ACT
PAST PAPER

Diploma in Treasury Management (AMCT)

Unit 4a: Financial reporting, tax and regulation for treasury

March 2025

This is a past paper for Unit 4a of the Diploma in Treasury Management (AMCT)

Based on the syllabus assessed from 1 August 2022.

INTRODUCTION

This past paper has been produced by the Awarding Body at the Association of Corporate Treasurers (ACT) to assist students in their preparation for the Diploma in Treasury Management assessments. It is important to highlight that the answers provided in this paper are not exhaustive and that any other reasonable answers would be awarded marks where necessary in a marked assessment. It contains a past exam for the specified unit as well as past answers. Ideally, students should have completed the majority of their Diploma in Treasury Management studies for Unit 4a before attempting this past paper.

Students should allow themselves 180 minutes to complete the exam plus an additional 15 minutes reading time. They should then review their performance to identify areas of weakness on which to concentrate the remainder of their study time. Although the past exam in this guide is typical of a Diploma in Treasury Management assessment, it should be noted that it is not possible to test every single aspect of the syllabus in any one particular exam.

To prepare properly for the examination, students should make full use of the tuition options where available and read as widely as possible to ensure that the whole syllabus has been covered.

ASSESSMENT TECHNIQUE

This paper is a professional paper that as well as testing theory expects application to practice at a managerial level.

The best way to approach written assessments is to work methodically through the questions. You should not spend too much time on any one question if you are struggling to think of an adequate answer. Remember you can flag any question to come back to later should you want to continue your way through the exam.

When all of the questions have been answered, it is prudent to use any remaining time to go through each question again, carefully, to double-check that nothing has been missed. Altering just one response could make the difference between passing and failing.

Please ensure you show your workings within your answer when prompted as this means there are marks available for the workings out. You will be able to make rough workings on a piece of paper during the exam and on screen should you wish to, however these will not count towards your final mark.

ASSESSMENT INFORMATION AND TEST SPECIFICATION

The Diploma in Treasury Management Units 4A and 4B each have 3 mandatory written questions. The papers will be split into sections A and B and will involve a pre-seen case study for Section A that is released no later than two weeks prior to the assessment date. Each unit exam is worth a total of 100 marks. For the purpose of this past paper the questions follow each case study.

Diploma in treasury management assessment test specification:

Section	Amount of questions	Marks available
Section A	1 case study based question	50
Section B	2 shorter case study based questions	25 marks each
Total	**3**	**100**

Under exam conditions, **3 hours** (180 minutes) is allowed for the Diploma in Treasury Management assessments plus an additional 15 minutes reading time.

When you take your actual exam, you will be sitting online using your own PC/Laptop. You have access to an online scientific calculator, but for the purpose of this past paper, you may use a non-programmable scientific calculator.

In order for you to determine how well you have performed, sample mark schemes are provided after each question. Please note that these are mark schemes only and not model answers. They provide lists of points that are expected to be covered within answers, although the content of your answers must be much more detailed (satisfying the command word used in the question, for example 'analyse'). As with all mark schemes, the content is indicative only, i.e. the lists of points featured are not exhaustive. It is highly likely that there are other perspectives and, provided these are valid and supported fully, marks would be awarded for these in a live exam. There are also references to the relevant Learning Outcomes if you need to revisit the associated material.

SECTION A

1 long form question worth 50 marks based on a pre-seen case study. This question should test knowledge, analysis, application insight, evaluation and justification as appropriate to level descriptors. This is a professional paper and application to practice should be at 'management' level.

Total available for Section A: 50 marks

QUESTION 1: CASE STUDY

Home Furniture Company (HFC) is a Portuguese furniture company known for its high-quality contemporary designs. Established in 2015, HFC's strong focus on quality, sustainability and customer satisfaction allowed it to become profitable very quickly. It leveraged its reputation to expand into the neighbouring EU countries of Spain, France, Italy and Austria.

International Expansion

HFC is expanding its business to the UK where it will offer the same products as it does in Europe. HFC will set up a subsidiary in the UK. This functional currency of this subsidiary will be GBP and it will also present its financial statements in GBP. The UK subsidiary will use the same suppliers as its European counterparts. The suppliers will invoice the UK subsidiary in EUR and offer a credit period of 90 days.

