ACT EXAMINATION PAPER

Diploma in Treasury Management (AMCT)

Unit 1: Corporate finance for treasury

March 2026

This is a past paper for Unit 1 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 1 before attempting this past paper.

Students should allow themselves 180 minutes to complete the exam plus an additional 25 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, candidates students 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 assessments for units 1 and 2 each have 4 written questions, of which you must answer 3, and will involve a pre-seen case study workbook that is released no later than two weeks prior to the assessment date. The papers will be split into sections a and b and can be made up of either one case study or two case studies; 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	3 shorter case study based questions, of which candidates chose to only answer two	50
Total	**3**	**100**

Under exam conditions, **3 hours** (180 minutes) is allowed for the Diploma in Treasury Management assessments plus an additional 25 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

Frontier Copper Exploration PLC (FCE) is a Zambian copper producer listed on the London Stock Exchange's (LSE) Main Market. Although incorporated and operating in Zambia, FCE's listing subjects it to the Financial Conduct Authority's Listing Rules, which require transparent disclosure of its governance practices. To balance these obligations with domestic regulatory expectations, FCE has adopted a hybrid governance framework that aligns UK investor expectations for independence, transparency and accountability with Zambian requirements for local stakeholder inclusion and sustainable development.

FCE was established in 2022 following the merger of Frontier Mining Ltd and Luangwa Resources (Pty) Ltd. FCE operates two divisions:

- Frontier Mine (open-pit and concentrator)
- Luangwa Tailings Project (re-treatment plant).

Production is sold to three regional smelters under long-term offtake contracts.

FCE's strategy is to deliver sustainable shareholder value through increasing copper production and optimising margins. The board has authorised a three-year expansion plan to increase processing capacity by 40%. FCE's treasury policy concentrates on maintaining gearing below 0.6 times equity and ensuring a minimum liquidity cover of 1.5 times short-term liabilities.

Consolidated financial information

GBPm	FY2026 (post-rights)	FY2025
Revenue	188.5	145.8
Cost of sales	(134.7)	(110.2)
Gross profit	53.8	35.6
Operating expenses	(18.3)	(14.4)
Operating profit (EBIT)	35.5	21.2
Finance costs	(4.3)	(6.8)
Profit before tax	31.2	14.4
Tax (30%)	(9.4)	(4.3)
Net profit after tax	21.8	10.1

Key equity and per share metrics

Ordinary shares in issue (m)	133.33	100
Earnings per share (GBP)	16.35	10.10
Dividends paid (GBPm)	4.5	2.0

GBPm	FY2026 (Post-rights)	FY2025
Non-current assets	122.0	92.0
Current assets	48.0	28.0
Total assets	**170.0**	**120.0**
Equity	**107.0**	**60.0**
Interest-bearing debt	45.0	50.0
Other liabilities (current)	18.0	10.0
Total equity and liabilities	**170.0**	**120.0**
Cash and cash equivalents	16.0	4.0

Treasury policy framework

FCE's treasury policy covers liquidity, funding, market risk, counterparty risk, and investment management.

Key features include:

- **12-month rolling cash-flow forecasts** updated weekly.
- **Minimum liquidity headroom of GBP 10m** (in addition to the 1.5× liquidity-cover requirement).
- **Centralised cash management**, requiring all divisions to sweep surplus cash into a group treasury account.
- **FX risk policy**, mandating hedging of at least 70% of USD-denominated revenue for six months (copper sales are USD invoiced).
- **Working capital facilities**, including a committed RCF of GBP 20m used as a liquidity back-stop.
- **Counterparty limits**, restricting deposits to investment-grade banks only.
- **Covenant monitoring** to ensure gearing, interest cover and liquidity ratios support access to future funding.

Rights offer transaction

Regulatory news service – FCE rights offer extract (historical extract)

1. Introduction

Frontier Copper Exploration PLC (FCE or "the Company") announces a recapitalisation programme comprising a GBP30m rights offer and the conversion of selected shareholder and noteholder instruments into ordinary equity. The initiative aims to reduce gearing, improve liquidity, and support the expansion of the Luangwa Tailings Project, in line with FCE's strategy to deliver low-carbon, ESG-aligned copper production.

