aging or balance pattern supplies the evidence needed to estimate collection timing. Accordingly, the forecast should include only the amounts expected to be received in April under that pattern; it should not automatically equal April sales or the entire March receivables balance. This approach supports liquidity planning by placing cash inflows in the period in which they are expected to become available. AFP identifies cash forecasting as a core treasury-management activity; see AFP Treasury Management. For background on incorporating expected cash receipts into a cash budget, see OpenStax, Prepare Financial Budgets.

QUESTION NO: 58

When estimating the cost of capital, which of the following financial resources would probably NOT be included in the cost of capital calculation?

A. Common stock

B. Long-term debt

C. Preferred stock

D. Short-term debt

ANSWER: D

Explanation:

Short-term debt is the resource that would probably not be included when estimating a firm's cost of capital. A cost of capital estimate, commonly expressed as the weighted average cost of capital (WACC), is intended to measure the long-term required return on capital used to finance the firm's assets and strategic investments. Its capital weights therefore normally reflect the company's long-term financing structure: equity capital and interest-bearing long-term borrowings. Short-term debt is generally used to support temporary operating needs, such as seasonal working-capital fluctuations, inventory purchases, or timing differences between cash receipts and disbursements. Because it is short maturity financing that is regularly repaid or refinanced, it ordinarily is not treated as a permanent component of the capital structure for a standard WACC calculation. A treasury professional may separately evaluate the all-in cost and liquidity implications of short-term borrowing when making funding decisions, but that analysis is distinct from estimating the long-term hurdle rate used for capital budgeting. The NYU Stern WACC materials describe WACC as a cost based on debt and equity financing, while the U.S. SEC Investor.gov overview of capital structure provides context on debt and equity as sources of corporate financing.

QUESTION NO: 59

The assistant treasurer for ABC Inc. has been transferred to the headquarters in another country. While conducting a treasury review, the assistant treasurer noticed that a single associate was responsible for maintaining the company's complicated international transfer pricing schedules on a series of inter-linked computer spreadsheets. These spreadsheets were saved on the associate's computer versus the company's mainframe. The associate did not have a backup cross-trained in the function. Which critical types of risk management require the assistant treasurer's immediate attention?

A. Defalcation risk and fidelity risk

B. Technology risk and employee risk

C. Market risk and commodity price risk

D. Electronic security risk and counterparty risk

ANSWER: B

Explanation:

Technology risk and employee risk require immediate attention because the transfer-pricing process depends on both an inadequately controlled technology environment and one individual's specialized knowledge. Storing critical, interlinked spreadsheets only on an employee's local computer creates a technology-risk exposure: the files may be unavailable or lost through device failure, corruption, theft, malware, or an inability to access the employee's machine. The organization needs controlled storage, backups, access management, version control, and documented recovery procedures so that this essential process can continue reliably.

The absence of a cross-trained backup creates employee, or key-person, risk. If the associate is unavailable, leaves the organization, or cannot perform the work, ABC may be unable to maintain its transfer-pricing schedules accurately and on time. Immediate controls should include process documentation, cross-training, succession coverage, and management review of the spreadsheet logic and outputs. These measures reduce dependency on a single person while improving continuity and control over a significant treasury-related process. NIST's contingency-planning guidance emphasizes identifying critical information systems and establishing recovery capabilities, while COSO identifies competent personnel and continuity of responsibilities as core internal-control considerations. See NIST SP 800-34 Rev. 1 and COSO Internal Control guidance.

QUESTION NO: 60

A treasurer overhears several employees talking about selling their company stock before a pending deal impacts the stock negatively. What action should the treasurer take to control this behavior in the future?

A. Report the employees to the SEC.

B. Provide training on ethics and code of conduct.

C. Contact the investor relations department.

D. Contact the internal and external auditors.

ANSWER: B

Explanation:

Provide training on ethics and code of conduct. The conversation indicates that employees may be considering trading while aware of material, nonpublic information about a pending transaction. A forward-looking control should establish clear expectations that confidential deal information must be protected and that employees must not trade, tip others, or otherwise use such information for personal benefit. Regular ethics and code-of-conduct training is an effective preventive control because it reinforces the organization's standards, identifies common insider-trading risks, explains escalation channels, and makes employees aware of applicable blackout periods, preclearance requirements, and consequences for violations. Training should be supported by a written insider-trading policy and periodic acknowledgments, particularly for personnel who may gain access to sensitive financial, strategic, or transaction information. The SEC explains that insider trading can involve trading based on material nonpublic information or improperly communicating that information to others; timely training helps employees recognize those circumstances before misconduct occurs. See the SEC's insider trading resources and its guidance on insider trading.

QUESTION NO: 61

The Sarbanes-Oxley Act of 2002 requires that a public company's financial statements be certified by the company's:

A. chief financial officer and corporate secretary.

B. chief financial officer and corporate controller.

C. chief financial officer and chief executive officer.

D. chief financial officer and chief operating officer.

ANSWER: C

Explanation:

The correct answer is **chief financial officer and chief executive officer.** Section 302 of the Sarbanes-Oxley Act requires the principal executive officer and principal financial officer of an issuer—ordinarily the CEO and CFO—to personally certify the company's periodic reports filed with the Securities and Exchange Commission. These certifications address, among other matters, the officers' review of the report, the absence of material misstatements or omissions to their knowledge, fair presentation of the company's financial condition and results, and the effectiveness of disclosure controls and procedures. The officers must also disclose significant deficiencies, material weaknesses, and fraud involving management or personnel with a significant role in internal control over financial reporting to the audit committee and external auditors. This personal certification requirement reinforces executive accountability for the reliability and completeness of public-company financial reporting, an essential objective of Sarbanes-Oxley following major corporate reporting failures. The statutory certification requirements appear in Section 302 of the Act, codified at 15 U.S.C. § 7241, and the SEC implements them through Exchange Act Rules 13a-14 and 15d-14. See Sarbanes-Oxley Act of 2002 and the SEC's certification rule release.

QUESTION NO: 62

The role of the depository bank in the check-clearing process is typically which of the following?

A. To inspect the check for proper signature

B. To encode the check amount on the MICR line

C. To place a hold on the check until cleared

D. To ensure that the check is not stale-dated

ANSWER: B

Explanation:

To encode the check amount on the MICR line is correct. The depository bank, also called the depositary bank, is the first bank to receive a check for deposit or collection from the customer. As part of initial processing, it captures information needed to route, present, and settle the item through the collection system. Historically, this included encoding the dollar amount in magnetic ink character recognition (MICR) format in the amount field of the check; in modern image-based processing, the bank still captures and transmits the amount as part of the electronic check record. This processing supports automated sorting and exchange of check information among collecting banks, paying banks, and clearing channels.

The bank of first deposit also typically applies its endorsement and warranties when it transfers the item, helping establish the chain of collection. Treasury professionals should recognize that the depositary bank's role begins with accepting and processing the deposited check for collection, whereas final payment decisions are made by the bank on which the check is drawn. The Federal Reserve's check-services materials describe depositary institutions' role in depositing and processing check cash letters, while Regulation CC defines key check-collection terms and availability requirements. See the Federal Reserve Financial Services check collection overview and Regulation CC (12 CFR Part 229).

QUESTION NO: 63

A company that has a nationwide workforce may use which of the following methods for disbursing payroll to minimize the number of bank accounts?

I. Payable through draft

II. Multiple drawee checks

III. ACH credit transfers

A. I only

B. II only

C. I and III only

D. II and III only

E. Payable through draft
II. Multiple drawee checks
III. ACH credit transfers

ANSWER: D

Explanation:

II and III only is correct because both multiple drawee checks and ACH credit transfers support centralized payroll disbursement for a geographically dispersed workforce. Multiple drawee checks allow a company to issue payroll checks that can be presented through designated local drawee banks while the company maintains a centralized banking structure. This provides employees with convenient local access to funds without requiring the employer to establish and fund a separate payroll disbursement account in every location. ACH credit transfers similarly allow payroll to be originated from a central account and electronically credited to employees' accounts at financial institutions nationwide. The ACH network is specifically designed for efficient batch payments, including recurring direct-deposit payroll, and permits one payroll process to reach employees regardless of where they bank. As a result, these methods help a nationwide employer simplify account administration, centralize cash control, and reduce the operational burden associated with maintaining numerous local bank accounts. ACH credit payments and direct deposit are governed by the ACH network's operating framework; see Nacha Rules. For background on the ACH payment system and its role in electronic credit transfers, see the Federal Reserve ACH services overview.

QUESTION NO: 64

A utility company is evaluating whether or not it should build a new plant. The process of reviewing the quantitative and qualitative factors are an example of which finance function?

A. Capital budgeting

B. Funding

C. Financial planning

D. Financial risk management

ANSWER: A

Explanation:

Capital budgeting is the finance function used to evaluate whether a company should commit resources to a long-term investment such as constructing a new utility plant. This process assesses the expected incremental cash flows, the size and timing of the required investment, projected operating costs and revenues, useful life, residual value, and the organization's required return. Common quantitative methods include net present value, internal rate of return, payback, and sensitivity or scenario analysis. For a plant project, management also considers qualitative matters that can materially affect value and feasibility, such as regulatory approvals, environmental effects, service reliability, strategic capacity needs, community impact, and technology risks. The purpose is to determine whether the proposed long-lived asset is expected to create value and support the organization's strategic objectives before capital is committed. The AFP Treasury Learning System identifies capital budgeting as the process for evaluating and selecting long-term investment projects, while corporate-finance guidance similarly emphasizes using discounted cash-flow measures to assess investment decisions. See AFP's Certified Treasury Professional program and Investopedia's overview of capital budgeting.

QUESTION NO: 65

Article 4 of the Uniform Commercial Code (UCC) refers to a company's duty to report unauthorized payments or alterations within how many days of statement availability?

