ACT EXAMINATION PAPER

Diploma in Treasury Management (AMCT)

Unit 4b: Working capital and trade finance

July 2026

This is a past paper for Unit 4b 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 4b 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 three 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

Velocity Cycles plc (VCP) is a bicycle retailer based in Birmingham, United Kingdom. VCP was founded in 1994 as a single high-street bicycle repair workshop, serving commuter cyclists and local sports clubs.

Between 1994 and 2005, VCP expanded from one store to 18 regional outlets across the Midlands and Northern England. Its early growth strategy targeted price-sensitive customers. Gradually, VCP built a reputation for reliable service and affordable mid-range bikes. By 2005, revenue had reached GBP24m, with an EBITDA margin of 11%.

From 2006 to 2015, VCP pursued a more ambitious national rollout and vertical integration strategy. It launched its own private-label brands, VeloCore for bicycles and RideTech for accessories, allowing greater control over margins and product differentiation. VCP introduced in-store repair workshops across its estate and invested in a central distribution centre in Daventry to improve inventory coordination and purchasing leverage. By 2015, VCP operated 210 stores across the UK and generated revenue of GBP240m, marking its transition from a regional retailer into a national brand.

Between 2016 and 2021, VCP shifted towards a services-led and multi-channel model. It acquired 45 independent service garages to diversify revenue streams and reduce reliance on discretionary bike purchases, while also entering the fast-growing e-bike segment and launching subscription-based servicing plans. During the COVID-19 cycling boom, online sales rose sharply, with e-commerce penetration increasing from 8% to 34% of total revenue. VCP reached a revenue peak of GBP515m in 2021.

In October 2021, VCP listed on the London Stock Exchange Main Market at an offer price of 250p per share. The listing valued VCP at GBP610m and raised GBP120m in gross proceeds. The listing took place near the height of post-pandemic demand, just before market conditions began to normalise. Below is extract from VCP's financial statements; financial year 2026 is estimated.

GBPm						
Year	**Revenue**	**Cost of sales**	**Trade receivables**	**Inventory**	**Trade payables**	**Cash balance**
2021	515	299	41	88	92	64
2022	498	309	66	124	101	52
2023	472	307	83	168	97	34
2024	455	296	96	181	89	18
2025	440	290	108	188	84	9
2026	432	286	121	192	78	4

Receivables

Following the pandemic surge in demand, VCP massively expanded its operation and opened 50 more stores in 2021. In addition, VCP also expanded B2B sales to corporate cycle-to-work schemes and secured fleet servicing contracts. To drive revenue growth, VCP extended the credit terms on corporate customers from 30 days to 60 days. As a result, receivables have increased dramatically over the last few years. In the table below, receivables are analysed for recent years. 2026 data is estimated.

GBPm			
Year	**Gross trade receivables**	**Write-offs**	**Trade receivables**
2021	41.8	0.8	41
2022	67.5	1.5	66
2023	85.9	2.9	83
2024	100.7	4.7	96
2025	114.3	6.3	108
2026	129.9	8.9	121

In addition to increasing receivables, writes-offs also increased. Receivables which are overdue for more than 90 days are unlikely to be repaid. This is largely due to widespread corporate distress where many of VCP's customers have experienced financial difficulty and simply cannot keep up with payments. This was made worse as VCP underinvested in administration over the last decade. VCP still lacks a credit control function and has difficulty chasing unpaid invoices.

To boost liquidity, VCP plans to reduce its receivables in 2026. Currently there are three options:

1. **Factor the entire receivable book (estimated: GBP129.9m).** In current market conditions, the factor charges a fee of 8% on the factored balance and also a flat 1.5% service fee. Factoring can help reduce receivables; VCP expects gross receivables to decrease by 50%. It is not, however, helpful to reduce levels of write-offs, especially when factoring is with recourse
2. **Enter into a non-recourse factoring**. Fees are 10.8% of the balance and a 1.8% for service fee. VCP can remove most of its credit risk with this option

3. **Build VCP's own in-house credit and collection team.** The project will increase headcount in the current credit control team and introduce new roles for collection specialists. The new team will recruit eight credit controllers (estimated salary of GBP45k), two senior risk managers/specialists (estimated salary GBP80k) and one head of credit (estimated salary GBP120k). In addition to increased team size, VCP will incorporate credit risk analytics and a new credit management software system. This means an initial investment of GBP1.2m and an annual license and maintenance cost of GBP0.5m. The new team will be tasked to chase up late payment and recover bad debt. VCP expects the project to reduce 2026 receivables by a quarter and improve write-offs to less than 4% of gross receivables. Once the project is fully operational, receivables are likely to further reduce from 2026 onwards.

