ACT EXAMINATION PAPER

Diploma in Treasury Management (AMCT)

Unit 4b: Working capital and trade finance

July 2025

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 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	50
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 will 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

Organic Snack Ltd (OSL) is a food processing company located in the Midlands in the UK. OSL produces ready-to-eat food that is sold in convenience stores and supermarkets. OSL started as a small kitchen operation in a rented industrial unit in 1995. Initially, there were only three employees, and they handcrafted sandwiches, salads and snacks using locally sourced ingredients. OSL's goal was to provide convenient, high-quality food that did not compromise on taste or freshness, and most importantly did not cost a fortune.

At first, OSL faced stiff competition from big food manufacturers and struggled to secure contracts with retailers. However, OSL's commitment to quality and competitive pricing won over a few local convenience shops. In 1998, a regional convenience store chain signed a contract to stock OSL's sandwiches in all 50 of its stores. This deal allowed OSL to expand operations, hire more staff and invest in better equipment.

By the early 2000s, OSL had established itself as a trusted name in the Midlands. OSL moved to a larger facility in Derby, increased its production and expanded its product range. OSL also introduced new product lines, such as wraps, pasta salads and breakfast pots, catering to the evolving tastes of British customers. During this period, OSL also adopted a flexible workforce model. To manage fluctuating demand, OSL began hiring part-time staff on zero-hour contracts. This approach allowed them to scale up or down quickly, depending on orders, while keeping costs manageable. While this model was controversial, it enabled OSL to remain competitive.

In 2013, a supplier issue led to a temporary shortage of key ingredients, disrupting production. OSL lost over two months of sales in this incident, nearly bankrupting it. After the disruption, OSL implemented new systems to improve efficiency and reduce reliance on single suppliers. OSL also embraced technology, invested in automated production lines and introduced a digital ordering system, making it easier for small shops to place and track orders. The rise of health-conscious consumers also led OSL to introduce healthier options, such as gluten-free sandwiches and low-calorie salads. It also began sourcing organic ingredients and reducing plastic packaging, aligning with growing environmental concerns.

By 2025, OSL was a mid-sized business with over 300 employees with annual sales of over GBP20m. OSL also expanded its product lines to non-perishable foods such as microwaveable meals, instant noodles, etc. OSL started to export its products to neighbouring countries in Ireland, the Netherlands and France. Exports account for 6% of OSL's total sales. Over 90% of OSL employees are now paid with minimum wage with a zero-hours contract. Competition in the convenience food sector is very

intense. There are over 10 similarly sized competitors in the Midlands, compared to only three in the 2010s. Compounding the issue was the rising cost of ingredients, as inflation and supply chain disruptions had driven up the prices of fresh produce, meat and packaging materials. At the same time, price sensitive customers are demanding more for their purchases. OSL's profit margins were squeezed. Financial information on OSL is shown below:

GBP'000	2025 estimate	2024	2023	2022
Sales	1,944	2,243	2,164	1,746
Cost of sales	2,014	2,168	1,988	1,456

Trade receivables

OSL offers 30-days payment terms as long as customers can prove they are profitable in the past three years. Customers who lack trading records are required to pay up front, though once their cumulative orders exceed GBP20,000, they are allowed the standard 30-days payment term. Once a customer is on-boarded, no credit check will be performed on them again. By the second quarter of 2025, many sales orders remain unpaid 60 days after invoice date. To reduce payment terms, OSL introduces a 1% late payment charge for orders not paid in 60 days in the second half of 2025. OSL also offers early payment incentives. For orders over £50,000, there is a 1% discount if payment is made within 15 days. However, this has hardly affected collection times as many shops are struggling financially. For orders that are unpaid after 120 days, the chances of a customer default are very high and OSL generally writes these invoices off. While OSL's ordering system is automated, there is no automated process for dealing with late payment. The administrative cost of dealing with late payment is significant. OSL is considering whether a factoring company should be employed for receivables. Given OSL and its customers' credit profile, factoring could cost around 6% of invoice value. Breakdown of trade receivables is shown below. The 2025 figures are estimated based results from the first two quarters.