2. The rights offer

A 1-for-3 renounceable rights issue will be offered to existing shareholders at GBP0.90 per share, representing a 25% discount to the market price of GBP1.20 per share.
Proceeds will be allocated as follows:

• GBP15m – Expansion of Luangwa processing facilities.

• GBP7m – Reduction of short-term and high-cost debt.

• GBP3m – Working capital enhancement.

The offer, fully underwritten by regional investment funds, will increase the number of shares in issue from 100m to 133.33m.

3. Debt conversion

At the same time, the FCE will convert roughly GBP5m of shareholder loans and copper-linked notes into ordinary shares at the same issue price as the rights offer. This conversion removes royalty-linked obligations and cuts annual finance costs by about GBP0.5m.

4. Rationale

The recapitalisation will:

- strengthen the balance sheet by reducing the debt-to-equity ratio
- simplify the capital structure by removing high-cost and revenue-based instruments
- provide growth capital to increase throughput capacity by 40%
- enhance investor confidence through improved ESG alignment and corporate governance.

5. ESG integration

The proceeds will further support renewable energy installations and water-recycling upgrades, helping FCE reach a 30% reduction in carbon intensity by 2027. FCE's ESG metrics will be published annually in accordance with the UK Financial Conduct Authority's Listing Rules, which require Main Market issuers to make disclosures consistent with the Task Force on Climate-related Financial Disclosures (TCFD) framework, or to explain any deviations.

6. Shareholder approvals and circular

A circular detailing all information, the pro forma financial impacts, and the timetable for the rights offer and debt conversion will be distributed in due course. Shareholders are advised to exercise caution when trading in FCE securities until the circular is published.

Lusaka
28 February 2026

The number of issued shares increased from 100m to 133.33m, significantly improving the equity base.

The rights offer was coordinated through investment advisers and underwriters, who structured the transaction to balance shareholder participation with funding certainty. A consortium of regional investment funds acted as underwriters. FCE's nominated financial adviser and legal counsel guided the board on pricing, disclosure obligations and the preparation of the shareholder circular. At the same time, the reporting accountants verified the financial information contained in the offer documents.

Greenification of copper and ESG integration

The greenification of copper remains central to FCE's growth strategy, supporting both its operational model and access to sustainable capital. Copper plays a crucial role in the global energy transition, with uses in electric vehicles, renewable power generation, and energy-efficient transmission systems.

FCE's "Green Copper" initiative directly shapes its funding strategy. Treasury has integrated sustainability into capital-raising through:

- Development of sustainability-linked financing frameworks, linking interest margins on future loans to carbon-intensity and water-recycling KPIs.
- Preparing eligibility criteria for a future Green Bond or Sustainability-Linked Bond, funding renewable-energy installations and the Luangwa Tailings Project.
- Engagement with ESG-focused institutional investors under LSE rules, improving access to capital and lowering expected credit spreads.

- Scenario analysis under TCFD-aligned climate-risk assessments, used by treasury in stress-testing liquidity and setting long-term investment priorities.
- Use of ESG reporting to support ratings-agency reviews and demonstrate resilience in a decarbonising commodities market.

These initiatives aim to reduce long-term funding costs, attract specialist ESG funds, and position FCE competitively as a low-carbon copper producer.

Governance and Risk Oversight Framework

FCE operates a board-approved governance framework aligned to the UK Corporate Governance Code.

Key treasury-relevant structures include:

- **Audit & Risk Committee –** responsible for oversight of liquidity risk, market risk, counterparty limits and capital structure decisions.
- **Sustainability Committee –** overseeing ESG strategy, TCFD reporting, performance against carbon-intensity and water-recycling KPIs, and stakeholder engagement with local communities and regulators.
- **Treasury Reporting Controls –** requiring monthly reporting to the board on liquidity headroom, covenant compliance, gearing metrics, FX exposures and stress-testing outcomes.
- **Whistleblowing, ethics and anti-corruption policies –** critical in the Zambian mining context, to preserve lender and investor confidence.