A. 30 days

B. 60 days

C. 90 days

D. 120 days

ANSWER: A

Explanation:

30 days is correct. Under UCC Article 4's bank-statement review framework, a customer must exercise reasonable promptness in examining statements and reporting an unauthorized signature or alteration. For a series of unauthorized items by the same wrongdoer, UCC § 4-406(d)(2) establishes that the relevant reasonable period for notifying the bank about subsequent items cannot exceed 30 days after the statement and items are made available. This rule is important to treasury operations because prompt reconciliation and exception reporting can limit loss exposure when a fraudster continues to issue or alter checks. The 30-day standard therefore reflects the customer's practical duty to review account activity quickly and notify its bank of suspicious or unauthorized payments. The statutory text is available in UCC § 4-406; the Uniform Law Commission also provides the official Article 4 materials at Uniform Commercial Code Acts.

QUESTION NO: 66

A company uses a dividend capture strategy to:

A. reduce interest expense.

B. improve yield.

C. liquidate investments.

D. reduce default risk.

ANSWER: B

Explanation:

A company uses a dividend capture strategy to **improve yield.** This investment approach involves buying a dividend-paying stock before its ex-dividend date so that the investor is entitled to receive the declared dividend. The investor may then sell the shares after the ex-dividend date, subject to the strategy's holding-period, transaction-cost, tax, liquidity, and price-risk considerations. For a treasury organization managing an investment portfolio, the objective is to increase the portfolio's total return or income yield by capturing dividend distributions in addition to any market-price return earned during the holding period. Dividend capture is therefore a yield-enhancement technique rather than a financing, liquidation, or credit-risk-management strategy. A dividend is generally paid to shareholders who own the security before the ex-dividend date; on that date, the stock typically begins trading without entitlement to the upcoming dividend. The U.S. Securities and Exchange Commission explains the relationship between the record date and ex-dividend date in its Investor Bulletin on Dividends. FINRA also provides an overview of how dividends and ex-dividend dates affect investors in its Dividends resource.

QUESTION NO: 67

A company has decided to manage its short-term investment portfolio in-house. It is looking for enhanced capital gains as well as the ability to sell the instruments on the secondary market at a premium. The investment manager has forecasted the interest rates shown below:

Month	Short-term rates	Long-term rates
January	0.25%	0.27%
February	0.28%	0.30%
March	0.26%	0.29%
April	0.24%	0.27%
May	0.25%	0.28%
June	0.26%	0.29%

Which investment strategy should be employed by the company?

A. Passive strategy

B. Matching strategy

C. Tax-based strategy

D. Total-return strategy

ANSWER: D

Explanation:

Total-return strategy is appropriate because the company's objective extends beyond preserving principal and earning current income: it specifically seeks capital gains and the opportunity to sell securities in the secondary market at a premium. A total-return approach actively manages both income return and price return. The manager uses an interest-rate forecast to select securities with suitable maturity and duration exposure, then realizes gains when market-rate movements increase the market value of those holdings. When interest rates decline, the prices of existing fixed-income securities generally rise because their stated coupons become more attractive relative to newly issued instruments. Securities with greater interest-rate sensitivity can therefore provide a stronger potential price increase, subject to the organization's liquidity, credit, policy, and risk constraints. The anticipated premium sale is the capital-gain component of total return, while coupon or discount income remains the income component. This makes total-return management the strategy that directly aligns portfolio positioning with a rate outlook and an objective of enhanced gains. The inverse relationship between market interest rates and bond prices is described by the U.S. Securities and Exchange Commission's bond investor bulletin and by the Federal Reserve's discussion of interest rates and bond prices.

QUESTION NO: 68

A company recently implemented a treasury code of conduct, which defined appropriate actions and business behaviors. The company developed policies and procedures that assigned duties to managers, and distributed the code to all treasury employees. The treasury group could have improved upon this implementation by doing which one of the following?

A. Having the code of conduct reviewed by the marketing department

B. Providing training on the code to all employees

C. Having the code certified under Sarbanes-Oxley Act requirements

D. Incorporating the code under its disaster recovery plan

ANSWER: B

Explanation:

Providing training on the code to all employees is the appropriate improvement because merely distributing a code of conduct does not ensure that employees understand how its principles apply to their day-to-day treasury responsibilities. Effective implementation includes communicating the standards, assigning accountability, and providing practical training that helps personnel recognize ethical issues, apply the organization's policies, and understand reporting or escalation channels. Training also gives employees an opportunity to ask questions and promotes consistent application of expectations across the treasury function. For a treasury team, this is especially important because employees may handle cash, bank relationships, payments, investments, financial information, and authority-sensitive activities. A well-designed training program should be periodic, documented, and tailored to relevant job duties so that the code becomes an operational component of the control environment rather than simply a written document. The U.S. Sentencing Commission's organizational compliance guidance identifies effective training and communication as a core feature of an effective compliance and ethics program. Similarly, the U.S. Department of Justice emphasizes training and communications when evaluating corporate compliance programs. See the U.S. Sentencing Guidelines, Chapter 8 and the DOJ's Evaluation of Corporate Compliance Programs.

QUESTION NO: 69

The Fed can reduce the money supply by doing which of the following?

1. Increasing reserve requirements

2. Purchasing government securities

3. Increasing legal lending limits

4. Selling government securities

A. 1 and 2

B. 1 and 4

C. 3 and 4

D. 2, 3, and 4

ANSWER: B

Explanation:

1 and 4 is correct because both actions are contractionary monetary-policy tools that reduce banks' capacity to create deposits and credit. Increasing reserve requirements means that depository institutions must retain a larger share of their transaction deposits as reserves rather than using those funds to support loans and investments. With fewer excess reserves available, the banking system's deposit-creation process is constrained, reducing the potential expansion of the money supply.

Selling government securities is also contractionary. When the Federal Reserve sells Treasury or other eligible securities, purchasers pay for them from bank balances or other liquid funds. The transaction removes reserve balances from the banking system, decreasing the quantity of reserves available to support lending and deposit creation. This is the traditional open-market mechanism for draining liquidity and putting upward pressure on short-term interest rates.

In current practice, the Federal Reserve primarily implements monetary policy through its administered rates and ample-reserves framework, but securities transactions and reserve requirements remain fundamental concepts for understanding how central-bank actions can influence reserve availability, credit creation, and the money supply. The Federal Reserve's overview of monetary policy tools is available at Federal Reserve Monetary Policy Tools. Its discussion of reserve requirements is available at Federal Reserve Reserve Requirements.

QUESTION NO: 70

What type of tax does a multinational auto manufacturer commonly pay in foreign countries at each stage of a vehicleâ€™s production?

A. Withholding tax

B. Capital tax

C. Value added tax

D. Asset tax

ANSWER: C

Explanation:

Value added tax is correct because it is a consumption tax designed to apply to the value added as goods move through the supply chain. In a vehicle's production, manufacturers may buy components and materials, perform assembly or other production work, and sell the partially or fully completed vehicle to the next business in the chain. Under a typical VAT system, a business charges VAT on its taxable sales (output VAT) and generally receives a credit for VAT paid on eligible business purchases (input VAT). The business remits the net amount, so the tax is collected incrementally at successive stages while the ultimate economic burden generally rests with the final consumer. This structure makes VAT especially relevant to multinational manufacturers operating across countries where VAT or similar goods-and-services taxes are widely used. Treasury professionals need to account for VAT in cash-flow forecasting, invoicing, indirect-tax compliance, cross-border transactions, and working-capital management, since refund timing and input-tax recovery can affect liquidity. The International Monetary Fund describes VAT as a tax collected through a credit mechanism at each stage of production and distribution. The OECD also provides international standards and guidance on VAT/GST treatment in cross-border trade. See the [IMF overview of value-added tax]() and the [OECD VAT resources]().

QUESTION NO: 71

Which of the following concentration transfer alternatives provide the fastest availability of funds?

A. Point-of-sale terminal transfers

B. Electronic depository transfers

C. Wire transfers

D. Value-added banks

ANSWER: C

Explanation:

Wire transfers provide the fastest availability of funds because they move collected balances directly between financial institutions through a real-time or near-real-time, irrevocable payment process. In a cash concentration structure, this enables a company to transfer excess funds from a field or regional account to a concentration account promptly, often with same-day finality. The receiving account can generally use the funds as soon as the wire is credited, subject to the bank's processing and account controls. This speed makes wires especially useful when the treasury team must rapidly centralize liquidity to fund disbursements, repay borrowing, invest surplus cash, or avoid overdrafts. Wire transfers also provide clear payment instructions and confirmation, allowing the treasury function to manage the timing and availability of collected funds with a high degree of certainty. The Federal Reserve describes Fedwire Funds Service payments as immediate, final, and irrevocable when processed, characteristics that support their use when rapid access to transferred funds is essential. See the Federal Reserve Financial Services overview of wire transfers and the Federal Reserve Regulation J provisions for Fedwire funds transfers.

QUESTION NO: 72

Which of the following are treasury management objectives?

I. To meet obligations in a timely manner

II. To minimize holdings in non-earning cash balances

III. To monitor and assist in the control of financial risk

IV. To evaluate costs and benefits of capital projects

A. I and III only

B. II and IV only

C. I, II, and III only

D. I, III, and IV only

ANSWER: C

Explanation:

I, II, and III only correctly identifies the core objectives of corporate treasury management. Treasury's central liquidity responsibility is ensuring that the organization has sufficient available funds to settle payroll, supplier payments, debt service, taxes, and other obligations when due. This requires reliable cash positioning, cash forecasting, and access to appropriate sources of short-term liquidity. Treasury also seeks to use surplus cash efficiently. Minimizing non-earning cash balances helps avoid unnecessary opportunity cost while preserving the liquidity needed for operations; excess funds can instead be invested according to the organization's investment policy, risk tolerance, and liquidity horizon.

Managing financial risk is another fundamental treasury function. Treasury monitors exposures such as interest-rate, foreign-exchange, counterparty, liquidity, and commodity-price risk, and may assist with controls and hedging strategies authorized by management. These activities support the broader goals of safeguarding funds, maintaining financial flexibility, and optimizing the use of cash and funding resources. The AFP describes treasury as encompassing liquidity management, financial risk management, and working-capital-related activities; see the AFP Treasury resources. For additional context on liquidity risk management and ensuring obligations can be met as they fall due, see the Basel Committee principles for liquidity risk management.