GBP'000				
Carrying amount of trade receivables	2025	2024	2023	2022
Within 30 days of invoice date	272	422	459	391
31 - 60 days	171	263	145	106
61 - 120 days	477	154	142	151
120 + after invoice date (write off)	(74)	(33)	(23)	(21)
Net trade receivables	920	838	746	648

Trade payables

OSL has over 20 suppliers and most of them offer an early payment discount. On average, a discount of 1% could be achieved if OSL pays all orders within 14 days. OSL rarely takes advantage of this and pays most orders 45 days after invoice date. Though OSL could pay after 60 days without any serious consequence, most suppliers follow up OSL if unpaid after 60 days. Three of OSL's biggest suppliers never follow up invoices; for these suppliers OSL usually pays in 120 days. These three suppliers account for over 20% of OSL's trade payables. These suppliers are never communicative as OSL can make orders online without human interaction. They appear to be content with the existing payment behaviour. The

treasurer believes the current payable arrangement is optimal for OSL financially and does not plan on making any changes in the near future. OSL has never defaulted on its payables.

Trade payable balances are shown below. The 2025 figure is estimated based on first half years result.

GBP'000	2025	2024	2023	2022
Trade payables	1,524	1,575	1,087	908

Inventory

OSL uses past orders to guide production and forecast inventory levels. Usually, sales from the same month last year are used to estimate current month sales. This approach worked well, with food spoilage usually less than 5%. However, this changed dramatically in 2024, as sales fluctuated wildly from month to month due to high inflation and economic uncertainty. Over and under stocking lead to greater spoilage and production disruptions. Since 2024, OSL had to destroy a significant amount of inventory due to spoilage. Details can be found below:

GBP'000				
Inventory	2025	2024	2023	2022
Raw material	388	379	421	342
Write offs due to spoilage	(31)	(47)	(21)	(16)
Balance	357	332	400	326

Cash

OSL's cash earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods, between one day and one month, depending on the immediate cash requirements, earning interest at the respective short-term deposit rates. At the moment, OSL's deposits earn a weighted average interest rate of 4.20%. OSL has a few suppliers in Europe and has to pay them in EUR. OSL does not actively manage FX risk and all EUR payments are made at spot rate. OSL has an overdraft arrangement with its bank with a credit limit of GBP500,000. OSL's biggest cash outflow is employee wages which cannot be paid late. OSL frequently needs to dip into overdraft for liquidity. OSL does not have other borrowings. Details of cash and overdraft balances are:

GBP'000	2025	2024	2023	2022
Cash at bank	55	97	214	156

GBP'000	2025	2024	2023	2022
Overdraft outstanding balance	481	453	214	152

QUESTION 1

a.	Calculate OSL's cash conversion cycle. You are required to show your workings.	6 marks
b.	Evaluate whether OSL should employ a factor to manage its receivables. Your answer must include a recommendation as to why OSL should employ a factor.	15 marks
c.	Evaluate whether OSL should pay invoices within 15 days.	8 marks
d.	Besides problems evaluated in parts a, b and c., discuss additional challenges of OSL's receivables, payables, inventory and liquidity management practices.	7 marks
e.	Besides challenges evaluated in parts a, b and c., recommend and justify additional solutions to improve OSL's receivables, payables, inventory and liquidity challenges.	14 marks
		Total: 50 marks

Mark scheme

Q1a

	2025	2024	2023	2022
DSO	172.6	136.5	125.8	135.5
DIO	64.7	55.9	73.4	81.7
DPO	276.2	265.2	199.6	227.6
CCC	-38.8	-72.7	-0.3	-10.4

2 marks
2 marks
2 marks

Total marks: 6

Q1b

Benefits and cost of factoring should be looked into before a decision can be made. Cost is at 6% of receivables, so this needs to be compared against potential benefit. The factor takes over the whole of the sales ledger administration of OSL. The following are a few areas OSL needs to examine:

1 mark

Usually, all of a company's invoices have to be factored, so OSL cannot 'cherry pick' and exclude the debtors with good credit records who pay quickly. The creditworthiness of its customers will also be assessed; the cost could vary based on the credit profile of customers in the sales ledger. In this regard, factoring is also a credit control and credit check service.