This framework ensures transparent decision-making and helps treasury maintain credibility with banks, ESG investors, rating agencies, and smelter counterparties.

QUESTION 1

a.	Calculate **FIVE** key financial ratios for FCE for FY 2025 and FY 2026. You are also required to discuss the results.	10 marks
b.	Calculate the theoretical ex-rights price (TERP) for FCE following the rights offer. You are also required to assess its effect on shareholder value and gearing.	10 marks
c.	Examine how FCE's governance framework enhances stakeholder confidence and supports effective treasury management.	10 marks
d.	Analyse how FCE's treasury policy supports effective liquidity management and financial stability.	10 marks
e.	Assess how FCE's focus on responsible copper production and sustainability influences its treasury strategy, funding approach and long-term value creation.	10 marks
		Total: 50 marks

Mark scheme

Q1a

Ratio	Formula	FY 2025	FY 2026	Interpretation
1. Gross profit margin	(Gross Profit ÷ Revenue) × 100	(35.6 ÷ 145.8) × 100 = **24.4 %**	(53.8 ÷ 188.5) × 100 = **28.5 %**	Improved cost control and efficiency.
2. Net profit margin	(NPAT ÷ revenue) × 100	(10.1 ÷ 145.8) × 100 = **6.9 %**	(21.8 ÷ 188.5) × 100 = **11.6 %**	Profitability almost doubled after recapitalisation.
3. Return on equity (ROE)	(NPAT ÷ equity) × 100	(10.1 ÷ 60) × 100 = **16.8 %**	(21.8 ÷ 107) × 100 = **20.4 %**	Higher returns on a larger equity base.
4. Current ratio	Current assets ÷ Current liabilities	28 ÷ 10 = **2.8 ×**	48 ÷ 18 = **2.7 ×**	Liquidity remains strong and stable.
5. Debt-to-equity ratio	Debt ÷ Equity	50 ÷ 60 = **0.83 ×**	45 ÷ 107 = **0.42 ×**	Gearing has almost halved; stronger solvency.

2 marks per line.

Total marks: 10

Q1b

1. Pre-rights data	Market price before issue = GBP1.20; rights offer = 1-for-3 at GBP0.90	1 mark
2. New shares issued	1 new share for every 3 held /100m ÷ 3 = 33.3m new shares	1 mark
3. Proceeds raised	33.3m × GBP0.90 = GBP30m	2 marks
4. Total market value post-issue	(100m × GBP1.20) + GBP30m = GBP150m	2 marks
5. TERP	GBP150m ÷ 133.3m = GBP1.125 ≈ GBP1.13 per share	1 mark
6. Value of one right	GBP1.20 – GBP1.13 = GBP0.07 per old share GBP1.125 – GBP0.90 = GBP0.225 per new share	2 marks
7. Impact on shareholder value	Pre-rights wealth: 3 × GBP1.20 = GBP3.60/ Post-rights: 3 × GBP1.13 + (1 × GBP0.07) = GBP3.46+ (1 x0.225) = unchanged / no dilution if all rights taken up	1 mark
8. Impact on gearing	Debt: GBP50m to GBP45m; Equity: GBP60m to GBP107m /D/E = 45 ÷ 107 = 0.42× (vs 0.83× pre-issue) leading to stronger balance sheet	

Total marks: 10

Q1c

Key Point	Explanation
1. Regulatory governance	FCE's Main Market listing subjects it to the UK Corporate Governance Code, ensuring "comply or explain" disclosure on board effectiveness and treasury oversight.
2. Board independence	A majority non-executive composition (including underwriter-nominated directors) strengthens oversight, risk control and accountability for funding decisions.
3. ESG integration	The ESG Committee aligns treasury policy with sustainability goals and TCFD disclosure, enhancing transparency in capital allocation.
4. Stakeholder engagement	Regular market updates, community investment reports and clear investor communication improve confidence among regulators, lenders and shareholders.
5. Evaluation – treasury impact	Strong governance reduces perceived financial and ethical risk, supporting investor trust, lower funding costs and sustainable access to capital markets.