QUESTION NO: 73

Company ABC has recently started to experience a significant reduction in funds availability. Which of the following is MOST LIKELY to reduce funds availability?

A. Ledger balances have increased.

B. Company negotiated a later availability schedule.

C. Company no longer pre-encodes its checks for deposit.

D. Deposits are arriving at bank later, but prior to cutoff time.

ANSWER: B

Explanation:

Company negotiated a later availability schedule is correct because an availability schedule establishes when deposited funds become usable balances for the company. A later negotiated schedule means the bank credits or releases collected funds at a later point after receipt, processing, or presentment. This directly increases collection float and reduces the amount of cash that is available for disbursements, investments, debt reduction, or other treasury uses on a given day. In cash-positioning terms, the company may still have recorded the deposit in its ledger, but it cannot rely on those funds as available bank cash until the contractual availability time has passed. Treasury staff should therefore review availability terms as part of bank-service analysis, particularly after a change in lockbox, remote-deposit, or other receivables arrangements. The federal framework for when banks must make deposited funds available is described in Regulation CC; commercial customers may also have availability terms established through their deposit and treasury-management agreements. See the Electronic Code of Federal Regulations, Regulation CC and the CFPB Regulation CC resources.

QUESTION NO: 74

A main characteristic of a company with regional offices using a centralized treasury function is:

A. high level of control.

B. increased borrowing costs.

C. centrally determined depository accounts.

D. increased operating costs.

ANSWER: A

Explanation:

high level of control. is correct because a centralized treasury model concentrates responsibility for core financial-risk and liquidity activities at a corporate treasury center rather than delegating those decisions independently to regional offices. This structure allows the organization to establish and enforce consistent policies for cash positioning, bank-account governance, payments, investments, borrowing, foreign-exchange exposure, counterparty limits, and controls. Consolidating information and decision-making also gives treasury a clearer enterprise-wide view of cash and financial exposures, supporting more effective oversight and timely decisions. Regional offices may still provide forecasts, operational information, and local support, but the central treasury function retains authority over the overall framework and key treasury decisions. This concentration of authority, visibility, standardized processes, and policy enforcement is what creates the high level of control associated with centralized treasury. The Association for Financial Professionals identifies liquidity, risk management, and financial operations as central treasury responsibilities; see its Treasury resources. For related governance context, the Basel Committee's Principles for effective risk data aggregation and risk reporting emphasizes the value of accurate, comprehensive, and centrally usable information for risk oversight.

QUESTION NO: 75

All of the following would encourage a company operating nationwide to develop multiple banking relationships EXCEPT:

A. enhanced credit availability.

B. availability of specialized services.

C. geographic proximity.

D. administrative cost savings.

ANSWER: D

Explanation:

administrative cost savings. is correct because maintaining multiple bank relationships generally increases, rather than reduces, administrative effort and cost. Each additional banking partner can require separate account-opening and know-your-customer processes, service agreements, bank-portal credentials, account reconciliations, reporting formats, fee analyses, and relationship-management activity. Treasury also may need to coordinate cash positioning, liquidity visibility, controls, and payment connectivity across institutions. A nationwide company may nevertheless choose several banks to obtain broader geographic coverage, access specialized products and expertise, and diversify or expand available credit capacity. Those are strategic benefits that can justify the added operational complexity. However, they are not administrative cost savings. Sound bank-account-management practice emphasizes maintaining a deliberate account structure and periodically reviewing accounts and services to control unnecessary accounts, fees, and operational burden. The AFP Treasury Management Model also identifies bank relationship management and cash-management efficiency as core treasury responsibilities. See the AFP Treasury Management resources and the FDIC guidance on effective account and risk-management controls.

QUESTION NO: 76

What document serves as the basic account or service authorization, empowering a representative of a business to enter into agreements for financial services?

A. Account resolution

B. Credit agreement

C. Service agreement

D. Signature card

ANSWER: A

Explanation:

An account resolution is the basic authorization document a business uses to establish its authority and designate who may act for it in banking and other financial-service relationships. Adopted by the appropriate governing body or authorized officers, it records that the organization has approved opening and maintaining accounts and identifies the representatives who can execute account documents, enter into service agreements, and give instructions to the financial institution. This lets the institution rely on documented evidence that the individual signing or administering services has authority on behalf of the legal entity, rather than relying solely on the individual's assertion of authority. In treasury operations, maintaining current resolutions is particularly important when authorized personnel, entity officers, account structures, or bank services change. Financial institutions commonly require a corporate resolution or comparable entity authorization as part of business-account opening documentation; for example, Bank of America identifies a corporate resolution as documentation that may be required for corporations opening a business account. The U.S. Small Business Administration also describes corporate resolutions as formal records of actions approved by a corporation's board. See Bank of America's business account opening requirements and the SBA guide to business structures and corporate formalities.

QUESTION NO: 77

The PRIMARY goal of treasury management is to use which of the following efficiently?

A. Net income

B. Cash

C. Payment methods

D. Equity

ANSWER: B

Explanation:

Cash is correct because treasury management centers on ensuring that an organization has the cash needed to meet its obligations when due while avoiding unnecessary idle balances. Treasury professionals manage liquidity by forecasting cash flows, concentrating balances, controlling bank accounts, investing temporary surpluses, and arranging appropriate short-term funding. Efficient cash use supports both operational continuity and financial value: cash that is not immediately required can be invested appropriately, while expected shortfalls can be funded in a timely and cost-effective manner. This liquidity focus also requires balancing availability, safety, and return according to the organization's policies and risk tolerance. The Association for Financial Professionals describes treasury as a function focused on managing an organization's liquidity and financial risk, and its CTP body of knowledge includes cash and liquidity management as a core area. See the AFP Treasury resources and the Certified Treasury Professional (CTP) program overview.

QUESTION NO: 78

Which of the following would be expected to happen on the ex-dividend date?

A. The stock is sold with the dividend attached.

B. The stock price drops.

C. The stock's volume increases.

D. The stock's dividend is paid.

ANSWER: B

Explanation:

The stock price drops. The ex-dividend date is the first trading day on which a purchaser of the stock is no longer entitled to receive the dividend that has been declared for the current distribution. That entitlement remains with the shareholder who owned the shares before the ex-dividend date. Because a new buyer is purchasing shares without the pending cash dividend, the market price is generally adjusted downward by approximately the dividend amount when trading begins ex-dividend. For example, if a share closed at $50 and carries a $1 dividend, its opening ex-dividend price would be expected to be near $49, all else being equal. Actual price movement can differ because of broader market conditions, investor demand, taxes, and company-specific news, but the expected mechanical effect is a decline reflecting the separation of the dividend from the stock. The dividend is paid later, on the issuer's stated payment date, rather than on the ex-dividend date. The U.S. Securities and Exchange Commission explains dividend timing and investor eligibility in its ex-dividend date glossary entry; additional market-process guidance is available from FINRA.

QUESTION NO: 79

A company that is considering using a central lockbox for collections has conducted an initial study and determined the following:

Average monthly deposits		$7,500,000
Number of checks deposited per month		1,000
Average collection float without lockbox		4.5 days
Average collection float with lockbox		3.0 days
Internal check processing cost without lockbox		$0.30 per check
Lockbox processor charges:	Annual:	$9,000
	Per check:	$0.60
Funds opportunity cost		8.0%

What will be the annual net dollar benefit to the company if it uses a lockbox?

A. $13,800

B. $17,400

C. $20,700

D. $22,800

ANSWER: B

Explanation:

$17,400 is the annual net dollar benefit. A lockbox analysis measures the value of making collected funds available sooner and then subtracts the annual cost of the lockbox service. The study's collection float reduction is converted to a dollar availability benefit by applying the company's stated annual opportunity cost of funds to the accelerated collections. That gross annual earnings benefit is then reduced by the lockbox bank charges shown in the study, including the relevant fixed and transaction-based service costs. The resulting net annual benefit is $17,400.

This calculation reflects the core cash-concentration rationale for a lockbox: faster receipt processing and deposit availability can reduce collection float, allowing the organization to invest funds sooner, reduce borrowings, or otherwise avoid financing costs. The appropriate decision measure is therefore the annual incremental benefit after all recurring lockbox costs, rather than the gross float savings alone. AFP's treasury body of knowledge includes collection and liquidity-management practices, including the evaluation of collection services and related float economics. See the AFP Certified Treasury Professional program and AFP's Treasury resources.

QUESTION NO: 80

MICR encoding errors may be detected by all of the following TMS modules EXCEPT:

A. positive pay module.

B. current day reporting.

C. reverse positive pay module.

D. prior day reporting.

ANSWER: B

Explanation:

current day reporting. is correct because this treasury-management-system function is designed primarily to provide intraday visibility into a company's bank position. It reports information such as current balances, available funds, credits, debits, and transaction activity as it is received from the bank during the business day. Its purpose is cash-position monitoring and liquidity decision-making, rather than detailed exception processing of individual checks.

MICR (magnetic ink character recognition) information is associated with check processing and the identification of a check through data such as the routing number, account number, and check serial number. Identifying an encoding discrepancy generally requires detailed check-presentment, paid-item, or exception information and comparison against issued-check data. Those processes occur through check-control and reporting functions that use item-level information, often after items have been processed. By contrast, current-day data can be incomplete, provisional, and summarized because processing and posting continue throughout the day. Therefore, it does not ordinarily serve as the TMS module for detecting MICR encoding errors.

For background on check collection and return processing, see the Federal Reserve's Check Services page and the Federal Reserve's Regulation CC overview.

QUESTION NO: 81

Recent improvements in the effectiveness of corporate governance are mostly due to the:

A. Sarbanes-Oxley Act.

B. Financial Crimes Enforcement Act.

C. Securities Exchange Act.

D. Gramm-Leach-Bliley Act.

ANSWER: A

Explanation:

The **Sarbanes-Oxley Act** is the principal modern driver of improvements in corporate governance because it was enacted to restore investor confidence after major accounting and reporting failures. The Act strengthened the accountability of senior management and boards by requiring chief executive and chief financial officers to personally certify the accuracy of periodic financial reports. It also made management responsible for assessing the effectiveness of internal control over financial reporting and, for applicable public companies, requires independent auditor attestation on that assessment. These requirements made internal controls, risk oversight, financial-reporting processes, and audit-committee governance core board-level responsibilities rather than merely operational accounting matters.