Inventory

VCP also significantly expanded its warehouse estate to house additional inventory and to mitigate global supply chain disruption (following the pandemic surge in demand). Many of the warehouse leases are long term and come with hefty early termination penalties. Due to surplus storage, VCP has become inefficient at managing its inventory. When demand began to normalise, sales dropped and inventory started to pile up. Below is a snapshot of VCP's inventory position. 2026 data is estimated.

GBPm			
Year	**Finished goods**	**Write downs**	**Inventory**
2021	90	2	88
2022	128	4	124
2023	179	11	168
2024	195	14	181
2025	205	17	188
2026	213	21	192

Since 2021, VCP has regularly discounted outdated products to move stocks. This has caused significant inventory write downs.

Payables

Following the deterioration in collections and mounting inventory levels, suppliers began to reassess VCP's creditworthiness. During 2021, when revenue peaked at GBP515m and liquidity remained comfortable, VCP benefited from extended supplier terms of between 75 and 90 days, allowing trade payables to reach GBP92m.

In 2022, although trade payables temporarily rose to GBP101m due to higher purchasing volumes, suppliers became more cautious in response to slowing sell-through rates and early signs of delayed settlement. From 2024, supplier confidence weakened materially. Revenue declined, inventory continued to accumulate and receivables increased. In response, major Asian bicycle manufacturers and component suppliers reduced their credit exposure, tightening terms to 45 days and, in some

cases, requiring partial upfront deposits on new production orders. VCP frequently pays later than 45 days and is then liable for late payment charges.

The loss of extended supplier terms has forced VCP to rely more heavily on its revolving credit facility. Payments to Asian suppliers are settled in USD, which are exchanged at the time the payments are made.

Many suppliers charge penalty fees for late payment if the 45-day credit term is exceeded. The fees are usually in the range of 0.3% - 0.6%. Once payment is late, there are usually no further financial consequences if payments are made within the next 30 days.

Cash position

VCP has maintained a GBP150m revolving credit facility (RCF) arranged at the time of its IPO, originally intended to provide seasonal flexibility for inventory build ahead of peak trading periods. However, as receivables and inventory increased, the RCF shifted from a short-term liquidity buffer to a structural funding requirement. By late 2024, approximately GBP110m of the facility was drawn. In addition to the RCF, VCP also operated a GBP25m committed bank overdraft facility designed to smooth intra-month cash volatility. As trading conditions worsened in 2025, the overdraft was increasingly utilised to meet payroll, supplier settlements and interest payments, particularly during off-peak sales periods. Interest costs rose materially as base rates increased. VCP's average borrowing cost is 8.2% and cash balances earn interest at 3.5%. VCP does not have any long-term borrowings.

GBPm		
Year	**RCF drawn**	**Overdraft drawn**
2021	38	3
2022	62	6
2023	88	11
2024	110	18
2025	138	22
2026	142	24

QUESTION 1

a.	Calculate VCP's cash conversion cycle for the years 2021 to 2026.	6 marks
b.	Assess which of the **THREE** options is most effective at reducing VCP's receivables.	4 marks
c.	Evaluate costs and benefits associated with **EACH** of the three receivable options. You must recommend and justify the option that is most appropriate for VCP.	15 marks
d.	Evaluate the benefits and drawbacks of VCP paying its suppliers on time.	5 marks
e.	Analyse VCP's other weaknesses in receivables, payables, inventory and liquidity positions. In your response, you must recommend and justify appropriate solutions to strengthen these areas.	20 marks
		Total: 50 marks

Mark scheme

Q1a

	DSO	DIO	DPO	CCC
2021	29.06	107.42	112.31	24.18
2022	48.37	146.47	119.30	75.54
2023	64.18	199.74	115.33	148.60
2024	77.01	223.19	109.75	190.46
2025	89.59	236.62	105.72	220.49
2026	102.23	245.03	99.55	247.72