2 marks per point

Total marks: 10

Q1d

Key Point	Explanation
1. Treasury policy framework	FCE's treasury maintains gearing below 0.6× and liquidity cover above 1.5× of short-term liabilities, forming a risk-control baseline.
2. Liquidity improvement post-rights	Cash increased from £4m to £16m, strengthening working capital and reducing dependence on short-term credit lines.
3. Funding diversification	A balance between term debt, leases, and equity enhances liquidity flexibility and reduces refinancing risk.
4. Treasury control and oversight	Policy compliance overseen by the Audit and Treasury Committees ensures transparency and adherence to risk appetite.
5. Evaluation	Maintaining strong liquidity ratios improves financial resilience, credit standing, and supports sustainable treasury operations.

2 marks per line.

Total marks: 10

Q1e

Key Point	Explanation
1. ESG as a strategic driver	FCE's "greenification" of copper positions it to meet rising global demand for low-carbon resources, shaping the treasury's capital-allocation priorities.
2. Sustainable funding choices	Treasury favours equity and longer-term financing to support expansion while maintaining prudent gearing, reflecting stakeholder expectations of financial and environmental responsibility.
3. Ethical and governance alignment	Board oversight of sustainability ensures treasury decisions align with corporate ethics and governance codes required by the Main Market listing.
4. Risk and reputation management	Integrating environmental and social considerations into funding policy reduces operational and reputational risk, supporting investor and lender confidence.
5. Evaluation – value creation link	ESG-aligned treasury strategy enhances long-term enterprise value, resilience, and access to diversified sources of capital.

2 marks per valid point.

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

Syllabus refs: 1.1.1; 1.5.1; 1.3.3; 1.1.1; 1.1.3.; 1.4.1; 1.4.2.

Total marks: 10

Total: 50 marks

SECTION B – 50 MARKS

Answer TWO of the following THREE questions. (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

Aurora Consumer Goods Ltd (ACG) is a listed Johannesburg-based consumer goods group that supplies major retail chains and exports to regional markets. Its portfolio includes condiments, bakery, dairy, personal care and household products. A major shareholder plans to sell its 46% stake, but this will also trigger a mandatory offer to minority shareholders, forcing them to sell. Liquidity on the Johannesburg Stock Exchange (JSE) has been limited, with institutional investors withdrawing from mid-cap counters. The board has therefore initiated a strategic review that could lead to a complete buy-out and delisting.

An investment company, Strategic Opportunities Fund (SOF), has emerged as the preferred acquirer, viewing ACG as a stable, cash-generative platform suitable for long-term private ownership. SOF's treasury division is responsible for structuring acquisition funding, evaluating the business valuation and assessing post-deal leverage capacity.

Operational and governance overview

ACG achieved consistent 6% annual revenue growth, driven mainly by its condiments and bakery divisions, although margins remain under pressure from rising input costs. Governance reviews show functioning audit and remuneration committees, but there is a lack of formal treasury oversight and weak segregation of duties across divisions. After the acquisition, SOF plans to establish a centralised treasury policy, strengthen internal controls, and implement incentive structures aligned with long-term enterprise value creation.

Capital and funding structure

ACG's balance sheet is moderately geared, with 35% debt and 65% equity. Current interest-bearing debt totals ZAR950m and is comfortably serviced from operating cash flows. SOF proposes a 50:50 debt-to-equity structure after the deal, funded by a five-year senior loan and an equity injection from SOF. SOF's required hurdle rate for investment is 15% IRR.

Valuation and appraisal context

The current JSE share price is ZAR11.20, which reflects a market capitalisation of ZAR2.2bn. Analysts estimate a fair value of ZAR14.00 per share based on sector comparables. SOF believes operational improvements and synergies could justify a premium of 25%, leading to an offer price of ZAR14.00 per share.