The Act also enhanced audit-committee independence and authority, established the Public Company Accounting Oversight Board to oversee audits of public companies, and imposed restrictions intended to reinforce auditor independence. Together, these measures improved the reliability of financial disclosures and increased the ability of directors, investors, and regulators to hold management accountable. The Securities and Exchange Commission summarizes the Act's governance, disclosure, and audit oversight provisions at SEC: The Sarbanes-Oxley Act of 2002. The Public Company Accounting Oversight Board's statutory role and oversight responsibilities are described at PCAOB: What We Do.

QUESTION NO: 82

Which of the following can be exercised only on the expiration date?

A. American options

B. European options

C. Commodity swaps

D. Basis swaps

ANSWER: B

Explanation:

European options can be exercised only on their expiration date. The exercise style specifies the period during which the holder of an option may elect to exercise the contractual right to buy or sell the underlying instrument at the stated strike price. A European-style option limits that right to the single date on which the option expires. This feature can affect valuation and hedging decisions because the holder cannot exercise early, even when market conditions would otherwise make early exercise attractive. Treasury professionals may encounter this convention in interest-rate, foreign-exchange, commodity, and other derivative option markets; the exercise style must be confirmed in the contract documentation rather than inferred solely from the underlying exposure. The Options Clearing Corporation describes European-style exercise as exercise permitted only at expiration, while the CME Group's educational materials likewise distinguish exercise timing as a defining feature of option style. See The Options Clearing Corporation: What Is an Option? and CME Group: American vs. European Style Options.

QUESTION NO: 83

Company ABC is experiencing an increase in bank fees due to its new international customers paying by check. Nearly 15% of all deposited items are international checks. Twenty percent of the companyâ€™s checks have 1 day of float. Sixty-five percent of the companyâ€™s checks are on-us items. The company has $300,000 of deposits each day. The companyâ€™s deposits consist of both cash and checks, split evenly. On a typical day, how much of the deposit will be available immediately?

A. $60,000

B. $97,500

C. $195,000

D. $247,500

ANSWER: D

Explanation:

$247,500 will be available immediately. The company deposits $300,000 per day, split evenly between cash and checks, so cash deposits are $150,000 and check deposits are $150,000. Cash is available immediately for purposes of this availability calculation. The on-us items make up 65% of the check deposits. An on-us check is deposited at the same bank on which it is drawn, allowing the bank to process it internally rather than sending it through external collection channels. Therefore, immediately available on-us checks equal 65% × $150,000, or $97,500. Adding the immediately available cash of $150,000 to the immediately available on-us checks of $97,500 produces $247,500. The stated percentages also classify the check deposit total into on-us checks, checks with one day of float, and international checks; only the on-us category is available immediately in the scenario. Regulation CC establishes the framework governing funds-availability schedules for deposits, while actual availability terms may be defined in the bank's deposit account agreement. See the Federal Reserve's Regulation CC text and the CFPB's Regulation CC resources.

QUESTION NO: 84

The combination of difference in condition (DIC) insurance and umbrella insurance:

A. transfers risk to a company's captive insurance subsidiary.

B. replaces the coverage provided by basic property and liability insurance.

C. supplements the coverage provided by basic property and liability insurance.

D. provides payments to a company in the event it is unable to pursue a line of business due to an unforeseen event.

ANSWER: C

Explanation:

supplements the coverage provided by basic property and liability insurance. DIC and umbrella policies are forms of excess or gap-filling insurance used alongside an organization's underlying commercial insurance program. DIC insurance commonly broadens property coverage or fills specified gaps created by exclusions, sublimits, or differing terms in primary policies. It may also provide excess limits over scheduled underlying property coverage. Umbrella insurance generally sits above underlying liability policies, providing additional limits once the applicable primary policy limit is exhausted; depending on its wording, it can also provide broader liability protection than the underlying coverage. Together, these policies enhance—not replace—the organization's core property and liability policies. From a treasury risk-management perspective, they are tools for transferring catastrophic or otherwise uninsured portions of risk to an insurer while retaining the basic coverage structure. The scope, attachment points, exclusions, and underlying-insurance requirements must be reviewed carefully because coverage is controlled by the policy language. The Insurance Information Institute describes commercial umbrella liability as coverage that provides protection beyond the limits of underlying liability policies: Insurance Information Institute: Commercial Umbrella Liability Insurance. DIC policies are also commonly structured to address differences between primary coverage and the insured's broader risk needs; see IRMI: Difference in Conditions Policy.

QUESTION NO: 85

Which statement is true about private placements compared to public offerings?

A. They take more time to complete.

B. They reduce issuance costs.

C. They have more restrictive covenants.

D. They have lower interest rates.

ANSWER: B

Explanation:

They reduce issuance costs. A private placement is a sale of securities directly to a limited group of institutional or otherwise qualified investors rather than through a broadly marketed, registered public offering. Because the issuer generally avoids the full Securities Act registration process and the extensive disclosure, underwriting, marketing, and ongoing reporting efforts associated with a public offering, its direct transaction costs can be lower. The process may also be executed with greater confidentiality and flexibility in negotiating terms with investors. For a treasury organization, this makes private placements a potentially efficient source of longer-term capital when the company can access appropriate institutional investors and accepts the typically less-liquid nature of privately placed debt. In the United States, offerings commonly rely on exemptions such as Securities Act Rule 506, subject to the conditions of that exemption. The SEC explains the private-offering exemption framework at SEC: Private Placements. The Securities Industry and Financial Markets Association also describes the private placement market and its role in corporate debt financing at SIFMA: U.S. Corporate Bond Market.

QUESTION NO: 86

Which of the following instruments is sold at multiple price bid auctions?

A. Commercial paper

B. Certificates of deposit

C. Treasury Bill

D. Money market fund

E. None of the above; Treasury bills are sold through single-price auctions.

ANSWER: E

Explanation:

None of the above; Treasury bills are sold through single-price auctions. In the current U.S. Treasury auction framework, Treasury bills, notes, bonds, floating-rate notes, and Treasury Inflation-Protected Securities are awarded through a uniform-price (single-price) auction. Competitive bidders submit the rate or yield they are willing to accept, and accepted competitive bids receive securities at the same stop-out rate or yield. This approach is distinct from a multiple-price auction, in which successful bidders could pay different prices based on their individual submitted bids.

The Treasury's current auction-process guidance expressly describes its auctions as single-price auctions and explains that all successful competitive bidders receive the same rate. Therefore, a Treasury bill should not be identified as an instrument sold at a multiple-price bid auction under current Treasury practice. Commercial paper and certificates of deposit are generally issued or placed through issuer/dealer distribution arrangements rather than Treasury-style public multiple-price auctions, while money market fund shares are purchased and redeemed at net asset value. See the U.S. Treasury's auction process overview and Treasury auction information.

QUESTION NO: 87

A U.S. company has a secured committed line of credit of $5 million. The company successfully transmitted a $5.5 million wire transfer instruction out to the bank. The bank contacted the company and informed it that the wire transfer would not be processed. What is the MOST LIKELY reason the bank gave the company?

A. The company overdraft facility was sufficient.

B. The bank imposed a guidance line of credit on the account.

C. The company reached its maximum limit on the committed line.

D. The bank refused funding on the company's discretionary line of credit.

ANSWER: C

Explanation:

The company reached its maximum limit on the committed line. A committed line of credit is a contractual promise by the bank to make funds available, subject to the facility's stated terms, conditions, and limit. Here, the committed borrowing capacity is $5 million, while the requested wire is $5.5 million. Even assuming the entire committed amount is unused and immediately available, the company has only $5 million of committed bank credit available to support the payment. The requested transfer therefore exceeds the facility ceiling by $500,000. A bank cannot treat the committed facility as authority to advance more than its contractual maximum. To complete the payment, the company would need sufficient collected funds in its account, an approved increase in its committed facility, or another separately approved source of funding. This conclusion follows directly from the defined credit limit and does not depend on whether the company successfully sent the payment instruction; transmitting an instruction does not create additional credit availability. The OCC's Commercial Credit Comptroller's Handbook discusses banks' administration of credit facilities within approved terms and limits. For the payment-order context, see UCC Article 4A.

QUESTION NO: 88

XYZ Company has decided to transition the responsibility for its hedging activities from the local offices to the head office; however, the local offices will continue to choose their own depository banks. Under the new structure, XYZ's treasury operations will be:

A. centralized.

B. combined.

C. decentralized.

D. shared service center.

ANSWER: B

Explanation:

combined. is correct because XYZ is assigning different treasury responsibilities to different organizational levels. The head office will control hedging, a strategic financial-risk activity that benefits from enterprise-wide visibility of currency, interest-rate, commodity, and other exposures. Centralizing this responsibility allows the organization to aggregate exposures, establish consistent hedge policies, apply common risk limits, and execute hedges on a consolidated basis. At the same time, local offices retain authority to select their depository banks. That local responsibility reflects a decentralized element, since operating units continue to manage an important banking-relationship decision according to local market needs, service requirements, and regulatory considerations. A combined treasury structure, sometimes called a hybrid model, therefore blends centralized control of selected strategic functions with local execution or decision-making for other functions. This structure can preserve local banking knowledge while improving group-level risk governance and control over financial-market exposures. Treasury organizational design commonly distinguishes centralized, decentralized, and hybrid arrangements based on how decision rights and operational responsibilities are allocated across headquarters and business units. See the Association for Financial Professionals' Treasury resources and PwC's discussion of treasury transformation.

QUESTION NO: 89

Which of the following is a characteristic of giro systems used in countries in Europe?

A. They operate through their postal systems.

B. They are primarily used for company-to-company payments.

C. They do not replace checks for the payment of bills.

D. They do not allow the use of direct debits and credits.

ANSWER: A

Explanation:

They operate through their postal systems. Giro systems developed in several European countries as credit-transfer arrangements administered through postal authorities or postal-bank networks. In this model, a payer instructs the giro service to transfer funds from the payer's account to the recipient's account, often using standardized payment forms and a centralized processing network. This historical connection to post offices made giro services widely accessible to households and businesses, including people who might not have used conventional commercial-bank branches regularly.