1 mark for each year

Total marks: 6

Q1b

Factoring with non-recourse is the option that is most effective at reducing receivables. Essentially the receivables are sold to factors. Even if a debtor defaults, the risk is no longer with the VCP as the credit risk is also sold to the factors. — 2 marks

Factor with recourse only outsourcing the collection function. It can speed up receivables and hence reduce balance of receivables, but the credit risk is still with VCP. It is not the most effective way of freeing up receivables. — 1 mark

1 mark

The third option builds a credit team; it can also reduce receivables in the long term but does not completely remove receivables as VCP essentially takes all credit risk in-house.	**Total marks: 4**

Q1c

This involves calculating costs associated with each option	
Factor with recourse: Factor fee in 2026 is: 129.9*(0.08 + 0.015) = GBP12.3m	1 mark
Factor with non-recourse: Fees in total: 129.9*(10.8%+1.8%)=GBP16.4m	1 mark
Build internal team: Salary for team member = 45*8 + 80*2 + 120=GBP0.64m Capital investment and license fee = GBP1.7m Total = 0.64+1.7=GBP2.34m	2 marks
From this simple calculation, it is clear the factor with non-recourse costs the most. Bear in mind that a big portion of the cost is variable, so it will only go up if sales increase.	1 mark
Benefits of each option	
Factor with recourse: Receivables reduce by 50% to GBP65m. Note this does not increase revenue but this frees up cash flow. It can earn interest at 3.5% or it can be used to pay down RCF or overdraft which is at 8.2%. This reduces interest expense by GBP5.3m (65*8.2%). Overall, this option cost - GBP7m (-12.3+5.3). It is equivalent to increasing financing cost to reduce liquidity constraints. Factor with recourse has no effect on write-offs, there is no benefits change related to write-offs.	2 marks 1 mark
Factor with non-recourse: Receivables reduces by 100%, this means interest expense can be reduce by GBP10.7m (129.9*8.2%). Also, since this option removes defaults, this should be included in the incremental benefit, GBP8.9m. Total benefits increased to GBP19.6m (10.7+8.9). This means the net effect of this option is GBP3.2m (19.6-16.4), note this is positive means this is a net benefit not a cost.	2 marks 1 mark
Build the credit team: receivables reduce by a quarter; means interest expense can be reduced by GBP2.7m (129.9*0.25*8.2%). Default will be reduced to 4% of receivables, which is 129.9*4%=GBP5.2m, this means a saving of 8.9-5.2=GBP3.7m. Total benefits then amounts to 2.7+3.7=GBP6.4m. The net effect of 6.4-2.34=GBP4.06m, note this is also a positive number, means a net benefit.	2 marks 1 mark
From this analysis, building the credit team generates the most incremental benefits, though it is also the most complicated solution with execution risk. Given the fact cost will reduce in the second year and expected defaults to fall further with the credit team, this should be recommended. For factor with non-recourse, if	1 mark

defaults increases, fees will likely go up in the future, this favours even more toward the internal solution.	**Total marks: 15**

Q1d

Cost of being late is 0.3% - 0.6%, we use the largest number 0.6% for comparison. From the case study: "Once payment is late, there are usually no further financial consequences if payments are made within the next 30 days." This means VCP can pay on day 45 to avoid the late charge or pays on day 75 to max interesting saving. The saving for 30 days needs to be compared to the late penalty charge.	1 mark
VCP's borrowing cost is at 8.2%, this is an annual rate. We need to calculate this rate into 30 days, as VCP can pay 30 days after this is means daily interest rate is (1+8.2%)^(1/365) – 1 = 0.0022%. This rate can be converted into a 30-day rate, this is (1+0.0022%)^30 – 1 = 0.065%, in another words, not paying for 30 days, will save 0.065% on the balance. This means VCP will pay 0.6% to receive 0.065%, VCP should pay the late charge and wait for 30 days, as this will save them net of 0.005% on the payment balance.	3 marks 1 mark
If the 45-day and 30-day period added, VCP can pay in 75 days. That means a saving of (1+8.2%)^(75/365) – 1 = 1.633% of the payment balance. Compare this to 0.6% penalty charge, late payment obviously is a much better choice financially.	**Total marks: 5**