Key financial data

Metric	2024 Actual	2025 Actual	2026 Estimate
Revenue (ZARm)	6,950	7,380	7,950
EBITDA (ZARm)	820	865	910
Shares in issue (ZARm)	195	195	195
Share price (ZAR)	10.80	11.00	11.20

Other key data

WACC (post-investment)	–	–	12%
Proposed debt/Equity post-acquisition	–	–	50:50
SOF's hurdle rate (IRR)	–	–	15%
Premium	–	–	25%

Forecast cash flows post-acquisition

Year	1	2	3	4	5	6	7	5% annual growth expected post year 7.
Free cash flow (ZARm)	320	370	420	470	520	550	580	

QUESTION 1

a.	Assess the key stages that SOF can follow when evaluating the acquisition of ACG.	8 marks
b.	Calculate the Internal Rate of Return (IRR) for the proposed acquisition of ACG using the forecast free cash flows. You are also required to evaluate the investment using **THREE** other project appraisal methods.	9 marks
c.	Analyse the proposed 50:50 debt-to-equity funding structure. You are also required to recommend and justify how it could be strengthened.	8 marks
		Total: 25 marks

Mark Scheme

Q1a

Stage	**Application**
1. Project identification and strategic fit	Confirm that ACG aligns with long-term FMCG investment goals and diversification strategy.
2. Screening and data gathering	Review governance, operational performance, and financial history; test the reliability of forecasts.
3. Model selection	Use DCF, NPV, IRR, and sensitivity analysis to assess cash flow viability; compare with market multiples.
4. Quantitative assessment	Forecast free cash flows (7 years + 5 % growth) and discount using a 15 % hurdle rate.
5. Qualitative assessment	Evaluate management quality, ESG alignment, and post-deal control environment.
6. Risk and sensitivity analysis	Stress-test inputs (growth, margins, exit multiple) and assess covenant and liquidity risk.
7. Recommendation	Approve if IRR > 15 %, NPV positive, and qualitative risks mitigated.
8. Transaction approval, monitoring and evaluation	Post-transaction assessments.

1 mark per line.

Total marks: 8

Q1b

Appraisal metric	Calculation result	Investment decision	Notes	
Outlay	R2.73b	195m x ZAR14		1 mark
Net present value (NPV)	ZAR3.0320b	Accept	The NPV is positive, meaning the project is expected to increase shareholder value.	2 marks
Internal rate of return (IRR)	25%	Accept	The IRR of 25% exceeds the required 15% Family Office Hurdle Rate	2 marks
Profitability index (PI)	2.11	Accept	The PI is greater than 1, indicating that the present value of future cash flows significantly outweighs the initial cost.	2 marks
Payback period (undiscounted)	Approximately 6.14 years	Accept	The initial investment is recovered in just over six years based on undiscounted cash flows, demonstrating quick capital recovery (liquidity).	2 marks

Total marks: 9

Q1c

1. Lower weighted average cost of capital (WACC)	Debt finance is cheaper than equity because interest is tax-deductible, which initially reduces the WACC and increases shareholder value.
2. Leverage and return enhancement	50 % debt increases gearing and magnifies equity returns if post-deal cash flows meet forecasts.
3. Refinancing and interest-rate risk	Reliance on a five-year loan exposes ACG to refinancing at higher rates in the future; treasury must hedge or stagger maturities.
4. Covenant and liquidity risk	Lenders may impose restrictive covenants; tight covenant headroom can constrain dividend policy and operational flexibility.
5. Financial flexibility and liquidity buffers	Maintaining sufficient committed facilities and short-term liquidity is essential to meet seasonal working-capital needs.
6. Funding source selection	Bank loans offer relationship flexibility, but ACG could later diversify into the bond or private placement markets to lengthen tenor.
7. ESG / Sustainability-linked funding	Introducing sustainability-linked or fixed-margin facilities could reduce pricing spreads and enhance reputational value.
8. Treasury governance and monitoring	A centralised treasury policy should oversee debt utilisation, covenant compliance, and post-acquisition interest-rate exposure.

1 mark per line.

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

Syllabus refs: 1.2.1; 1.2.3; 1.4.4; 1.5.4.

Total marks: 8

Total: 25 marks

QUESTION 2: CASE STUDY

Authen Core Labs Inc (ACL) is a privately held US technology company headquartered in Austin, Texas. Founded in 2012, ACL specialises in biometric authentication systems and secure-identity infrastructure used by banks, government agencies and healthcare providers. Its flagship product, CoreID, integrates fingerprint, facial-recognition and behavioural biometrics through a cloud-based platform that supports real-time identity verification for high-volume transactions.