2 marks

Debtors often settle more quickly, because the factor is more efficient at collecting the debt. This is relevant to the cost of factoring, which could reduce write offs. The below point expands on this	1 mark
Cost of factoring is at 6%, this is likely to be cost of recourse factoring given OSL's write off is already over 7%. Write offs of receivables is at 74/(272+171+477+74) = 7.44% in 2025 which is higher than the last year of write offs at 3.78%. This indicates that OSL is having problems collecting receivables. The rise in write-offs in 2025 appears to justify the cost of factoring, which can reduce administration cost and potentially reduce write offs. If write offs reduce to 2024 levels, that is 3.7% (7.5%-3.8%) saving. Factoring also saves in admin costs which at 6%-3.7%=2.3%, appears to be a good deal.	3 marks
Another issue to consider is that factoring may not reduce write offs, as shops are in financial difficulty. Since late payment charges and early payment incentives have failed to improve receivables. This point is against the use of factoring	1 mark
Related to the previous point, there is no need to offer an early payment discount, nor late payment charges if factoring is used. This reduces the cost related to receivables collection. This point favours the use of factoring.	1 mark
Factoring is suitable for high volumes of standard invoices when sales are on open account terms. OSL's orders appear to be standard, though the case did not provide enough detail. For pre-made food, most orders are standardised, so this is in favour of factoring.	1 mark
In some countries, such as the USA, the use of factoring is seen as an indication of financial weakness. In other countries, factoring is a normal liquidity tool. Since this is the UK, this is also in favour of factoring, as the use of factor can improve OSL's liquidity.	1 mark
Discount rate will be lower than for an overdraft, but the factor charges for sales ledger administration. As OSL frequently needed an overdraft for salary payments. Factoring is a more cost-effective way of improving OSL's liquidity. This also favours the use of a factor.	1 mark
Factoring can be a cost-effective method of maintaining liquidity and avoiding the problems of overtrading for fast growing, small companies. It is especially applicable to those that do not have sufficient internal skills and resources to do a thorough credit analysis of customers and lack an in-house capability to manage a growing sales ledger. This is especially true for OSL which has no resources to chase up on late payment.	2 marks
Even if the invoice is denominated in a foreign currency, the factor's advance and final settlement can be in the currency of the exporter, thus reducing the complexity of foreign currency management. This is very relevant as OSL started exporting to EUR countries and have to deal with currency exchange.	1 mark
	Total marks: 15

Q1c

OSL cash earns interest at 4.2%. Using compounding, this translates to 1.042^(1/365) – 1=0.00113% daily interest rate.	1 mark
Since OSL can make payment in 60 days without much consequence, this means OSL can generate 46 (60-14) days of interest on payables not paid for 46 days. The interest rate for 46 days is 1.042^(46/365)-1=0.0051984 (or 0.52%), this is compared to the discount saving of 1%. Clearly paying early saves more. For most suppliers, it is best to take advantage of this offer.	3 marks
For the three big suppliers, OSL can save 106 (120-14) of interest. The interest rate for 106 days is 1.042^(106/365)-1=0.012049 or 1.2049%. This is more than the 1% discount offered, in this case, OSL is better off paying late.	2 marks
Though other consideration should be taken into account, OSL is very limited in cash and basically using trade payables to finance the whole company's operation. Even though it saves a few percentage by paying early, OSL simply does not have the cash position or funding to make these payments early. Or OSL has to dip into overdraft to pay early, since its overdraft is already at its limit since 2024. Paying early is therefore a bad idea.	2 marks **Total marks: 8**

Q1d

Additional challenges:	1 mark
Looking at negative CCC, OSL is entirely funded by payables, this means stretching its suppliers and under-utilising its funding options.	1 mark
Lack of credit check/control for existing customers, whose financial condition changes over time; no chase up on late payment.	1 mark
Inventory forecasting is just not fit for purpose.	1 mark
No coordination with customers to better manage inventory levels.	1 mark
Lack of FX risk management.	1 mark
Poor cash position and the overdraft is at its limit since 2024.	1 mark
Lack of communication with suppliers, overstretching the big 3 suppliers.	**Total marks: 7**

Q1e

Additional solutions:

OSL's gross margin is very low and declining over the years, as shown below:

Gross margin	-3.60%	3.34%	8.13%	16.61%

1 mark

Adding expenses and other cost, OSL is not profitable in 2025 and probably not in 2024 either. OSL should consider options that without extra cost, e.g. utilising existing team for credit check rather than hiring a factor.