Q1e

Weaknesses	
CCC increased from 24 to over 200 in 6 years, this is a substantial increase and significant amount of working capital tied up.	1 mark
Receivables are increasing steadily over the years, payables are flat and slightly declined, inventory also increased substantially over the 6-year period. (*Mention write offs in receivables will not get mark as it is discussed in previous questions*)	1 mark
Cash declined to just over 4 million, all funding options are maxed out, RCF and overdraft. There is serious liquidity problem. This is a critical issue as this would threaten VCP's going concern.	2 marks
No attempt was made to reduce inventory in the past with over-ordering of finished goods.	1 mark
Over-capacity of warehouse space which gives manager false sense of low cost of storage.	1 mark
Huge amount of write downs to move stocks. Working capital is: Receivables + Inventory + Cash - Payables - RCF - Overdraft	1 mark

Cash to working capital ratio dropped significantly over the years. 1 mark

	Cash/WC
2021	107%
2022	71%
2023	38%
2024	23%
2025	15%
2026	5%

2 marks

From over 107% to merely 5%, this shows how weak VCP's liquidity position is.

Solutions

For receivables, solutions are already discussed extensively in previous questions. So, no mark will be given for receivables.

For payables, shop around for better suppliers, which may be possible if the market recovers from 2025. There may be suppliers that provide better credit terms. Try different countries' suppliers, there may be suppliers in different countries that are willing to offering better credit terms. 1 mark

If new suppliers are not found, VCP should work closely with its existing suppliers and employ supply chain finance solutions wherever possible, e.g. reverse factoring. However, this depends on the willingness of the suppliers and whether they have supply chain finance schemes already setup etc. 1 mark

Develop forecasting models for inventories, machine learning or AI based tools which could be used to improve accuracy. This should reduce over-ordering as this improves write-downs which directly affect VCP's profitability 1 mark

Build just in time inventory system, to reduce inventory stockpile building up. 1 mark

Reduce warehouse leases, or simply stop renewing them once expired. This will give incentives to not over-order. When storage cost is low, inventory piles up and does not have an immediate financial consequence and hence encourage over-ordering. If there are limited warehouse space, over-ordering will automatically re-adjust. 1 mark

Restructure debt positions, if possible. Use long term debt to reduce refinancing risk. This should reduce the short-term liquidity squeeze. I 1 mark

Setup a cash management structure to take advantage of cash balances to reduce interest expenses. 1 mark

Sell assets to improve the cash position. VCP has large cash amounts tied up in inventory, reducing balances will free up liquidity. It may also be possible to sell other assets and change to leasing to release liquidity in the short term. 1 mark

	Did not mention in case study, but VCP should consider closing stores that are not making profit. Use of FX forward contract to reduce cash flow uncertainty. This mark scheme is not exhaustive – all valid points within answers will be awarded marks. **Syllabus Refs:** U4b.1.1.LO21, U4b.2.1.LO22, U4b.2.2.LO22, U4b.2.3.LO22, U4b.2.4.LO22, U4b.4.1.LO24, U4b.4.3.LO24, U4b.4.5.LO24	1 mark **Total marks: 20**
		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

Orion Digital Holdings (ODH) is a consumer electronics and smart-device distributor headquartered in Taipei. Between 2021 and 2026, ODH expanded aggressively across Southeast Asia, Mainland China, Eastern Europe and Latin America, transforming itself from a regional distributor into a global multinational. Revenue increased from approximately TWD18bn to over TWD95bn within six years, driven by acquisitions of local distributors and cross-border e-commerce platforms. While the commercial strategy was ambitious and growth-oriented, ODH encountered a series of problems during this period.

Expansion decisions were led primarily by sales and strategy teams based in Taipei, with limited treasury involvement. Each new subsidiary opened local bank accounts with domestic banking partners to facilitate payroll, supplier payments, and tax obligations. Over time this resulted in more than 140 active bank accounts across 17 countries, managed through different online banking portals with no centralised treasury management system. Cash reporting was consolidated manually each month via spreadsheets emailed from local finance teams. There was no real-time visibility of global liquidity. As a result, significant balances accumulated in local markets without oversight from headquarters.