Over the past five years, ACL has grown rapidly, driven by increasing demand for digital identity solutions in financial services and public safety. However, ACL's expansion has been constrained by limited access to capital and rising research and development (R&D) expenditure. R&D is critical for ACL if it's to remain visible and competitive in a highly specialised market. Management has relied on short-term venture debt and government innovation grants, resulting in a gearing ratio of 68% and a weighted average cost of capital (WACC) of 9.8%. ACL's beta of 1.3 reflects its exposure to technology-sector volatility.

In 2026, the board approved a new growth plan to build a dedicated biometric testing and data security facility in North Carolina for USD120m. The facility would enable ACL to develop next-generation AI-enabled biometric algorithms, expected to double accuracy rates and reduce verification times by 60%. ACL's CFO forecasts project free cash flows of USD25m in year one, growing at 6% per annum over eight years. The hurdle rate for new projects is 11%.

To finance the project, ACL's CFO proposed three options.

1. **Initial public offering (IPO):** List on NASDAQ, raising USD150m through a mix of primary issuance and secondary sales by early investors. The IPO would dilute existing shareholders but provide liquidity, visibility and access to a broader capital base. However, regulatory and disclosure requirements would increase cost and management workload.
2. **Convertible bond issue:** A USD100m five-year convertible bond, coupon 5%, convertible at a 20% premium to the future IPO price. This structure would defer dilution and lower immediate cash flow strain, though conversion could raise ACL's equity beta and future dividend obligations.
3. **Private equity partnership:** Partner with a US infrastructure fund specialising in cybersecurity, selling a 25% stake for USD120m. The partner would demand two board seats and an internal rate of return (IRR) of 20% over five years, potentially constraining ACL's strategic independence.

A strategic dilemma emerged. The chief executive officer (CEO) favoured the IPO for branding and liquidity of employee share options. The chief financial officer (CFO) preferred the convertible bond to preserve control while keeping WACC manageable. The private equity investors, however, argued that their involvement would bring operational discipline and immediate technical synergies.

ACL's treasury function must now evaluate the financial and strategic implications of each option. A sensitivity analysis of key assumptions, AI-licensing income, data-storage costs and cybersecurity compliance expenses will determine project viability.

The board must decide whether ACL should:

1. proceed with an IPO to fund the facility and broader expansion
2. opt for the convertible bond and delay listing, or
3. partner with private equity and accept partial control dilution.

QUESTION 2

a.	Examine how R&D expenditure can influence ACL's Economic Value Added (EVA), shareholder growth and management decision-making when appraising investments.	8 marks
b.	Assess how each of the three proposed financing options could affect ACL's ownership control, cost of capital and refinancing flexibility.	9 marks
c.	Outline **FOUR** key actions ACL's treasury must complete before listing on NASDAQ to ensure documentation integrity and governance preparedness.	8 marks
		Total: 25 marks

Mark Scheme

Q2a

Point	Examination
1. Influence on EVA	EVA = NOPAT – (Capital × WACC). R&D increases capital employed without immediate earnings uplift, reducing EVA in the short term. However, if R&D creates intangible assets that enhance future NOPAT, EVA rises over time.
2. Shareholder growth link	Shareholders value sustainable innovation. Effective R&D drives long-term share price growth through competitive advantage and brand differentiation. However, poor R&D productivity erodes returns and market confidence.
3. Capitalising vs expensing R&D	If R&D is expensed immediately, profits and EVA appear lower, discouraging investment. Capitalising R&D spreads cost over useful life, aligning expense with benefit. The decision depends on accounting policy and materiality.
4. Decision-making influence	Treasurers must assess R&D projects using DCF or EVA-based measures that reflect both financial returns and strategic options (e.g. patents). Appraisal should recognise intangible value, not only cash flows.

2 marks per point.