HFC is confident that its business in the UK will be profitable and has purchased a storage facility worth GBP500,000. This facility is owned by the parent company which presents its financial statements in EUR. The parent company will also provide some central services, such as online or over the phone customer support, to the UK subsidiary. It will charge the UK subsidiary in GBP for these services. The parent company will maintain a GBP bank account to manage its transactions with the UK subsidiary.

A loan of GBP5m will be provided by the parent company to the UK subsidiary to allow the company to start operating. Settlement of this balance is neither planned nor likely to occur in the foreseeable future. Management is unsure of the correct accounting treatment of this balance.
Once the business in the UK is operational, management is looking to borrow further funds to expand to other countries.

Financial performance

HFC has EUR10m in borrowings from a bank based in Portugal. The loan is repayable in five years' time. Management is aware that the loan is subject to certain financial covenants. However, these have not been calculated or reported to the bank recently.

The treasury assistant has reviewed the loan documentation and has determined that the loan is subject to the following financial covenants:

- minimum current ratio of 1.5, calculated as current assets divided by current liabilities
- maximum debt to equity ratio of 2, calculated as total liabilities on balance sheet divided by total equity

- minimum return on assets of 6.5%, calculated as operating profit divided by total assets on balance sheet
- minimum operating profit margin of 8%, calculated as operating profit divided by revenue.

Below is an excerpt from the financial statements of HFC.

EUR ('000)	31 March 2024	31 March 2023
Revenue	30,622	29,404
Operating profit	3,001	2,977
Current assets	12,014	11,098
Non-current assets	32,090	30,345
Current liabilities	8,978	9,878
Non-current liabilities	18,909	17,900
Equity	16,217	13,665

Lease accounting

HFC requires large facilities for storage and displaying to its customers. HFC owns most of its facilities, as its management believes it is more cost efficient than entering into short-term lease agreements. Where appropriate storage facilities are not available to purchase, HFC enters into short-term leases.

While performing quarter-end reconciliations, the treasury assistant has come across one such lease of a facility based in Spain. The lease was entered into on 1 April 2024 for a term of five years. EUR90,000 lease payments are payable each year in monthly instalments. As per the lease documents, the interest rate implicit in the lease is 7% per annum and the present value of the lease payments was determined to be EUR800,000. Legal costs of EUR5,000 were incurred in arranging this lease.

In the six-monthly accounts prepared to 30 September 2024, the only transactions recorded in relation to this lease, were the cash payments related to the lease payment of EUR90,000. The treasury assistant does not think that this lease has been accounted for correctly.

Tax

The intercompany loan of GBP5m provided by the parent company in Portugal to the subsidiary in the UK will be subject to an interest rate of 5% per annum. The interest will be payable on a quarterly basis and will be subject to withholding tax. HFC is subject to 21% corporation tax in Portugal and 25% corporation tax in the UK.

HFC is considering offering financing services to their customers in the UK. This service will allow customers to spread the cost of their furniture purchases over time. While furniture sales are subject to sales tax in the UK (known as VAT), financing services are exempt from VAT.

In purchasing the facility in the UK, HFC had to pay stamp duty on the transaction at the time of purchase. This was an unexpected expense as HFC management was not familiar with UK practices. Management now understands that stamp duty of 2% is applied to the purchase of commercial properties between GBP150,000 and GBP250,000 and an additional 5% is applied to the purchase price above GBP250,000. Once the UK business is established, HFC will consider purchasing further storage facilities to expand its business to other cities in the UK.

The most recent tax return filed by HFC in Portugal has been disputed by the tax authority. HFC has been accused of providing incorrect information in an attempt to reduce its tax burden.