When ODH sought to fund a strategic acquisition in Europe, it discovered that while consolidated cash exceeded TWD12bn, less than TWD1.5bn was immediately deployable. This is because, in some countries, there are various forms of capital controls that limit cash movements. In Brazil, intercompany interest payments and certain service fees attract withholding taxes, making cash extraction costly. In Vietnam, the subsidiary was subject to statutory capital maintenance requirements. Aggressive dividend repatriation risked breaching minimum equity thresholds and may be subject to government intervention. In China, cross-border dividend payments required completion of annual statutory audits, which could delay remittance for months. In short, a significant proportion of ODH's cash was trapped. For this reason, ODH drew heavily on its revolving credit facility despite holding idle cash abroad.

Even in countries with no capital controls, where cash can freely enter and exit, the fragmentation of cash balances still presents many challenges. ODH's revenue mix gradually shifted to 42% denominated in USD, 13% in EUR, 3% in AUD and 1% in SGD, which are the main revenue sources that are not subject to capital controls. However, without a centralised foreign exchange policy, local subsidiaries converted currency opportunistically based on short-term operational needs rather than strategic hedging

considerations. When the Euro depreciated sharply during 2023, ODH suffered heavy losses in the European market. At the same time, USD-denominated contracts exposed ODH to rising dollar costs.

Subsidiaries maintained separate operating bank accounts with local banking partners in Singapore, Germany, the United States and Australia, where cross-border transfers were legally straightforward and could in principle be executed within hours. However, ODH had no centralised cash arrangement structure, and no real-time visibility of balances; each subsidiary managed its liquidity independently. Local finance teams tended to hold precautionary cash buffers to meet payroll, tax payments and supplier obligations, often accumulating balances far above operational needs. In many cases, excess liquidity remained idle in local accounts even when ODH as a group faced short-term funding requirements.

Despite these problems, ODH is very profitable and consolidated financial statements showed substantial aggregate cash balances, which can be used for its continuing expansion plan.

The absence of centralised payment authorisation standards increased fraud risk and led to several duplicate supplier payments. Local finance teams negotiated independent banking terms, resulting in inconsistent fee structures and lost bargaining power. There was no in-house bank structure to net intercompany receivables and payables, leading to unnecessary external FX conversions and transaction costs.

QUESTION 1

a.	Recommend and justify solutions to ODH's trapped cash problem.	10 marks
b.	Recommend and justify improvements that ODH could make regarding its cash and treasury infrastructure in markets which are not subject to capital controls.	15 marks
		Total: 25 marks

Mark Scheme

Q1a

The specific reasons cash was trapped in the case study is rather technical and may require treatment on an individual basis. It is critical to know the country and work out your strategy BEFORE you enter. However, since ODH is already present with funds held locally, the general approach to deal with a trapped cash problem is as follows.	
Safeguarding assets by regularly reviewing: • all counterparties holding cash, • decision to hold cash in local versus hard currency, with full awareness of any restrictions of holding cash in hard currency. This is very important to ODH as it has exposure in very many currencies and 41% of currencies are under capital control and regulatory restrictions. • other local investment opportunities beyond cash, for example, real estate. It is also possible to look at stock markets, digital assets in the local markets	1 mark 1 mark
Thinking outside the box: • review the business configuration: imports vs local production, local or offshore sourcing of materials. ODH should revisit if these markets are business worthy, or can business be done in an alternative market? • investment instruments: could you hold gold or other assets? In Latin American countries, crypto assets is also an option.	2 marks
Consider options that would not apply normally • Payments-on-behalf-of: could your local entity pay on behalf of an offshore entity? This means ODH needs to build its own network of local contacts which can facilitate this. • Capital injections or (intercompany) loans might sound counterintuitive, but might be the right thing to do, if key issue is FX liquidity without risking business continuity. • Housekeeping and controls: ensure regular payment of foreign liabilities when FX is available rather than waiting for the 'right' forex rate. Avoid FX transaction on an ad-hoc basis.	2 marks 2 marks

Regular communication with:
• country subsidiaries to ensure full understanding of the situation
• banks to fully gauge the market and the options available
• peers to keep up to date on what others do
• key stakeholders.

In the long term, trapped cash should be avoided or at least minimised

Regular reviews:
• Business model and strategy: Do you want/need to operate in the respective country?
If yes, only for local consumption or also for export? Does the business model still fit under the current circumstances?
• Capital structure: Is it right for the entity? Is it conducive to avoiding trapping cash?
Beware using intercompany loans, as in some countries you may not be able to hedge
the loan.