A much cheaper option of reducing receivables is using direct debt, which was not discussed in the case. It should cost less than factoring. 1 mark

Since CCC is negative, OSL can return some liquidity flexibility to its customers and suppliers. This could be done using trade finance instruments. 1 mark

On the other hand, an annual credit review of existing customers, including credit limits and credit terms closely monitored. OSL may have to lower credit limits and reduce credit terms for certain customers. This will be an unpopular decision but be critical for survival. 2 marks

Implement better inventory forecasting models based on artificial intelligence, which does not cost much in 2025 and should help reduce spoilage. This could also mean better tracking systems that monitor inventory levels in real time. However, building the system could be a significant investment. 1 mark

Coordination with customers to manage inventory levels. This means customers share real time stock data with OSL. Potentially, OSL can automatically re stock a customer if their shelves are empty or close to empty. 1 mark

A just-in-time system that OSL's customers and suppliers share data together. Suppliers will automatically replenish OSL's inventory when stock is low and OSL will automatically fill customers' shops. 1 mark

There should be an active strategy of managing FX risk. GBP was strengthening in 2024 against EUR, so this may look like a good strategy. Hedging will reduce OSL's risk. The key here is to not take a view on the FX market, but use hedges to reduce volatility. 1 mark

Cash is too low and overdraft is at its limit. May consider other financing options, such as long term borrowing from bank, issue long term note, apply for a revolving credit facility, OSL has no other borrowing, this means it is under-levered and should explore more funding options. If cost of new funding is low, then paying OSL's supplier early to get discount may be a viable option to improve profit margin. 2 marks

	Communicate with suppliers to work out some mutual understanding, talk to suppliers and find out if they offer supply chain finance solutions. If they do, this means OSL may get even better payment terms. Talk to the big 3 suppliers and build relationship, they may be big pocket players and could be a lifeline if OSL runs into financial trouble. Find out if they offer trade finance instruments and get better payment terms with them. DPO is already very high, it might not be worthwhile to extend payment terms. But OSL's gross margin is very low, maybe talk to suppliers and reduce payment terms in exchange of lower price. This would improve OSL's profit margin This mark scheme is not exhaustive – all valid points within answers will be awarded marks. **Syllabus refs: 1.1.LO21, 2.1.LO22, 2.2.LO22, 2.3.LO22, 2.4.LO22, 4.5.LO24**	2 marks 1 mark **Total marks: 14**
		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

Smart Elektra Gadget plc (SEG) is an electronic and smart devices manufacturer based in Hanover, Germany. SEG's product lines range from household electronics to industrial automation systems. SEG is known for cutting-edge innovations at affordable prices and is very competitive in the global market. SEG's products are available in more than 20 countries in Europe and North America. SEG is listed in Frankfurt and Nasdaq, its share price has increased by more than 10 times in the past 20 years.

By the early 2020s, SEG's market share in North America and Europe had stagnated and growth in these regions had plateaued. To ignite further growth, SEG started to look beyond its traditional markets. Since 2021, it has expanded to countries in Africa, Southeast Asia and South America, where rising incomes and urbanisation are driving demand for advanced electronics. However, managing a business in these regions is not easy. While the opportunities are immense, many countries have strict capital controls, making it difficult for foreign companies to move money in or out. Regulations vary widely, and navigating the bureaucratic red tape requires patience, expertise and local partnerships.

In Nigeria, Vietnam and Argentina, the rules are the strictest. Governments impose restrictions on foreign currency transactions, require approvals for capital transfers, and often mandate that a portion of profits be reinvested locally. Foreign investors usually need to register their investment projects with authorities; payments for imports and exports must be conducted through authorised banks and supported by relevant documentation. This creates a range of challenges. Obtaining approvals for capital transfers can be time-consuming; regulations can change frequently; the cost of complying with rules is significant. SEG's cash is essentially trapped in these countries.

SEG is extremely profitable in its main markets and has accumulated over EUR10bn in cash, which is almost 5% of SEG's market capitalisation. Most of SEG's cash is invested in German and US government bonds. Interest rates on these holdings range from 2.5% to 4.3%. As SEG's major markets are already matured and saturated, investing in other regions is a must for continued growth. Though investment in other markets is slow and usually takes a long time to affect financial performance.