Total marks: 8

Q2b

Financing option	Ownership / control	Cost of capital	Refinancing flexibility
1. Initial public offering (IPO)	Dilutes existing shareholders; broader ownership may reduce founder control but improves transparency and governance standing.	Raises permanent equity at higher expected return leading to increases WACC in short term; improves credit profile.	Provides long-term permanent capital and easier future equity issues; enhances market liquidity.
2.Convertible bond issue	No immediate dilution; conversion risk later if share price rises; management retains short-term control.	Lower cost than straight equity due to tax-deductible interest which reduces WACC; hybrid nature appeals to investors.	Offers maturity optionality (redeem vs convert); manageable refinancing window; aids capital-structure flexibility.
3. Private-equity partnership	Introduces active investor with board influence; partial loss of strategic autonomy.	Demands high IRR (often 20%+) raises overall capital cost despite reduced leverage.	Medium-term exit horizon limits flexibility; refinancing tied to fund's exit schedule; governance covenants may restrict future borrowings.

3 marks per line

Total marks: 9

Q2c

Readiness area	Explanation
1. Internal financial control documentation	Treasury must establish documented internal controls over all cash, investment, and borrowing processes. These controls should ensure transaction traceability and audit verification, demonstrating the reliability of financial statements to external auditors and regulators.
2. Governance and accountability structure	Implement a clear reporting hierarchy and segregation of duties within treasury and finance. The CFO and Board must certify the accuracy of financial information, supported by documented reviews and independent oversight from an audit committee. (SOX)
3. Disclosure and investor reporting systems	Treasury must maintain up-to-date documentation of capital structure, debt covenants, derivative exposures, and liquidity positions. These form part of public disclosures and help ensure transparency and consistency in market reporting.
4. Risk management and compliance framework	Formalise a treasury policy covering market, liquidity, and operational risks, with compliance monitoring and periodic internal audits. Documented assurance processes build investor confidence and reduce post-listing governance risk.

2 marks per line

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

Total marks: 8

Syllabus refs: 1.2.1; 1.2.3; : 1.3.1; 1.3.2; 1.3.4; 1.5.1; 1.5.4.

Total: 25 marks

QUESTION 3: CASE STUDY

Kindred Care Group Ltd (KCG), a UK home-care provider founded in 2012, delivers domiciliary and rehabilitation services for elderly, disabled and post-surgical patients on behalf of NHS Trusts and local authorities. It has expanded through 18 acquisitions, now makes over 3,000 daily home visits with 2,500 carers across 40 regional branches.

After growth funded by a GBP120m bank credit and private notes, KCG's gearing rose to 70%. Earnings volatility has increased due to rising wage costs following new CQC (Care Quality Commission) standards. The CQC is the health and social care regulator. When NHS (National Health Service) and council receivables exceeded 90 days, liquidity issues prompted a review of its negative covenant test by banking partners.

Credit rating and funding tension

In 2025, Fitch Ratings downgraded KCG's credit from BBB– to BB+ due to margin pressure, receivables concentration, and weak interest coverage (3.5× EBITDA). This widened spreads by 150 basis points, increased counterparty scrutiny, and raised the commitment-fee margin under its banking facility, also prompting a treasury review. Lenders, led by a UK relationship bank, remain supportive but require quarterly liquidity forecasts, compliance certificates, and an annual valuation. The chief financial officer (CFO) admits the downgrade has hurt perceptions of KCG's resilience, especially with reliance on public-sector funding.

Governance and stakeholder management

KCG's board created a treasury governance committee to improve oversight of funding risks, counterparty exposure, and bank relationships. The treasurer introduced segregation of treasury duties, monthly liquidity stress tests, 12-month cash flow reports, early credit-rating agency engagement, and ESG reporting to show social impact.

Strategic refinancing options

KCG's capital-structure review proposes several routes to restore investment-grade credit standing and funding flexibility:

1. **hybrid capital issuance** – a GBP30m perpetual subordinated note treated partly as equity for rating purposes, improving debt metrics without immediate dilution
2. **receivables securitisation** – packaging long-dated local government receivables into an SPV to accelerate cash inflows and reduce reliance on bank funding lines
3. **ESG-linked private-placement equity** – raising GBP25m from social-impact funds to strengthen equity buffers
4. **strategic joint venture with a private hospital network** – leveraging economies of scale in procurement and back-office systems.