QUESTION 1

a.	Analyse the key issues faced by HFC in relation to its currency exposures.	**14 marks**
b.	Examine the performance of HFC against each of its financial covenants. Within your answer you are required to make recommendations to address the risks of future covenant breaches.	**14 marks**
c.	Evaluate the current reporting of the lease transaction presented in the case study. Calculate the lease liability and right of use asset balance to be reported at the end of year one and year two of the life of the lease.	**10 marks**
d.	Analyse the tax issues faced by HFC.	**12 marks**
		Total: 50 marks

Mark scheme

Q1a

Transaction risk: HFC's new subsidiary will pay its suppliers in EUR. There is a risk that FX rates may move unfavourably between the date of transaction and the settlement date.	**1 mark**
Translation risk: receivables held the parent's company accounts in GBP from the UK subsidiary will need to be translated for the period-end balance sheet. Any resulting foreign exchange gain or loss will be taken to the income statement. The GBP denominated storage facility need not be retranslated as it is a non-monetary item.	**3 marks**
Translation risk: The new subsidiary will prepare its financial statements in GBP. In preparing consolidated group accounts, the subsidiary's balance sheet items will always be translated at the rate prevailing at the period-end regardless of their nature. The subsidiary's income statement will be translated at the rate ruling at the date of each original transaction or at an approximation to it, such as an average exchange rate for the period. Any resulting foreign exchange gain or loss should be taken to other comprehensive income. Further, assets and liabilities denominated in foreign currency will have to be revalued or translated into the organisation's functional currency for the purposes of the period-end balance sheet.	**3 marks**
Exchange rate movements could impact key financial ratios and in turn impact covenant compliance and credit rating metrics. It's important for HFC to maintain a good credit rating so it can borrow funds at favourable funds for additional expansions.	**2 marks**

Market risk: general adverse movements in FX rates. If HFC continue to use the same suppliers, costs could increase over time due to unfavourable movements in FX. If however competitors have the same cost base and experience the same pressure on margin, he price to the customer could also increase hence mitigate the risk.

2 marks

The parent company will maintain a foreign currency account for transactions with the UK subsidiary in GBP. This is likely to incur additional costs.

1 mark

Treatment of the GBP5 million intercompany loan: If a subsidiary of the group has a monetary item that is a receivable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future, it is, in substance, a part of the entity's net investment in that foreign operation.

2 marks

FX differences can affect both the income statement and equity, and may therefore impact key financial ratios purely as a result of exchange rate movements. In theory, FX exposure should not matter because it relates solely to financial reporting not cashflows. However, translation exposure may materially affect shareholder confidence, alter an organisation's borrowing capacity and may impact financial ratios, some of which are incorporated as debt covenants, all of which may result in real economic consequences. So, whilst there is no immediate cashflow impact, the organisation may assess translation exposure as a significant risk.

2 marks (max 14 marks)

Total marks: 14

Q1b

HFC has borrowings on its balance sheet that are subject to covenants. It is also planning on borrowing more to further expansions in the future, which may also be subject to similar covenants. As such, it is important for HFC to monitor its compliance to covenants. In the future, HFC should negotiate covenants carefully to avoid breaches that could lead to penalties.

2 marks

Year-ended:	**2024**	**2023**
Current ratio	1.34	1.12
Debt to equity	1.72	2.03
Return on assets	6.8%	7.2%
Operating profit margin	9.8%	10.1%

4 marks

(*Figures for both years must be correct to gain 1 mark for each financial ratio.)*

Current ratio is in breach of the financial covenant requirement of a minimum of 1.5. It was in breach last year as well but it has since improved. HFC could improve its current ratio through various means such as paying off current liabilities, working with creditors to reclassify current debt into long-term debt, improving cash collection from receivables. HFC needs to review the penalties

3 marks

that could be imposed due to these breaches. HFC should consider negotiating waivers.

Debt to equity ratio was in breach last year but has since improved and is under the requirement of 2. HFC should keep monitoring closely to ensure it is not in breach again. IF sufficient cash is available, HFC could consider paying off some of its liabilities to reduce the ratio in case of a risk of breach.

2 marks

Return on assets and operating profit margin have both fallen since last year but are still above the requirement of 6.5% and 8% respectively. HFC should monitor these and implement improvements, such as improving cost efficiency, to ensure the figures don't breach the covenants.

3 marks

As HFC is considering international expansion, it should negotiate FX carve-outs to prevent breaches due to FX movements. Alternatively, HFC could increase debt facility covenant headroom to allow for FX volatility.