Basic system flexibility and efficacy:
• Dividend distributions can be used to minimise trapped cash, if local regulations allow it.
• Settlement of liabilities (intercompany liabilities, third-party liabilities, etc) to ensure trapped cash is minimised by not having unnecessary cash, again depends on local regulation.
• FX sourcing: partner with several banks as they will have different accesses to required currencies.
• Safeguard financial assets: carefully consider how to invest cash.

2 marks

Total marks: 10

Q1b

These are key techniques that can be used to manage cash, in ODH's case, all of them should be considered as regulations in each country are different, ODH may use some or all of them. Though the principle is still the same, construct efficient cash management structures to aggregate group cash position.

1 mark

Notional Pooling
Using a master account
In order to manage the overall pool balance, treasury needs a mechanism for transferring funds to and from the pool in order to bring the balance to zero or to a target level (which may be overdrawn). One option is to insert a 'master' account into the pool; this is then used to pay away the amount of surplus in the pool for investment elsewhere, or to receive then fund deficits in the pool. The master account is used to bring the pool balance to zero (or target) while leaving the subsidiaries' operating accounts untouched. This is especially important to ODH to maintain a global view of the group's cash position. May not work in cash trapped countries, depending on local regulation.

1 mark

Notional pooling for credit purposes In some regulatory jurisdictions banks are prohibited from paying credit interest on current account balances, so pooling for the purposes of minimising group debt is the major objective. Even in groups where there is little opportunity to offset debit balances, the group can still benefit from the centralisation afforded by a pooling arrangement by consolidating the deficits and funding the net deficit from a cheaper source of borrowing . This should reduce ODH's funding costs and utilise cash more efficiently, rather than using RCF while there is idle cash aboard. This again depends on the local regulation.	2 marks
Notional pooling for interest earning purposes Treasurers will seek to actively manage surplus funds, rather than leave funds to be passively 'managed' by the bank. In some countries surplus balances may earn no interest at all. Any surplus cash in the pool can be physically extracted and invested in an instrument that has a higher interest yield such as short-term money market instruments, short-dated certificates of deposit or money market funds. ODH should consolidate its cash balance and put it in a stable currency to earn interest, this minimizes FX risk and increase interest income.	2 marks
Technology and tax For any type of cross-border pooling, single or multi-currency, the bank must have the ability to manage all the accounts on an aggregated basis and, therefore, will require an advanced, integrated technology platform. Groups that operate cross-border pools, whether single or multi-currency, need to study the withholding tax aspects of the structure in detail with a tax advisor. This means ODH needs to invest in FinTech to make the pooling possible and manageable.	2 marks
Cash concentration Zero balance In Europe, cash concentration is often referred to as sweeping. A 'two-way sweep' indicates that surplus balances are consolidated into the concentration account and deficit accounts are funded from the concentration account. The most common form of a two-way sweep is called zero balancing, when a bank automatically transfers funds between the subsidiary accounts and the concentration account at the close of business each day, leaving the balances in each of the subsidiary accounts at zero. These accounts are often referred to by the US term zero balance accounts (ZBAs). ODH should work with its bank in Europe to allow this to happen, so that balance is concentrated into a master account.	2 marks
Target balance A variation on the ZBA is the target balance account (TBA) where a minimum balance is left in the accounts at all times and the bank sweep transfers only those funds in excess of the target balance to the concentration account. The concentration account will also return any deficit accounts back up to the target level. This is useful for ODH even in cash trapped countries, where ODH can set the minimum balance to comply with local regulation. This allows use of cash concentration without violating regulation.	1 mark

	Threshold accounts As cross-border transfers are expensive, and a daily movement may not always be cost-effective, a further refinement on the ZBA is the threshold account, where no money is moved until a threshold balance (determined to be the break-even cost of a transfer) is accrued in the account. Once this balance is met, funds are moved to or from the concentration account. This is to ensure that small balances are not moved. Again, this is another solution for ODH to manage its multi-currency cash position. If a threshold is set, then it prevents local teams from convert currency opportunistically.	2 marks
	All above mentioned solutions depends on treasury infrastructure that integrated with ODH's banks. ODH should build a modern TMS to increase visibility of liquidity cross the whole group. To deal with intercompany payments, an in-house bank and shared service centre should be built to deal with the complex movement of payment within the group. An in-house bank (IHB) is a vehicle where group treasury acts as the primary source of all banking services to operating units on an arm's-length basis. It aggregates and nets out internal transactions. Only the differences are placed with external banks. This will involve significant IT investments in both hardware and software.	2 marks **Total marks: 15**
	This mark scheme is not exhaustive – all valid points within answers will be awarded marks. **Syllabus refs:** U4b.5.1.LO25, U4b.3.1.LO23	
		Total: 25 Marks

