Note: ***Correct answers are in bold/italic.*** See the **Essentials of Treasury Management, 4th edition** for all chapter and page references in bold after each question. Unless otherwise noted, distractors are taken from the same chapter and page(s).

1. **(C19/pp. 586 - 588)** ***C. Times interest earned (This is a debt coverage ratio)***

2. **(C16/pp. 476 - 477)**
   D. Futures contracts are always settled with delivery of the underlying asset.

3. **(C 12/p. 376)**
   A. 0.945 **(Weights for stocks A & B are reversed)**
   B. 0.980 (Portfolio beta is the weighted average of the individual stock betas)
   (Port. Beta = (40% x 1.2) + (35% x 0.5) + (25% x 1.3) = 0.980.995)
   C. 0.995 **(Weights for stocks A & C are reversed)**
   D. 1.000 **(Results of the simple average of the betas)**

4. **(C2/pp. 51 - 52)** ***A. The Red Flags Rule***

5. **(C13/pp. 390 - 398)** ***B. Distribution forecast***

6. **(C19/pp. 577 - 578)** ***A. The capital budget***

7. **(C18/p. 549)**
   B. The long-term effect of economic exposure due to fluctuations in FX rates

8. **(C11/pp. 337 - 338)**
   A. $992,700 **(The price with bid discount, but 365 days)**
   B. $997,396 (See the formula & the solution below)
   C. $997,465 **(The price if the ask discount is used)**
   D. $998,024 **(The price with ask discount and 365 days)**

In this case, use the bid discount because you are selling the T-Bill to the dealer. The bid rate will give you the lower price, which is correct. If you were buying a T-Bill, you would use the ask price. Therefore:
Price = Face Value – Dollar Discount
Dollar Discount = (Face Value x Discount Rate x Days/360)
Dollar Discount = ($1,000,000 x 0.0075 x 125/360) = $2,604
Price = $1,000,000 – $2,604 = $997,396 **(Answer B)**

9. **(C6/pp. 153 - 156)** ***A. Collateral***

10. **(C2/pp. 52)** ***A. Reg Q***

11. **(C8/pp. 224 - 225)**
    A. 0.137% (Rate = 1 – (1/[1 + 5 (.10/365)] = 0.137%)
    B. 0.524% **(6 days of float reduction used instead of 5)**
    C. 0.842% **(10 days of float reduction used instead of 5)**
    D. 0.997% **(16 days of float reduction used instead of 5)**

12. **(C4/p. 97 - 98)** ***B. RCC (remotely created check)***

13. **(C14/pp. 408)** ***C. I, II and III only***

14. **(C18/p. 546)** ***B. Intangible assets***

15. **(C1/pp. 17 - 18)** ***A. Chief Financial Officer***

16. **(C9/pp. 271 - 272)**
    A. 45.6 days **(Days' Receivables)**
    B. 55.5 days **(Days' Payables)**
    C. 62.1 days (See the formula & the solution below)
    D. 63.9 days **(Days' Inventory)**

CCC = Days' Inventory + Days' Receivables – Days' Payables
Days' Inventory = Inventory / Cost of Goods Sold x 365 = $3,500 / $20,000 x 365 = 63.9 Days
Days' Receivables = A/R / Sales x 365 = $3,000 / $25,000 x 365 = 43.8 Days
Days' Payables = A/P / Cost of Goods Sold x 365 = $2,500 / $20,000 x 365 = 45.6 Days
CCC = 63.9 Days + 43.8 Days – 45.6 Days = 62.1 Days **(Answer C)**

17. **(C8/p. 214)** ***C. IV, II, I and III***

18. **(C10/pp. 306 - 307)** ***C. Both involve documents that must be accurate***

19. **(C8/pp. 221 - 222)** ***B. Disbursement float***

20. **(C14/p. 421)** ***D. I, II, III and IV***

21. **(C10/p. 316)** ***A. I, III and IV only***

22. **(C19/p. 582)**
    A. 1.43 times **(Adjusted ROA by multiplying by 1 – tax rate)**
    B. 2.20 times **(Used WACC rather than ROA to calculate TATO)**
    C. 2.40 times (ROA = NPM x TATO or TATO = ROA / NPM)
    (TATO = 12% / 5% = 2.4 times)
    D. 3.38 times **(Adjusted NPM by multiplying NPM by 1 – tax rate)**