The essential feature is that payments are processed as account-to-account transfers within the giro network rather than as a physical exchange of cash. Giro arrangements have also supported modern noncash payment functions, including credit transfers and direct debits, and they have commonly been used to pay recurring bills. Although the institutional structure and technology of payment systems have evolved, the postal-system origin and administration of giro services is the defining characteristic addressed by the question. The European Central Bank describes credit transfers as payments initiated by the payer that move funds to a payee's account; giro systems are a longstanding form of this account-transfer approach. See the European Central Bank's payment statistics resources and the Encyclopaedia Britannica overview of giro.

QUESTION NO: 90

Which of the following prohibits price discrimination among customers where cost differences do NOT exist?

A. Robinson Patman Act

B. Truth in Lending Act

C. Fair Credit Billing Act

D. Equal Credit Opportunity Act

ANSWER: A

Explanation:

The Robinson Patman Act is correct because it is the federal statute specifically directed at certain forms of discriminatory pricing in sales of commodities. The Act generally requires sellers to offer competing purchasers the same price and related terms when the sales involve commodities of like grade and quality, when the transactions occur in interstate commerce, and when the price difference may harm competition. A seller may justify a price difference when it reflects genuine differences in the cost of manufacture, sale, or delivery, or when it is necessary to meet a competitor's price. Therefore, where cost differences do not exist, an unexplained difference in pricing among similarly situated customers can raise the price-discrimination concern addressed by this law. This makes the Act particularly relevant to a treasury or finance professional evaluating commercial pricing, customer terms, and potential legal exposure arising from differential treatment of buyers. The Federal Trade Commission describes the law as prohibiting certain discriminatory prices and promotional allowances that may injure competition. See the FTC's Robinson-Patman Act guidance and the statutory text at 15 U.S.C. § 13.

QUESTION NO: 91

Which of the following is true when a company purchases goods using trade credit from suppliers?

A. The buyer incurs no added cost if it pays on time.

B. The supplier will charge interest to the buyer.

C. The buyer should record this as a long-term liability.

D. The supplier places a lien on the goods sold until payment.

ANSWER: A

Explanation:

The buyer incurs no added cost if it pays on time. Trade credit is short-term financing provided by a supplier when it delivers goods now and permits the purchaser to pay later under agreed invoice terms, such as net 30 days. When the buyer remits the stated invoice amount within those terms, it satisfies the obligation at the agreed purchase price and ordinarily does not incur a separate financing charge. This arrangement allows the buyer to receive, use, or sell inventory before cash leaves the business, which can support working-capital management and operating cash flow.

The specific payment date and amount are governed by the parties' sales agreement or invoice terms. In the absence of a contrary agreement, the Uniform Commercial Code provides that payment is due when and where the buyer receives the goods, illustrating that the parties may establish a later payment arrangement through their agreed terms. See Cornell Law School's UCC § 2-310. Accounts payable is the accounting record commonly used for supplier obligations arising from purchases on credit; its purpose and normal-credit balance are summarized by AccountingCoach's accounts payable explanation. Thus, timely payment under ordinary trade-credit terms avoids an added charge beyond the invoiced goods price.

QUESTION NO: 92

All of the following are objectives of credit management EXCEPT:

A. evaluating customer creditworthiness.

B. preparing cash flow forecasts.

C. maintaining up-to-date records of accounts receivable.

D. initiating collection procedures.

ANSWER: B

Explanation:

Preparing cash flow forecasts is the correct exception because forecasting is principally a treasury liquidity-management activity. A cash forecast consolidates expected receipts, disbursements, financing flows, and timing assumptions so that the organization can anticipate cash surpluses or funding needs and make informed investment or borrowing decisions.

Accounts-receivable expectations can be an important input to that forecast, particularly because credit terms and collection patterns influence the timing of customer payments. However, contributing receivables data to a forecast does not make preparation of the enterprise cash forecast an objective of the credit-management function itself. Credit management is centered on managing customer credit exposure and the receivables arising from sales, including setting and administering credit practices through the customer-payment cycle. This distinction supports clear accountability: treasury uses reliable operating inputs to manage liquidity, while credit management controls the quality, administration, and realization of credit sales. The Association for Financial Professionals describes treasury's focus on liquidity and financial risk management in its Treasury resources. The relationship between receivables and operating cash flow is also reflected in the U.S. Securities and Exchange Commission's cash-flow guidance.

QUESTION NO: 93

ABC Industries, a Canadian company, is in the process of acquiring a company in Europe for EUR100 million. The company has entered into a forward contract to lock in the purchase price and sell CAD and buy EUR on May 30th. Due to legalities, management now expects to finalize the acquisition on July 30th. The treasury manager of the company is MOST LIKELY to recommend which of the following to unwind the forward contract on May 30th?

A. Deliver CAD to the counterparty and receive EUR100 million at the contracted rate and use funds to settle purchase price in 60 days.

B. Send a termination request to the counterparty to cancel the forward contract and purchase EUR on the spot market in 60 days.

C. Send a termination request to the counterparty to cancel the forward contract and enter into a new forward contract with a delivery date in 60 days.

D. Enter into a new spot contract to sell EUR100 million and enter into a new forward contract with a delivery date in 60 days.

ANSWER: D

Explanation:

Enter into a new spot contract to sell EUR100 million and enter into a new forward contract with a delivery date in 60 days. This recommendation effectively rolls the hedge from the original May 30 maturity to the revised July 30 acquisition date. On May 30, ABC's existing contract requires it to sell Canadian dollars and receive EUR100 million. A contemporaneous offsetting transaction that sells EUR100 million and receives CAD neutralizes the euro amount received under the maturing forward, so the company does not retain an unwanted EUR cash balance before the acquisition closes. The CAD and EUR cash flows from the maturing contract and offsetting transaction are economically netted or settled according to the counterparty's arrangements.

The new forward contract restores the required hedge for the delayed payment date: ABC will sell CAD and buy EUR100 million for delivery in 60 days. Consequently, the company remains protected against an adverse movement in the CAD/EUR exchange rate between May 30 and July 30 while aligning the availability of euros with the expected acquisition settlement. Economically, this is an FX-forward roll, commonly implemented as the near and far legs of an FX swap. The Bank for International Settlements describes FX swaps as transactions involving an exchange of currencies on one date and a reverse exchange on a later date; this structure supports rolling a currency exposure to a later date. See the BIS foreign-exchange turnover methodology and the CME Group overview of FX swaps.

QUESTION NO: 94

Use the financial statement for XYZ Company in the exhibit to answer this question.

XYZ Company	Current Year	Prior Year
Cash	$2,000,000	$1,500,000
Short-Term Investments	1,800,000	2,000,000
Accounts Receivable	2,200,000	1,800,000
Inventory	3,100,000	2,600,000
Net Property, Plant & Equipment	8,000,000	7,300,000
Accounts Payable	2,100,000	1,700,000
Short-Term Debt	2,300,000	1,800,000
Long-Term Debt	4,400,000	4,000,000
Total Equity	8,300,000	7,700,000
Net Income	800,000	750,000
Dividends Paid	200,000	150,000
Depreciation & Amortization	400,000	350,000

What is the cash flow from operating activities for the current year?

A. $(700,000)

B. $700,000

C. $900,000

D. $1,700,000

ANSWER: B

Explanation:

$700,000 is the cash flow from operating activities for the current year. Cash flow from operating activities measures cash generated or used by the company's core, revenue-producing activities during the period. Under the indirect presentation used in a typical financial-statement exhibit, the calculation begins with net income and then reconciles accrual-basis earnings to cash by incorporating noncash charges and changes in operating working-capital accounts. Noncash expenses, such as depreciation or amortization, are added back because they reduce reported income without requiring a current-period cash payment. Changes in receivables, inventory, payables, and other operating accounts are then reflected according to their cash effect. Applying the operating-section reconciliation to the amounts presented in the exhibit produces net cash provided by operating activities of $700,000. This amount represents operating cash flow only; it is distinct from cash flows associated with acquiring or disposing of long-term assets and from borrowing, repaying debt, issuing equity, or paying distributions. The U.S. Securities and Exchange Commission describes the statement of cash flows and its operating, investing, and financing classifications in its cash-flow statement guidance. The underlying operating-cash-flow classification is also consistent with IAS 7: Statement of Cash Flows.

QUESTION NO: 95

In order to maintain internal control best practices, how often should an organization reconcile their investment statements?

A. Daily

B. Monthly

C. Quarterly

D. Yearly

ANSWER: B

Explanation:

Monthly is the appropriate reconciliation frequency because investment custodians and brokers ordinarily issue periodic account statements on a monthly cycle. Reconciling the organization's investment subledger, general-ledger balances, transaction records, and custodian statement promptly after each statement is issued creates a regular detective control. It allows treasury to identify unrecorded purchases, sales, income, fees, maturities, valuation differences, unauthorized activity, or posting errors while supporting documentation and personnel recollection are still timely. A monthly review also provides evidence that independently maintained records agree and that exceptions have been investigated and resolved, which is central to sound segregation of duties and oversight of liquid assets. Treasury professionals should maintain documented reconciliation procedures, assign a reviewer independent of transaction execution where practicable, and retain evidence of review and resolution. This cadence is consistent with the Certified Treasury Professional body of knowledge's emphasis on controls over investment operations and with investor guidance to review account statements for accuracy. See the AFP Certified Treasury Professional program and the SEC's guidance on reviewing brokerage account statements.

QUESTION NO: 96

Which of the following fundamental factors involved in determining an operational risk management strategy is most affected by the new corporate governance standards and "whistle-blower" laws?

A. Procedures

B. Culture

C. Reporting

D. Technology

ANSWER: B

Explanation:

Culture is correct because corporate-governance requirements and whistle-blower protections directly shape the behavioral environment in which operational risks are identified, escalated, and managed. An effective risk culture establishes clear expectations that employees act ethically, raise concerns promptly, and can report suspected misconduct without fear of retaliation. Governance standards reinforce accountability by placing responsibility for oversight and internal controls with senior management and the board, while whistle-blower laws protect and encourage people who report potential violations. Together, these developments make an organization's openness, ethical tone, and willingness to challenge improper practices central components of its operational risk strategy.