2 marks (max 14 marks)

Total marks: 14

Q1c

IFRS 16 abolishes the distinction between an operating lease and a finance lease in the financial statements of lessees. Lessees will recognise a right of use asset and an associated liability at the inception of the lease. IFRS 16 requires that the 'right of use asset' and the lease liability should initially be measured at the present value of the minimum lease payments. The discount rate used to determine present value should be the rate of interest implicit in the lease. As such, the current treatment of this lease is incorrect.

3 marks

Right of use asset calculation:

7 marks

Right of use asset (EUR '000)	Balance brought forward	Depreciation	Balance carried forward
Year 1	805.0	(161.0)	644.0
Year 2	644.0	(161.0)	483.0

Lease liability calculation:

Lease liability (EUR '000)	Balance brought forward	Finance cost (7%)	Lease payments	Balance carried forward
Year 1	800.0	56.0	(90.0)	766.0
Year 2	766.0	53.6	(90.0)	729.6

(0.5 mark to be awarded for each figure.)

Total marks: 10

Q1d

HFC will benefit from positive tax arbitrage. Corporation tax rate is 25% in the UK while it is 21% in Portugal. With an annual interest of 4% on the intercompany loan of EUR500,000, the group will make savings as follows:

2 marks

Tax payable on interest income	(52,500)
Tax relief on interest expense	62,500
Net benefit	10,000

Withholding tax must typically be deducted from cross-border payments of interest. Although the company receiving the interest is allowed to use the withholding tax suffered to reduce its local tax liability, there is a clear timing difference (often many months) between the time when the tax is paid in the UK and the benefit is received in Portugal. For this reason, there is a real advantage in minimising the amount of tax that must be withheld at the time when interest or royalties are paid, as the corporate tax is usually due at a later date.

3 marks

In expanding into offering home financing services, HFC may face challenges with VAT. While they can reclaim input VAT on their purchases related to sale of furniture, home financing services are VAT-exempt. As a result, HFC will not be able to reclaim VAT on certain costs, such as operating lease charges and professional fees, linked to these exempt services. HFC should consider the impact of this on its profit margin and cash.

3 marks

Stamp duty will be incurred on any further purchases of facilities in the UK. HFC should ensure sufficient cash flow is available to meet these payments at the time of purchase.

2 marks

The latest tax return filed has been disputed by the tax authorities. HFC must provide all the relevant information and resolve this dispute as soon as possible. Otherwise, HFC is risking facing penalties as well as reputational damage, public does not support businesses that are seen to evade tax.

2 marks

Total marks: 12 marks

This mark scheme is not exhaustive – all valid points within answers will be awarded marks.

Syllabus refs: 4.1.4, 4.2.3, 4.3.1, 4.3.2, 4.4.1

Total: 50 marks

SECTION B – 50 MARKS

2 longer form questions, based on mini case studies, of which both are compulsory (2 x 25 marks).

Questions test knowledge, analysis, application, insight, evaluation and justification as appropriate to level descriptors. This is a professional paper and application to practice should be at 'management' level. Candidates are expected to be able to synthesise knowledge from different elements of the syllabus rather than be tested on discrete areas.

Total available for Section B: 50 marks

QUESTION 1: CASE STUDY

ABC Bank (ABC) is an online only financial institution that provides a range of services including retail and corporate banking to its customers. It is headquartered in the USA and operates across more than 30 countries, including across Europe.

European Market Infrastructure Regulation (EMIR)

Given its international presence, foreign exchange risks are a key issue for ABC. ABC's treasury team manages these risks by using over the counter (OTC) foreign exchange spots, forwards, swaps and options. ABC's subsidiaries based within the EU have been facing issues related to EMIR. This is largely due to a high turnover of staff and with inadequate handover or training from those leaving to the new staff. Some relevant data appears to also have been lost in the handover between staff.