QUESTION 2: CASE STUDY

Hanse Industrie GmbH (HIG) is a mid-sized German industrial electronics distributor headquartered in Hamburg. HIG supplies precision components to automotive manufacturers, renewable energy equipment producers and industrial automation organisations across Germany, Austria and the Netherlands.

HIG built its reputation on reliability and competitive pricing. For many years, HIG sourced semiconductors, circuit boards, voltage regulators and specialist microcontrollers from suppliers in Asia and East Europe. Most suppliers were willing to provide HIG with a four-week lead time. This allows HIG to fulfil customer orders with a lead time much shorter than its competitors.

However, global semiconductor shortages and heightened geopolitical tensions altered supplier behaviour. In 2026, several Asian suppliers began demanding advance payments of at least 30% before commencing production. Eastern European suppliers followed the same practice citing raw material constraints. HIG had plenty of free cash and needed consistent supplies, so accepted the terms.

Problems began emerging within months. In several instances, advance payments were transferred to suppliers, yet production updates became sporadic. Delivery dates were postponed repeatedly. In two cases, suppliers ceased communication entirely after receiving substantial advances. One supplier later entered insolvency proceedings in its domestic jurisdiction. Legal recourse proved complex and costly; usually it is faster and cheaper just to accept losses.

Even where goods were eventually delivered, delays were severe. Lead times extended to as long as three months, forcing HIG to revise production schedules and this led to delivery delays to customers. In many instances, HIG had to spot buy supplies at significantly inflated prices to preserve customer relationships.

Quality-related problems compounded the situation. Several shipments arrived with incorrect technical specifications. In other cases, packaging standards were inadequate for long-distance marine transport, leading to damage and component failure. Suppliers claimed that freight forwarders were responsible for transit damage, while logistics providers pointed to insufficient packaging. As contractual terms had not been carefully renegotiated when advance payment terms were introduced, responsibility was ambiguous.

HIG started to investigate why suppliers demanded payment in advance. They learned that the semiconductor industry was under significant financial strain due to aggressive monetary tightening cycles led by central banks in Japan and China. Benchmark interest rates had risen since 2025, increasing short-term borrowing costs, tightening credit availability and reducing access to affordable working capital facilities. At the same time, demand for semiconductors was at a record high, forcing suppliers to expand production without adequate finance. Faced with higher funding costs and more conservative bank lending standards, suppliers began shifting financing risk by demanding advance payments from buyers like HIG.

Meanwhile, several European governments began implementing deficit-reduction measures following years of pandemic-era stimulus and energy support programmes. As budget deficits widened and public debt ratios rose, governments responded with tighter fiscal policy – reducing public investment, scaling back subsidies for renewable energy and industrial transformation, delaying infrastructure projects and in some cases increasing corporate taxation. While HIG has not felt any impact of these policies as yet in 2026, sales forecasts for 2027 have been adjusted down.

QUESTION 2

a.	Evaluate the impact of monetary policy on the semiconductor industry from the viewpoint of Keynesian economics.	5 marks
b.	Analyse how fiscal policy can affect HIG's business. You must refer to economic theory in the answer.	5 marks
c.	Recommend and justify solutions to mitigate risks associated with HIG's suppliers.	15 marks
		Total: 25 marks

Mark Scheme

Q2a

Monetary policy is the control of the economy using changes in the money supply (amount of money circulating in the economy) and interest rates. The government can choose between controlling the supply of money and/or changing interest rates. The case study mentioned that central banks are in a tightening cycle - this means reduce money supply and increased policy rate.	2 marks
Keynesians believe that money is important, as by either affecting spending directly or indirectly (through the rate of interest), the level of aggregate demand will be influenced. However, this would mean less demand for semiconductors. Though from the case study, it appears semiconductor demand comes from other external forces.	1 mark
Keynesians are concerned that high interest rates could damage industry and increase unemployment (as companies are less likely to expand). This is exactly what happened to the semiconductor industry as shown in the case study. As interest rates increase, credit starts to contract and semi-conductor companies started to feel it via increased financing cost.	2 marks
	Total marks: 5