A strong culture also supports early detection of control failures and emerging risks because personnel are more likely to communicate concerns through appropriate channels. The U.S. Securities and Exchange Commission describes protections for individuals who report possible securities-law violations, including protections against retaliation. The U.S. Department of Justice likewise identifies a well-designed compliance program and a culture of compliance as important considerations in evaluating corporate conduct. These expectations make culture especially consequential for operational risk governance. See the SEC Whistleblower Program and the U.S. Department of Justice guidance on corporate compliance programs.

QUESTION NO: 97

Components of a field banking system include which of the following?

I. Local bank

II. Concentration bank

III. Lockbox bank

A. I only

B. I and II only

C. II and III only

D. I, II, and III

E. Local bank
II. Concentration bank
III. Lockbox bank

ANSWER: B

Explanation:

I and II only is correct. A field banking system is a decentralized collections arrangement designed for organizations that receive payments at geographically dispersed locations. Under this structure, a local bank serves each field location by accepting deposits and providing local banking services. Collected funds are then transferred, typically by concentration or sweep arrangements, to a central concentration bank account. This enables treasury to consolidate cash balances, improve visibility over available funds, and make centralized investment, borrowing, and disbursement decisions.

The defining relationship in field banking is therefore between local collection points and the central concentration account. The local banks support timely deposit of receipts near the locations where they are generated, while the concentration bank aggregates those balances for corporate cash management. This structure can reduce the time and administrative effort involved in moving physical deposits to a single location and supports efficient liquidity management across the enterprise.

A useful overview of the field-banking concept is available from Investopedia's Field Banking definition. For background on the central aggregation role, see Investopedia's Concentration Account definition.

QUESTION NO: 98

After several internal discussions about treasury management systems (TMSes), ABC Company has determined that it has no need for customization but that it does want a backup for high priority capabilities. The company wants to reduce its IT costs and resources but still have IT support with in-depth knowledge of the solutions available. These parameters will MOST LIKELY result in what kind of TMS?

A. An ERP module TMS

B. An integrated TMS

C. A hosted ASP TMS

D. Development of its own TMS

ANSWER: C

Explanation:

A hosted ASP TMS is the best fit because an application service provider hosts and operates the treasury application for the company. This model reduces the company's need to purchase, maintain, upgrade, secure, and support its own TMS infrastructure, thereby lowering internal IT resource demands and costs. The provider's personnel supply specialized operational and application support, which gives the company access to expertise that is focused on the solution rather than requiring its own IT staff to develop that depth of knowledge.

Hosting also commonly includes resilient data-center operations, backup arrangements, and disaster-recovery capabilities for critical services. Those provider-managed capabilities align with the requirement for backup of high-priority treasury functions. Because the company does not need customization, it can more readily use the standardized processes and configuration offered by a hosted service, avoiding the cost and complexity associated with tailored implementation and ongoing maintenance.

This approach corresponds to the cloud-service principle that the provider manages the underlying infrastructure while the customer consumes the application as a service. The National Institute of Standards and Technology describes this service model in its cloud computing definition. For further context on the shared operational responsibilities in hosted cloud services, see Microsoft's shared responsibility guidance.

QUESTION NO: 99

Which of the following is a component of a company's operating budget?

A. Shareholders equity

B. Accounts receivable

C. Long-term debt

D. Capital investments

ANSWER: B

Explanation:

Accounts receivable is the correct answer because an operating budget is built from the forecasts that support the company's normal revenue-generating and expense-incurring activities. Credit sales create expected customer receivables, and the projected timing of their collection is an important operating forecast. A budgeted accounts-receivable balance connects the sales forecast to anticipated cash collections and helps treasury and finance teams assess short-term liquidity, working-capital needs, and the timing of operating cash inflows. In practice, management estimates the portion of sales expected to be collected in the current period and later periods; the uncollected amount becomes the projected accounts-receivable balance. This information supports both the operating plan and the cash forecast derived from that plan. The Financial Accounting Standards Board identifies receivables as assets representing rights to receive cash, which is consistent with their role as expected collections from customers: FASB Accounting Standards Codification—Receivables. For a practical overview of how accounts receivable reflects credit sales and expected customer payments, see Investor.gov—Accounts Receivable.

QUESTION NO: 100

ABC Ltd. uses a third party lockbox provider to collect and clear its paper receivables. A customer disputes the price charged for a binding machine and issues a check to ABC Ltd. for 50% of the balance due, noting "paid in full" on the face of the check. The third party provider does not bring the check to ABC's attention prior to depositing it. Which regulation allows ABC to attempt to collect the remaining balance?

A. UCC Article 2 - Clearing of Checks

B. Federal Reserve Regulation CC

C. UCC Article 3 - Negotiable Instruments

D. UCC Article 4 - Bank Deposits and Collections

ANSWER: C

Explanation:

UCC Article 3 - Negotiable Instruments is correct because it contains the accord-and-satisfaction rule governing a disputed claim paid by an instrument marked as full payment. Specifically, UCC § 3-311 addresses when acceptance and collection of a check tendered in good faith as "full satisfaction" discharges the balance of a disputed or unliquidated claim. The provision also recognizes the practical problem posed by high-volume payment processing, including lockbox arrangements. An organization may preserve its claim when it has directed disputed-debt communications to a designated person, office, or place and the instrument was not received there. It may also avoid discharge where the required knowledge that the check was tendered as full satisfaction was not present before collection was initiated. Thus, Article 3 supplies the legal framework under which ABC Ltd. can seek to collect the unpaid portion, subject to the applicable facts and any required notice or repayment procedures. Article 3 governs negotiable instruments, including checks, and the relevant rule is codified in § 3-311. See the text of UCC § 3-311, Accord and Satisfaction by Use of Instrument and the Uniform Commercial Code resources from the Uniform Law Commission.

QUESTION NO: 101

All of the following bank products and services can simplify the preparation of the daily cash position EXCEPT:

A. ACH concentration.

B. balance reporting.

C. account analysis.

D. controlled disbursement.

ANSWER: C

Explanation:

account analysis. is correct because it is primarily a bank-generated statement used to review the account services a company used during a statement cycle, the fees assessed for those services, and any earnings credit allowance that may offset those fees. It supports bank-fee review, account-cost analysis, reconciliation of service charges, and decisions about banking relationships. Its information is therefore generally retrospective and periodic, commonly monthly, rather than a source of same-day expected cash inflows, available balances, or disbursement amounts.

Daily cash positioning requires timely visibility into collected balances and current-day cash movements so treasury can determine available liquidity and make funding or investment decisions. Account analysis does not provide the operational, intraday cash-flow data needed to build that daily position. This distinction is important in treasury operations: a service can be valuable for monitoring the cost of bank services without serving as a cash-positioning tool. The Federal Reserve describes account analysis as a process through which banks provide information on account activity and service charges; see its Account Analysis information. For broader context on managing daily liquidity and cash balances, see the AFP Treasury resources.

QUESTION NO: 102

Which of the following must be considered when designing the basic framework for a cash management system?

A. Industry standards and practices

B. SEC regulations

C. FASB rulings

D. Public company listing guidelines

ANSWER: A

Explanation:

Industry standards and practices must be considered because the basic framework of a cash management system needs to support the organization’s day-to-day liquidity, payments, collections, information reporting, bank connectivity, and control requirements in ways that are operationally workable and widely accepted. Established treasury practices help a company select appropriate account structures, concentration methods, payment processes, forecasting routines, and bank-service arrangements. They also provide practical benchmarks for segregation of duties, authorization controls, reconciliation, fraud prevention, and the reliable transmission of payment data. A framework that reflects recognized market practices is more likely to integrate effectively with banking partners and enterprise systems, adapt as transaction volumes or business needs change, and provide timely visibility over cash positions. The Association for Financial Professionals identifies cash and liquidity management as a core treasury responsibility, including managing cash balances and banking relationships. The Bank for International Settlements’ guidance on payment systems also underscores the importance of sound operational arrangements and risk controls in payment activity. These established practices therefore form an essential design input for a usable, controlled, and efficient cash management system. See [AFP Treasury] and [BIS Principles for Financial Market Infrastructures].

QUESTION NO: 103

A PRIMARY objective of the cash concentration function is to:

A. move funds to where they can be used most productively.

B. eliminate service charges at outlying field banks.

C. minimize the number of disbursement banks required.

D. improve the predictability of cash outflow.

ANSWER: A

Explanation:

Cash concentration is designed to gather cash balances from multiple collection or field locations into a central concentration account so that the organization has timely access to its available liquidity. Therefore, the primary objective is to *move funds to where they can be used most productively.* By reducing fragmented balances and making collected funds visible and available centrally, the treasury function can invest surplus cash, fund operating requirements, reduce borrowing needs, and maintain appropriate liquidity more efficiently. The value of concentration is not merely physical movement of money; it is the ability to deploy enterprise cash according to the organization's overall funding and investment priorities. A well-designed concentration structure also supports more reliable cash positioning because treasury can view and manage balances from a central point. The Association for Financial Professionals describes treasury's role as managing an organization's liquidity and financial assets, which aligns directly with concentrating funds for effective deployment. See the AFP Treasury topic resources and the U.S. Treasury's discussion of cash management principles.

QUESTION NO: 104

A company transmits a payment file of ACH and Fedwire vendor payments to its financial institution to execute. Which article of the Uniform Commercial Code governs these payments?

A. Article 3

B. Article 4

C. Article 4A

D. Article 5

ANSWER: C

Explanation:

Article 4A is correct because it is the Uniform Commercial Code article specifically designed to govern funds transfers, including the commercial payment-order relationship through which a company instructs its bank to transmit value to beneficiaries. A Fedwire payment is a classic wholesale wire transfer: the originator sends a payment order to its bank, which executes the transfer through the Fedwire Funds Service. That transaction structure falls squarely within Article 4A's funds-transfer framework, including rules on authorized payment orders, acceptance, execution, cancellation, and allocation of loss for security procedures.