One such issue has been confirming the details of the contracts within the appropriate timeline. It has often taken treasury staff several working days to provide confirmations. ABC does not use a central clearing counterparty. Further, counterparties have raised disputes due to incorrect reconciliations of portfolios by significant amounts. The errors made by ABC in the reconciliations amount to EUR20m of OTC contracts that have been disputed for more than 20 days. The treasury team is struggling to perform mark-to-market on a daily basis due to staff shortages and a high workload. Management has suggested performing these less regularly, for instance on a weekly or monthly basis instead.

ABC's aggregate month-end average position of OTC derivatives for the previous 12 months was less than EUR3bn. The individual class of OTC derivatives held by ABC also do not exceed their respective clearing thresholds.

Tax treatment of derivatives

In addition to EMIR issues, ABC has faced significant issues in relation to the accounting and tax treatment of its derivative contracts.

ABC holds several instruments with embedded derivatives. These are features that sit within another contract (the 'host contract') and cause some or all of the cashflows of the host contract to change, according to a specified index or other variable. These embedded derivatives were not closely related

to the host contract and not bifurcated (separated) from the host contracts, as required by International Accounting Standards, leading to incorrect accounting treatment. Due to unexpected changes in market conditions, the value of these embedded derivatives increased suddenly. However, due to incorrect accounting, the increase in fair value was not reflected in the financial statements, with taxable profits being significantly underreported. ABC is now facing penalties for under-reporting its taxable profit.

Another issue being investigated by tax authorities in the USA is ABC's improper handling of related-party transactions involving derivatives. Central treasury entered into intra-group derivative contracts in the form of foreign currency forwards and options. These contracts were not formally documented. Tax authorities have accused ABC of profit-shifting by not conducting these transactions at an arm's length.

ABC is facing scrutiny over its attempts to reduce its taxable profit by misclassifying trading and non-trading derivatives. ABC entered into many speculative contracts, such as currency forwards and swaps, with the intention of making a profit. For accounting purposes, these contracts were not segregated from those used to mitigate trading risks. Lastly, the UK subsidiary of ABC has been accused of misclassifying options it holds over intangible assets under the derivative contracts regime.

QUESTION 1

a.	Discuss the European market infrastructure regulations (EMIR) relevant to ABC. You must include within your discussion the benefits to AB of the regulations.	**13 marks**
b.	Analyse the key issues being faced by ABC in relation to the tax treatment of its derivatives. Within your answer, consider the relevant regulations applicable to ABC in the USA as well as the derivatives contract regime applicable to the UK subsidiary.	**12 marks**
		Total: 25 marks

Mark Scheme

Q1a

OTC Derivatives (FX options, swaps and forwards) entered into by ABC are subject to EMIR regulations.	**1 mark**
FX spot deals entered into by ABC are not considered derivatives and are, therefore, not subject to EMIR.	**1 mark**
EMR aims to: • increase transparency in OTC derivatives • Mitigate credit risk • Reduce operational risk.	**3 marks**
As a bank, ABC will be considered an FC. It is an FC- as it does not exceed any of the clearing thresholds to be classed as FC+. Treasury must assess annually whether their aggregate month-end average position of OTC derivatives for the previous 12 months exceed the stated thresholds. The calculation should consider all OTC derivatives entered by ABC and all other entities within the FC's group, including hedging contracts.	**4 marks**
As an FC-, ABC is not subject to the clearing obligation that requires counterparties to clear certain classes of OTC derivatives at an EU authorised CCP (central clearing counterparty).	**1 mark**
As an FC that does not use a central clearing counterparty, ABC is required to confirm the terms of the OTC derivative contracts within one business day. ABC appears to be in breach of this requirement where it has taken three or four business days to provide confirmations.	**1 mark**
Errors seem to have been made in reconciling portfolios, resulting in disputes. This is in breach of the requirement to maintain formalised processes that are	**2 marks**

robust, resilient, and auditable. ABC needs to report these disputes as they are valued at more than EUR15m.	**1 mark**
As an FC, ABC is required to monitor the value of outstanding contracts daily by marking-to-market. This cannot be amended to weekly as suggested by another team member.	**Total marks: 13**