Q2b

Fiscal policy relates to government spending (including government grants) and tax.	1 mark
Keynesian viewpoint Keynesians would argue that the most powerful economic tool for a government is government spending. As government spending increases, aggregate demand will rise and unemployment will fall. This is exactly what is happening to the renewable energy industry, which most of HIG customers operate in. When government investments start to decline, all business activity in the industry will fall and HIG will feel this impact gradually as customers start to reduce orders in the coming years.	2 marks
Keynesians also say that there would be a multiplier effect from injections to the circular flow of income such as government spending. They believe this is even more effective than a tax reduction, as private individuals would tend to save some of the tax decrease. However, too much spending could cause inflation.	1 mark
Monetarist viewpoint Monetarists argue against using fiscal policy. Monetarists advocate that companies be more dynamic, workers be more mobile and motivated, commodities be produced efficiently and that prices are right (i.e. supply-side policies). They also argue that if the government increases its spending this will be funded by increased tax, which reduces private spending.	1 mark **Total marks: 5**

Q2c

The demand for advance payment is not necessary, since HIG's suppliers have credit problems. Advance payment is not really effective at mitigating credit problems. What they need is a systematic approach to help suppliers' finances.	1 mark
Since HIG has large cash balance and appears to be in good financial standing, it is worthwhile considering supply chain finance. Supply chain finance (SCF) is designed to enable a large and creditworthy buyer to support the financing of its relatively smaller or less creditworthy key suppliers. SCF can provide suppliers with access to potentially cheaper financing than they could achieve on their own, on the strength of the buyer's stronger credit standing. By using SCF, HIG will not have problems with advance payment, but also help suppliers with their finances. This is an even better solution than paying in advance.	2 marks
In addition to cheaper finance, the supplier can also get:	1 mark

• predictable cash inflows and access to reliable information on future payment dates • potentially off-balance sheet finance, which could lead to an improvement in key financial ratios • diversified sources of funding • flexibility: the supplier is permitted to use the SCF system as required, for example only taking early payment at times of the year when there is a seasonal dip in cash resources.	1 mark 1 mark
From HIG's viewpoint, SCF and payment in advance are similar, both require HIG's finance, both require HIG to finance suppliers' manufacturing.	1 mark
If suppliers are not willing to accept SCF solutions, this is likely to be the case as demand for semiconductors is high and suppliers can be choosing customers, In that case, HIG needs to look at other options, these include:	1 mark
Credit checks each supplier and makes sure they are of the highest commercial integrity	1 mark
Evaluate if the suppliers are essential to HIG's business, if goods from the suppliers are essential and there is no alternative supplier	1 mark
When possible, negotiate down the advance payment, "deposit". Currently HIG is paying 30%; if this reduce to 10%, risk would be much lower.	1 mark
Try negotiating with the suppliers to issue an 'Advanced Payment Bond'. Some commercial contracts stipulate payment in advance (which could be for the whole contract value or more usually just for a percentage). An advance payment bond undertakes to refund to the buyer any advance payments if the goods or services are unsatisfactory, or if the goods or services are not provided, whose payment depends on successful delivery and also passing quality checks.	2 mark
Relating to Incoterms, there are eleven different Incoterms, each of which relates to a different point at which responsibility for the goods transfers from the seller to the buyer. Incoterms should be carefully drafted and negotiated with suppliers to ensure that risk transfer, insurance responsibility, and cost allocation are explicitly defined, so in event of delivery problem, responsibility can be identified.	2 mark
This mark scheme is not exhaustive – all valid points within answers will be awarded marks. **Syllabus refs:** U4b.1.2.LO21, U4b.4.3.LO24, U4b.4.4.LO24	**Total marks: 15**
	Total:25 marks

ACT EDUCATION

Published in August 2026 by
ACT (Administration) Limited
10 Lower Thames Street
London
EC3R 6AF

www.treasurers.org

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