23. **(C4/pp. 100 - 101)** ***C. II and III only***

24. **(C8/pp. 231 - 233)** ***D. Restrictive***

25. **(C19/p. 593)** ***B. Improve operating efficiency so that more EBIT is generated on the existing asset base.***

26. **(C15/pp. 440 - 441)** ***A. Scenario analysis***

27. **(C7/p. 192)**
   A. $751,292 **(Calculation of available balance rather than collected)**
   B. $807,841 (CB Req. = Svc Charge / ((ECR x Days/365) x (1 – RR))
   (CB Req. = $1235 / ((.02 x 31/365) x (1 - .10)) = $807,841)
   C. $825,290 **(Result if 30 days are used rather than 31)**
   D. $834,769 **(Result if deposit float is added which is the ledger balance)**

28. **(C20/p. 610)** ***C. Ability to raise large amounts of capital at prevailing rates.***

29. **(C11/p. 337)** ***D. 2.74% (see formulas and solution below)***

Use BEY (365-day basis) because you are comparing to a CD
Dollar Discount = Face Value – Purch Price = $250,000 - $248,750 = $1,250
BEY = (Dollar Disc / Purch Price) x (365 / Days to Mat)
BEY = ($1,250 / $248,750) x (365 / 67) = 0.02738 = 2.74% **(Answer D)**

30. **(C14/p. 426)** ***C. Eliminates the work required to establish an initial relationship between an organization and a specific bank***

31. **(C18/p. 550)** ***B. Increase in an asset***

32. **(C1/p. 12)** ***B. Maintain liquidity***

33. **(C2/p. 44)** ***B. The FDIC plays a central role in investigating FI fraud and theft.***

34. **(C9/p. 280)**
   A. $290,000 **(Result if the collection pattern is shifted back by 1 month)**
   B. $340,000 **(Result if month 1 (70% and month 2 (20%) are reversed)**
   C. $390,000 (See the formula & the solution below)
   D. $420,000 **(Just the amount of the July sales)**

Collections = 10% x July Sales + 70% x June Sales + 20% x May Sales
Collections = .10 x $500,000 + .70 x $400,000 + .20 x $300,000
Collections = $50,000 + $280,000 + $60,000 = $390,000 **(Answer C)**

35. **(C2/pp. 42 - 46)** ***A. Department of Justice (DOJ)***

36. **(C12/pp. 372 – 373, 375, 380)** ***B. Managing capital preservation***

37. **(C2/pp. 54 - 56)** ***D. Article 5***

38. **(C8/p. 230)** ***C. Changes in external financial requirements***

39. **(C15/p. 444)** ***A. Legal and regulatory compliance risk***

40. **(C3/p. 80)** ***B. Captive Finance company***

41. **(C2/pp. 36 - 41)** ***C. The Basel Committee on Banking Supervision***

42. **(C1/pp. 16 - 19)** ***A. Chief Financial Officer***

43. **(C7/p. 194)** ***B. I and II only***

44. **(C19/pp. 590 - 591)** ***D. Cash conversion efficiency***

45. **(C9/pp. 268 – 269, 274)** ***A. Cash flow to total debt***

46. **(C5/p. 127)** ***D. I and IV only***

47. **(C11/p. 359)** ***C. A-1***

48. **(C10/pp. 243, 310)** ***C. Countertrade***

49. **(C20/p. 613 - 614)**
    A. 6.52% **(Result of reversing the weights of debt & equity)**
    B. 7.68% (See the formula & the solution below)
    C. 7.98% **(Result of taking the simple average – 50/50 – of the two components)**
    D. 8.40% **(Result if taxes are not deducted from the cost of debt)**

WACC = (% of Debt x After Tax Cost of Debt) + (% of Equity x Cost of Equity)
WACC = (40% x 6% x (1 – .30)) + (60% x 10%) = 7.68% **(Answer B)**

50. **(C7/pp. 197 - 198 /See also C4/p. 100 for the distractors)** ***C. Sovereign risk***