For ACH vendor payments, the ACH network's operating rules are central to processing, but Article 4A supplies the applicable UCC legal framework for ACH credit-transfer payment orders where its provisions apply. In a payment file containing ACH and Fedwire vendor disbursements, the common UCC article addressing the transfer of funds pursuant to payment orders is therefore Article 4A. The statutory scope and definitions are available in Cornell Law School's UCC Article 4A, particularly the definition of a funds transfer and payment order. The Federal Reserve also describes Fedwire as a real-time gross settlement service used by financial institutions to transfer funds, consistent with the Article 4A funds-transfer context: [Federal Reserve Financial Services—Fedwire Funds Service].

QUESTION NO: 105

A company in the market to purchase a treasury management system (TMS) has issued a request for proposal to evaluate various vendors. One of the evaluation factors focuses on the long-term viability of the vendor. The company may have to choose between an untested new vendor with a superior product and an established vendor with an incomplete product suite. This dimension of the RFP is measuring what type of risk?

A. Reputational risk

B. Supplier risk

C. Technology risk

D. Financial risk

ANSWER: B

Explanation:

Supplier risk is correct because the RFP criterion evaluates the organization’s exposure to a third-party provider’s ability to remain a dependable, sustainable source of the treasury-management service over time. A TMS is a long-term operational dependency: the vendor must continue to support the platform, maintain security and regulatory capabilities, provide implementation and ongoing service resources, and invest in product enhancements. Assessing an untested vendor’s maturity and prospects against an established provider’s breadth of offering is therefore an assessment of the supplier relationship and the vendor’s continued capacity to deliver. Treasury’s due diligence should consider such matters as the provider’s business model, ownership, financial condition, client base, implementation expertise, product roadmap, support model, and contingency arrangements if the provider is acquired, fails, or discontinues a product. This aligns with established third-party risk-management practice, which calls for evaluating a service provider before engagement and monitoring its ability to meet contractual and operational obligations throughout the relationship. See the Association for Financial Professionals and the Federal Reserve’s third-party risk management guidance.

QUESTION NO: 106

A company has large, ongoing short-term financing requirements with a maximum horizon of 250 days. It has a good credit rating and would like to use the least expensive source of short-term debt to finance its needs. The Treasurer might recommend which of the following?

A. Commercial paper with a backup line of credit

B. Asset sales through factoring of receivables

C. A committed line of credit with compensating balances

D. A single payment note secured by marketable securities

ANSWER: A

Explanation:

Commercial paper with a backup line of credit is appropriate because commercial paper is an unsecured, short-term promissory note issued by corporations with strong credit quality. A 250-day borrowing horizon fits within the customary U.S. commercial-paper maturity limit of no more than 270 days. For a company that has large and recurring funding needs, issuing commercial paper can provide funding at a comparatively low all-in cost because highly rated issuers can access money-market investors at rates that generally reflect their strong credit standing.

The backup line of credit is an important component of a commercial-paper program. It provides committed liquidity that can be drawn if the company is temporarily unable to roll over maturing commercial paper or if market conditions restrict access to investors. This liquidity support helps ensure that commercial paper obligations can be repaid at maturity and is a standard risk-management practice for issuers relying on continuous short-term market funding. The Federal Reserve's commercial-paper data describe commercial paper as a major source of short-term funding, while SEC guidance identifies the 270-day maturity condition relevant to the exemption commonly used for commercial-paper issuance. See the Federal Reserve commercial paper release and SEC Rule 3a3-3.

QUESTION NO: 107

Check MICR line information includes which of the following?

I. Bank of deposit identification number

II. Payee bank identification number

III. Federal Reserve bank code

IV. Payor's account number

A. I only

B. III and IV only

C. II, III, and IV only

D. I, II, III, and IV

E. Bank of deposit identification number
II. Payee bank identification number
III. Federal Reserve bank code
IV. Payor's account number

ANSWER: B

Explanation:

III and IV only is correct. A check's MICR line contains machine-readable information needed to route the item through the check-collection system and post it to the account on which it is drawn. This includes the routing transit number and the payor's account number. The routing transit number is encoded in MICR characters and incorporates the Federal Reserve routing symbol, commonly described in treasury materials as the Federal Reserve bank code, along with the financial institution identifier and a check digit. This routing information directs the check into the appropriate collection and clearing path. The payor's account number identifies the drawer's account at the paying financial institution so that the check can be charged to that account. In many check formats, the MICR line also includes a serial or check number, but that does not change the listed combination. The Federal Reserve explains the structure and use of routing transit numbers in its ABA routing number guidance. For an overview of check-processing and collection services, see the Federal Reserve's check services information.

QUESTION NO: 108

The Sarbanes-Oxley Act of 2002:

A. created the Financial Accounting Standards Board.

B. created the Public Company Accounting Oversight Board.

C. created the Public and Private Corporate Governance Board.

D. created the International Accounting Standards Convergence Board.

ANSWER: B

Explanation:

The Sarbanes-Oxley Act of 2002 created the Public Company Accounting Oversight Board. The Act established the PCAOB as an independent, nonprofit oversight body to supervise audits of public companies and SEC-registered broker-dealers. Its core responsibilities include registering public accounting firms, setting auditing and related professional-practice standards, conducting inspections, and investigating and disciplining registered firms and associated persons when necessary. The PCAOB was created in response to major accounting and audit failures that undermined confidence in public-company financial reporting. For treasury professionals, this framework matters because reliable audited financial statements, effective internal controls, and credible corporate disclosures support informed decisions by investors, lenders, counterparties, and boards. The Securities and Exchange Commission oversees the PCAOB, including approval of its rules and standards, while the PCAOB carries out direct audit-firm oversight. Section 101 of Sarbanes-Oxley specifically provides for establishment of the PCAOB. The SEC's Sarbanes-Oxley Act resource provides the statutory text and related materials, and the PCAOB describes its statutory role and responsibilities on its official site. See the Sarbanes-Oxley Act of 2002 and the PCAOB's official About page.

QUESTION NO: 109

A corporate compliance officer is drafting an agenda for an ethics training session. Which of the following would NOT be an appropriate item to include?

A. Discussion of recent cases involving unethical behavior

B. Presentation of hypothetical situations and how to resolve them

C. Review and analysis of the costs associated with ethics compliance

D. Monitoring of a hotline to report governance violations

ANSWER: C

Explanation:

Review and analysis of the costs associated with ethics compliance is not an appropriate primary item for an ethics-training agenda. Effective ethics training is designed to help personnel recognize ethical issues, understand the organization's standards and reporting channels, and apply those standards when faced with realistic workplace decisions. Training is therefore most useful when it is practical, values-focused, and connected to employees' day-to-day responsibilities. A cost analysis centers on the financial expenditure required to operate a compliance program rather than on the behaviors, judgment, reporting expectations, and decision-making skills that ethics training is intended to develop. Although management may properly evaluate the budget, staffing, and resources needed for an ethics and compliance program, that activity belongs to program governance and administration rather than employee ethics instruction. The U.S. Department of Justice emphasizes that compliance training should be appropriately tailored, accessible, and communicated effectively to employees, including instruction that supports ethical conduct and reporting. See the DOJ's Evaluation of Corporate Compliance Programs. The Society for Corporate Governance also identifies ethics and compliance as a core governance responsibility: Society for Corporate Governance.

QUESTION NO: 110

The risk that one financial institution's failure could lead to the failure of other financial institutions is known as:

A. settlement risk.

B. systemic risk.

C. credit risk.

D. fraud risk.

ANSWER: B

Explanation:

Systemic risk. is the risk that distress or failure at one financial institution, market participant, or critical financial-market infrastructure will spread through financial connections and trigger disruptions or failures elsewhere in the financial system. This contagion can occur because institutions have direct exposures to each other through loans, derivatives, deposits, payment and settlement obligations, or shared asset holdings. A large institution's inability to meet its obligations can therefore create liquidity pressures and losses for counterparties, which may then transmit stress to still more institutions. Treasury professionals need to recognize systemic risk because it can affect bank availability, payment flows, access to short-term funding, counterparty capacity, and the safety of cash and investment arrangements even when their own organization has not directly experienced a loss. The Financial Stability Board describes systemic risk as the risk of disruption to the financial system that can have serious negative consequences for the real economy. The Federal Reserve similarly identifies interconnectedness and contagion as key channels through which financial stress can become system-wide. See the Financial Stability Board's financial stability monitoring resources and the Federal Reserve's financial stability resources.

QUESTION NO: 111

Which of the following ONLY measures the time required to convert a credit sale into cash?

A. Cash turnover

B. Cash conversion

C. Days' receivable

D. Days' payable

ANSWER: C

Explanation:

Days' receivable is the measure that isolates the collection period for credit sales: the average number of days between recording a sale on account and receiving the related customer payment. In treasury and working-capital analysis, this is commonly expressed as days sales outstanding (DSO), calculated using average accounts receivable divided by credit sales per day (or average receivables divided by net credit sales, multiplied by the number of days in the period). Because its numerator is accounts receivable and its denominator is credit sales, the metric focuses specifically on how long customer balances remain uncollected. This makes it useful for monitoring collection efficiency, assessing the cash-flow effect of changes in customer payment behavior, and comparing receivable performance over time. A lower figure generally means that credit sales are being converted to cash more quickly, assuming the organization's credit terms and sales mix are comparable. The Corporate Finance Institute provides a concise definition and calculation of DSO at its DSO reference page. Treasury professionals use receivables measures alongside broader working-capital analysis, a core subject area reflected in the AFP Certified Treasury Professional curriculum.

QUESTION NO: 112

Company J is looking to perform an A/R cash analysis based on the following sales information:

December	January	February	March	April
$140,000	$150,000	$160,000	$125,000	$200,000

60% of sales are collected within two months after sale. After three months, $135,000 of January's sales were collected. What was the dollar amount of January's sales collected in April?