Bank-relationship considerations

KCG recognises that effective relationship banking depends on mutual trust and transparent communication. The lead bank prioritises transparency over collateral; therefore, KCG's treasury team has a "no-surprises" policy, providing quarterly forecasts, covenant headroom, and ESG KPIs. The bank offers a short-term overdraft buffer and supports a receivables securitisation. KCG is considering refinancing its term loan via a syndicated sustainability-linked RCF that rewards meeting social KPIs, like increasing dementia-care capacity.

The CFO has asked treasury to evaluate impacts on WACC, equity value, and interest coverage, and to model how restoring an investment-grade rating could cut interest costs and expand investor access. A scenario matrix will show how hybrid instruments and securitisation could lower net-debt/EBITDA by 0.8× and possibly upgrade to BBB– within 18 months. Since KCG operates in a sensitive sector, the board stresses that treasury decisions align with its social-care mission. Ethical finance, fair supplier payments, and avoiding aggressive leverage are now key criteria alongside financial returns.

QUESTION 3

a.	Assess the likely impact of KCG's downgrade from investment-grade to sub-investment-grade on its cost of funds, banking relationships, and capital-structure flexibility.	9 marks
b.	Examine how hybrid capital and receivables securitisation could influence KCG's WACC and credit-rating outlook when appraised under project valuation principles.	8 marks
c.	Assess how KCG's treasury decisions should balance financial optimisation with ethical and social-impact considerations in the regulated care sector.	8 marks
		Total: 25 marks

Mark Scheme

Q3a

1	Higher borrowing cost – credit-spread widening adds - 150 bps, raising interest expense.	1 mark per point. **Total marks: 9**
2	Reduced investor base – many funds can hold only investment-grade paper, shrinking demand.	
3	Covenant pressure – tightened ratios, more frequent compliance testing.	
4	Shorter maturities – banks prefer short-term or secured lending until rating recovers.	
5	Reputational risk – perceived fragility affects suppliers and counterparties.	
6	Higher WACC – cost of debt increases relative to equity, constraining new-project NPV.	
7	Need for proactive bank-relationship management – transparent reporting	
8	Reduced capital-structure flexibility – limits scope for dividends or acquisitions.	
9	Restoring investment grade would reopen cheaper debt markets and improve confidence.	

Q3b

1	Hybrid/subordinated capital counts partly as equity which reduces gearing and supports rating improvement.
2	Lower cost than equity – hybrid coupons (5–6 %) vs equity (10–12 %), reducing WACC.
3	Non-dilutive – preserves shareholder control while boosting capital base.
4	Positive rating signal – stronger buffers may support upgrade to BBB– within 18 months.
5	Receivables securitisation releases cash leading to improved liquidity and shortens cash-conversion cycle.
6	Lowers net-debt/EBITDA by 0.8× leading to better covenant compliance and credit profile.
7	Reduces overall WACC if securitisation funding cost < bank debt.
8	Each proposal must pass DCF and IRR tests to prove positive NPV and sustainable returns.

1 mark per point

Total marks: 8

Q3c

1	Treasury must align funding structures with the organisation's social-care mission, prioritising patient welfare over short-term profit.
2	Avoid excessive leverage or speculative refinancing that could threaten service continuity for vulnerable clients.
3	Select investors and lenders whose mandates support ESG and social-impact goals to preserve reputation.
4	Ensure prompt supplier payments to small local care partners and ethical liquidity management.
5	Integrate ESG metrics (e.g., fair-pay ratios, community benefit) into treasury KPIs and sustainability-linked loans.
6	Disclose funding impacts transparently to stakeholders—families, councils, regulators—to maintain trust.
7	In project appraisal, assign non-financial weights to ethical outcomes alongside NPV/IRR.
8	Embed sound ethical principles, integrity, transparency, and professionalism into treasury policy and reporting.

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

Syllabus refs: 1.1.2; 1.1.3; 1.2.3; 1.2.4; 1.4.1; 1.5.1.

1 mark per point

Total marks: 8

Total: 25 marks

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