Q1b

An embedded derivative must be accounted for separately ('bifurcated') when it is not 'closely related' to the host contract.	**1 mark**
An embedded derivative that is separately accounted for is taxed like any other derivative contract if it would qualify as a relevant derivative contract on a stand-alone basis.	**1 mark**
Incorrect accounting and tax treatment of these embedded derivatives has led to ABC facing penalties, which will negatively impact cash and reported profits.	**1 mark**
Derivative contracts between related parties must be formally documented to demonstrate that the parties have actually entered into a 'relevant contract'.	**1 mark**
ABC may face further penalties for incorrectly classifying "non-trading" contracts as "trading". The derivative contracts that were entered into for speculative purposes should have been classified as "non-trading contracts". A company's trading and non-trading debits and credits are aggregated with amounts arising on the company's loan relationships.	**3 marks**
As with any other intra-group transactions, ABC must make adjustments to the taxable debits and credits under transfer pricing principles since the transactions have not been undertaken on arm's length terms. The derivative contracts regime contains both general and targeted anti-avoidance measures similar to those in the loan relationship regime.	**2 marks**
With regards to the UK subsidiary, a limited number of contracts are taken out of the derivative contracts regime because they are more appropriately taxed elsewhere. The option over intangible fixed assets is one such contract. ABC should consider the specifics of the contract and consult external tax experts, if needed, to ensure such contracts are taxed correctly under appropriate rules such as capital gains or intangibles regime, that govern the treatment of the underlying subject matter.	**3 marks**

	This mark scheme is not exhaustive – all valid points within answers will be awarded marks. **Syllabus refs: 4.3.4, 4.5.1**	**Total marks: 12**

Total: 25 marks

QUESTION 2: CASE STUDY

Energy Labs (EL) is a publicly traded energy provider that specialises in sustainable and renewable energy sources. It operates across Asia, Americas and Europe. EL is known for its innovative approach and has been at the forefront of its industry in using new technologies, such as AI, to improve operational efficiency and provide better customer services.

Cash management

Below is an excerpt from the financial statements of EL.

USD ('000)	31 March 2024	31 March 2023
Revenue	18,007	18,011
Cash	8,766	9,015
Trade receivables	4,406	4,298
Trade payables	5,405	5,645
Long-term borrowings	10,000	10,000

EL is facing fierce competition in the market. There are many energy providers that are also focusing on sustainable and renewable sources of energy. Due to this competition, EL struggled to increase its revenue from the year-ended 31 March 2023 to 31 March 2024.

Traditionally, EL sees an increase in revenue over winter months as customers consume more energy for heating purposes. In 2024, it has been recently speculated in the media that a larger well-established energy provider is preparing to cut prices over the winter months in an aggressive attempt to increase its market share. EL is concerned about this as customers are not tied into a contract and are able to switch to a different provider at any time. Further, EL does not have the resources to reduce its prices due to concerns over increasing costs due to uncertainty over interest rates and energy costs.

EL invoices its customers on a quarterly basis. While some customers pay by direct debit, the majority pay as invoices become due. In the year-ended March 2024, EL had to write off USD189,000 of trade receivables as bad debt. This was an increase of 1.1% since prior year.

EL has well established processes in place to pay its suppliers. Invoices are settled by EL soon after they are received. EL strives to maintain a good relationship with its suppliers.

EL does not have any credit facilities in place.

EL has long-term borrowings in place that are due to be paid back in 2029. The borrowings are currently subject to an interest rate of 2.5% per annum. This rate was offered to EL on a fixed-term basis and will come to an end in December 2024.

EL has a central treasury team based in the US. Some of its smaller subsidiaries in other countries have very small finance teams. These subsidiaries usually reconcile their bank accounts on a monthly basis only as a part of the preparation of month-end accounts. There have been instances where these subsidiaries have underestimated the intercompany funding required for the following month. In these instances, the subsidiaries have requested an urgent transfer of funds from the parent company, which has led to bank charges and have been subject to unfavourable foreign exchange rates. Additional bank charges have also been incurred where bank accounts have become unexpectedly overdrawn.

Use of artificial intelligence (AI) and data protection

EL recently started using AI to enhance its cash forecasting process. A model of the AI was created by feeding historical data into the system. The AI then prepared forecasts based on that data. Several issues have arisen from this process. Firstly, the AI was inadvertently granted access to sensitive data such as vendor settlement instructions, employee payroll data and personal data from Know Your Customer (KYC) information. Since access controls and encryption were not adequate, employees with access to the AI could view this information.