A. $15,000

B. $45,000

C. $90,000

D. $135,000

ANSWER: B

Explanation:

$45,000 is the January-sales cash receipt assigned to April under the collection timing assumptions. An accounts-receivable cash analysis separates sales by the month in which cash is expected to be received rather than treating the entire sale as a receipt in the month of sale. The sales information and stated collection experience establish the amount of the January receivable that had been collected through the earlier collection periods. After applying the 60% collected within two months and the stated $135,000 collected after three months, the remaining January-sales amount scheduled for the April collection period is $45,000. This receipt should therefore be included in April's cash collections forecast, even though the related revenue was earned in January. This approach is central to short-term liquidity forecasting: treasury uses collection lags and expected customer-payment behavior to translate sales forecasts into usable cash forecasts. AFP describes the Certified Treasury Professional body of knowledge as covering corporate liquidity and working-capital management, including the practical forecasting implications of receivables and collections. See AFP's CTP certification overview and the AFP Treasury topics resources.

QUESTION NO: 113

Which of the following situations is the best example of transaction exposure?

A. A U.S. headquartered firm consolidates their foreign subsidiary's financial statements into their home currency.

B. A company that purchases raw materials locally and sells its products in local markets recently encountered foreign competition.

C. A U.S. exporter sells merchandise to a French buyer and records a balance receivable with payment terms in euros due in three months.

D. A multinational corporation uses balance sheet hedging to reduce net exposure of the parent company.

ANSWER: C

Explanation:

Transaction exposure arises when a company has a contracted foreign-currency-denominated cash flow—such as a receivable or payable—that will be settled in the future. Its home-currency value can change between the date the transaction is recorded and the date payment is received or made because exchange rates fluctuate. "A U.S. exporter sells merchandise to a French buyer and records a balance receivable with payment terms in euros due in three months" is therefore a direct example: the exporter has a euro receivable, while its reporting and functional currency is assumed to be U.S. dollars. If the euro depreciates against the dollar before settlement, the dollar value ultimately collected will be lower; if it appreciates, the dollar value will be higher. The exposure is specific, measurable, and linked to an existing contractual transaction and a defined settlement date. Treasury can manage this exposure by matching euro inflows and outflows or by using instruments such as forward contracts to lock in the dollar value of the expected euro receipt. The CFA Institute describes transaction exposure as exchange-rate risk associated with contractual foreign-currency transactions, including receivables and payables. See CFA Institute's discussion of currency exchange-rate risk and IAS 21: The Effects of Changes in Foreign Exchange Rates.

QUESTION NO: 114

A company can dispute any check alterations within how many days after the bank statement has been sent?

A. 30 days

B. 60 days

C. 90 days

D. 180 days

E. 365 days (one year)

ANSWER: E

Explanation:

365 days (one year) is correct under the Uniform Commercial Code's default rule for a customer's claim involving an alteration of an item. UCC § 4-406 requires a customer to review the statement and accompanying items with reasonable promptness and notify the bank of an unauthorized signature or alteration. Most importantly for this question, the customer is precluded from asserting a claim if it does not discover and report an alteration within one year after the bank makes the statement and items available. Thus, when the question asks for the deadline to dispute *any check alterations*, the applicable outside limit is one year, expressed as 365 days.

Treasury professionals should nevertheless establish prompt daily or monthly reconciliation controls rather than wait for the statutory outside deadline. The UCC allows account agreements to set certain notification periods, provided the agreement complies with applicable UCC limits and good-faith requirements. Therefore, a company should also review its deposit-account agreement, but the standard UCC answer to the stated question is 365 days. See UCC § 4-406, Customer's Duty to Discover and Report Unauthorized Signature or Alteration and the Uniform Commercial Code materials from the Uniform Law Commission.

QUESTION NO: 115

The Treasurer of PJB Company is in charge of implementing new treasury management software. Without issuing any RFPs, the Treasurer hires a consulting company to install the software and program it to suit the company's needs. The Treasurer is responsible for approving the consultant's invoices for payment. Through conversation, the CFO discovered that the Treasurer's relative is one of the partners at the consulting company. The Treasurer was immediately terminated. What did the Treasurer MOST LIKELY violate?

A. The corporate code of conduct

B. Sarbanes-Oxley controls

C. The Uniform Commercial Code

D. Treasury operations procedures

ANSWER: A

Explanation:

The corporate code of conduct is the most likely violation because the Treasurer had an undisclosed personal conflict of interest in selecting and overseeing a vendor. A relative's partnership interest in the consulting company creates a financial relationship that could influence, or reasonably appear to influence, the Treasurer's vendor-selection decisions. The conflict is especially significant because the Treasurer both engaged the consultant and approved its invoices, concentrating procurement and payment authority in an individual with a personal connection to the supplier. Corporate codes of conduct commonly require employees to disclose actual or potential conflicts, avoid participating in decisions involving those conflicts, and obtain independent review or approval when a related-party relationship exists. A competitive procurement process, such as an RFP, may support fairness and value, but the central ethical issue is the failure to disclose and appropriately manage the relationship before awarding business and authorizing payment. The Association for Financial Professionals identifies ethical conduct, integrity, and avoidance of conflicts as core professional expectations for treasury professionals. See AFP's ethical standards and guidelines and the U.S. Department of Justice's Evaluation of Corporate Compliance Programs, which addresses conflict-of-interest policies and controls.

QUESTION NO: 116

A privately held company is planning to issue an IPO. If the company decides to do so, which of the following will MOST LIKELY result?

A. Decreased liquidity for the company's stock

B. Decreased reporting and disclosure costs for company

C. Increased managerial flexibility for owners of the company

D. Increased ability to determine company value

ANSWER: D

Explanation:

An IPO will most likely result in an increased ability to determine company value. Before becoming public, a privately held company's value generally must be estimated using valuation models, comparable-company analyses, negotiated transaction prices, or periodic appraisals. These approaches require assumptions and may produce a range of reasonable values rather than a continuously observable market price.

Following an IPO, the company's shares trade in a public market. The quoted share price, multiplied by shares outstanding, provides a readily observable market capitalization and creates a current market-based benchmark for valuing the equity. Public trading also supplies information on transaction prices and trading volume, which can help investors, management, lenders, and other stakeholders assess the company's value and liquidity. Although market prices can fluctuate with investor expectations and broader market conditions, an active public quotation generally makes valuation more transparent and easier to observe than it is for a private company.

The U.S. Securities and Exchange Commission describes how companies register securities offerings and become subject to public-company disclosure obligations in its Going Public guidance. The New York Stock Exchange also explains the public-listing process and its role in providing access to public capital markets: IPO Process.

QUESTION NO: 117

An auto manufacturing plant in Michigan has high scheduled demand for its product. If the company does not have a long-term contract for raw materials, what type of exposure could it face?

A. Delivery

B. Transaction

C. Economic

D. Credit

ANSWER: A

Explanation:

Delivery is correct because the plant has committed production demand but lacks a long-term arrangement that assures the availability and delivery of the raw materials needed to meet that production schedule. This creates exposure to supply interruption: a supplier may be unable to provide sufficient inputs when required, or available supply may be allocated to other buyers. For an automotive manufacturer, a missed or delayed delivery of a critical input can halt an assembly line, defer completed-vehicle shipments, and impair the company's ability to convert anticipated customer demand into revenue and operating cash flow.

Long-term supply contracts are an important operational risk-management tool because they can establish quantities, delivery schedules, specifications, supplier obligations, and remedies if supply commitments are not met. Treasury professionals consider this type of supply and delivery uncertainty when evaluating the reliability of forecast cash flows and the need for contingency planning. The Federal Reserve's discussion of supply-chain disruptions highlights how shortages and delays in inputs can constrain manufacturers' production, while the U.S. Department of Commerce describes supply-chain resilience as the ability to prevent and respond to disruptions in supply. See the Federal Reserve's supply-chain analysis and the U.S. Department of Commerce supply-chain resilience fact sheet.

QUESTION NO: 118

An assistant treasurer discovers that the CFO has been allowing other executives to exercise stock options during blackout periods. What will prevent the assistant treasurer from losing his/her job if he/she reports this discovery?

A. Investor Relations Policy

B. Code of ethics

C. Sarbanes-Oxley Act

D. Whistle-blower law

ANSWER: D

Explanation:

Whistle-blower law is correct because it provides legal protection against retaliation when an employee reports suspected securities-law violations or corporate fraud. In this situation, allowing executive stock-option exercises during a blackout period may involve improper insider trading or violations of securities rules and company controls. A treasurer who raises the concern through appropriate internal channels, a regulator, or another protected reporting channel may be protected from adverse employment actions—including discharge, demotion, harassment, or other discrimination—taken because of that report.

For publicly traded companies, the Sarbanes-Oxley Act includes a whistleblower anti-retaliation provision. The U.S. Department of Labor's Occupational Safety and Health Administration administers related retaliation complaints and explains that protected activity can include providing information or assisting in an investigation concerning conduct the employee reasonably believes violates specified federal securities or fraud laws. These protections are intended to encourage good-faith reporting of suspected misconduct without forcing employees to choose between preserving their employment and escalating a legitimate compliance concern. The reporting employee should document the concern and use established reporting procedures where feasible. See OSHA's Sarbanes-Oxley whistleblower overview and the SEC Whistleblower Program.

QUESTION NO: 119

Concerning the financial management function of a company, which organization sits at the center of the financial supply chain?

A. Financial planning & analysis

B. Accounting

C. Treasury

D. Procurement

ANSWER: C

Explanation:

Treasury sits at the center of the financial supply chain because it manages the organization's liquidity and connects the cash-related activities of operating units with external financial markets and banking partners. Its central role includes positioning cash, forecasting inflows and outflows, executing payments, managing bank accounts and relationships, funding the organization, and investing surplus liquidity. Treasury therefore provides the financial infrastructure that allows funds to move efficiently among customers, suppliers, business units, banks, and capital providers. This perspective is fundamental to the treasury profession: although many internal functions create, approve, record, or analyze transactions, treasury is responsible for ensuring that the organization has cash available at the required time, in the required currency, and at an acceptable cost and risk level. Effective treasury management also supports financial resilience by monitoring liquidity exposures and coordinating access to short-term and long-term funding. The Association for Financial Professionals describes treasury as encompassing liquidity, capital, and risk management responsibilities, all of which place it at the hub of financial flows. See the AFP Treasury overview and the Certified Treasury Professional program.