Another key issue was around the biases and lack of transparency in the way in which the AI produced the forecasts. One main bias was regarding selection of vendors. The AI seemed to favour larger and previously established vendors over newer and smaller ones, which could potentially impact operational efficiency. Senior management is aware of these issues and is unsure if use of AI is impacted by legislation in any of the countries in which it operates.

QUESTION 2

a.	Analyse the key risks faced by EL in relation to its funding and cash management. Within your analysis you are required to consider the whole working capital cycle and to recommend actions EL should take to manage these risks.	**14 marks**
b.	Analyse the key issues faced by EL relating to regulation in respect of data protection and its use of artificial intelligence (AI).	**11 marks**
		Total: 25 marks

Mark Scheme

Q2a

EL is facing tough competition from other energy providers. Customers are not tied into a contract and are able to switch at any time. If competitors lower their prices, as per reports in the news, EL could lose revenue which would directly impact cash inflow from operating activities.	**2 marks**
Trade receivables has increased since prior year while revenue has fallen. Further, significant amounts of overdue invoices had to be written off as bad debt. EL should review its credit policy and perform thorough credit checks before extending credit. EL should also review its processes for following up overdue invoices.	**3 marks**
Trade payables has decreased since last year. This shows that EL pays its suppliers on a timely manner or too soon. This negatively impacts cash. EL should negotiate more favourable payment terms with its suppliers.	**2 marks**
Seasonal cashflow - demand for energy increases during the winter months as heating homes and buildings is an energy intensive process. This could lead to uneven cashflow and cause issues with meeting liabilities during summer months.	**2 marks**
EL's cash balance has fallen since last year. EL should arrange for alternative sources of funding e.g., a credit facility or overdraft in case of need for cash during a shortfall.	**1 mark**
EL has incurred bank charges due to urgent bank transfers to subsidiaries that did not have sufficient cash to meet their obligations. EL should perform day-to-day cash control for all its bank accounts to reduce costs associated with being overdrawn in regions where there is no dedicated treasury staff member. Subsidiaries should submit cash forecasts and funding requirement to the headquarter, more frequently and accurately. Subs should reconcile bank accounts daily not monthly.	**3 marks**

Macroeconomic conditions – increasing energy costs could lead to higher operational costs and lower profit margins if prices aren't updated to reflect this. Increase in interest rates could significantly increase finance costs, given that EL has significant amounts of long-term borrowings on its balance sheet. This could be mitigated with hedging with futures, or refinancing with another fixed rate loan.	**3 marks** **(max 14 marks)** **Total marks: 14**

Q2b

Cash managers within corporate organisations are frequently exposed to various types of sensitive data that requires careful handling to ensure compliance to corporate policies and relevant regulations. Legislations are designed for the purposes of ensuring corporate compliance to existing rules (SOX) and ensuring that individuals have greater control over how their personal information is utilised (GDPR).	**3 marks**
In the EU, GDPR has standardised data protection laws for personal data, which either identifies a person or can be used in the identification of this person. EL is in breach of these regulations with AI being able to unnecessarily access internal data such as settlement instructions as well as personal data from KYC and employee payroll data.	**3 marks**
In the US, the Sarbanes-Oxley Act (2002) (SOX) requires corporate organisations to create formal data security policies and there is a requirement for any breaches to be reported. Even though EL as a private organisation does not need to comply with SOX, regulators can still penalise these organisations if there is a data breach.	**2 marks**
AI used to make predictions may in the future be subject to EU's proposed legal framework for AI. EU has proposed making the establishment of trust and transparency a key part of any policy regarding the use of AI. This could be an issue for EL currently as biases and a lack of transparency have been noted in the predictions made by the AI. EL needs to closely monitor the developments in the proposed legal framework to ensure compliance.	**3 marks**
This mark scheme is not exhaustive – all valid points within answers will be awarded marks. **Syllabus refs: 4.1.3, 4.5.1,**	**Total marks: 11**

Total: 25 marks

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