For these reasons, SEG has adopted an aggressive treasury practice of buying back its own shares since 2022. While SEG could pay off its EUR6.4bn long-term debt, the treasurer argues that returns on SEG's shares is far greater than interest on the long-term debt, which is 3.6%. Despite many buybacks, SEG's stock barely moved in the last three years. A few active shareholders are not happy and openly criticised SEG's lack of earnings growth. They have proposed that in addition to share buybacks, SEG should allocate some cash to create a digital asset reserve, to hold crypto assets, such as Bitcoin. SEG's management knows very little about crypto assets but is willing to consider a proposal of allocating 5% of its cash holdings to Bitcoin. The rationale for the proposal is that the Bitcoin price has increased

substantially in the last few years, and it has even outperformed SEG's own stock. SEG's shareholders will vote on the proposal in the next annual general meeting.

QUESTION 1

a.	Recommend and justify solutions to SEG's trapped cash in Nigeria, Vietnam and Argentina.	13 marks
b.	Evaluate SEG's treasury practice regarding its free cash holding. Within your answer you must recommend and justify improvements that SEG's treasury could make in this area.	12 marks
		Total: 25 marks

Mark Scheme

Q1a

Tackling and dealing with trapped cash:	
Business model and strategy: Do you want/need to operate in the respective country? SEG needs to evaluate the cost and benefit of dealing with trapped cash position and decide whether it is worthwhile to exit the market completely.	1 mark
Capital structure: Is it right for the entity? Is it conducive to avoiding trapping cash? This of course is country specific but can be analysed at top level.	1 mark
Here are a few options SEG can employ to mitigate trapped profit problem:	
Dividend distributions can be used to minimise trapped cash, that of course depends on the local regulations.	1 mark
Settlement of liabilities (intercompany liabilities, third-party liabilities, etc) to ensure trapped cash is minimised by not having unnecessary cash, again this is country dependent and may not work in these three country.	1 mark
Partner with several banks as they will have different access capabilities to required currencies and ability to deal with state sponsored financial institutions which may provide a better compliance service.	1 mark
Carefully consider how to invest cash, if required by local government in the case of Vietnam, then profit must be invested locally.	1 mark
Countertrade with other companies, rather than trade using currencies, exchange trade using items might be an option.	1 mark

Using model of leasing to avoid capital investment. This can be for software as well as land, building and equipment. Profits can be exported using transfer pricing of IP charges. The aim of this arrangement is to minimise profits and charge for everything.	1 mark
SEG should maintain regular communication with: • country subsidiaries to ensure full understanding of the situation • banks (especially local state sponsored banks) to fully gauge the market and the options available • peers (see what competitors are doing) to keep up to date on what others do • key stakeholders, this is especially true as SEG's active shareholders may not understand SEG's growth plan.	1 mark 1 mark 1 mark 1 mark
Thinking outside the box: • review the business configuration: imports vs local production, local or offshore sourcing of materials, etc • investment instruments: could SEG hold gold? Consider options that would not apply normally • payments-on-behalf-of: could your local entity pay on behalf of an offshore entity? • 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 FX rate.	1 mark 1 mark 1 mark 1 mark 1 mark **Total marks: 13**

Q1b

SEG has done three things with its cash 1. Investing in Germany and US government bonds 2. Buyback own shares 3. Buy Bitcoin to create the digital reserve, this is still in proposal stage but should be discussed as well.	2 marks
Government bonds This is a rather standard practice with a large cash holding, as US and German treasury bonds are safe and more recently have had a reasonable return. The pros are safe and standard practice. The cons are returns are lower than other use of cash. While return is low on these government bonds, they are basically risk free. The only thing that could be changed is SEG has some bonds that are generating only 2.4%, this may be rolling over to higher yield bonds or could be used to pay off some of SEG's long term debt. Bear in mind, given interest rates are higher now and government bonds will most likely be fixed rate instruments, sales of bonds could mean a large capital loss on the bond holdings.	1 mark
Evaluation of share buyback Pros: • Return value to shareholders without incurring any tax. • Boosting earnings per share and hence increase return on equity, this is good for existing shareholders. Cash is better in shareholder hands to invest in something else rather than cash on the balance sheet of SEG.	5 marks

- This is a good strategy if SEG does not have good investment opportunities. Once share prices are pushed up, shareholders can decide whether to invest elsewhere or stay with SEG.

Cons:

- SEG may simply lack good investment project, this may signal that SEG is saturated and does not have a good plan for growth.
- SEG may focus on short term price performance, rather than long term performance of the company.

Creating digital reserve by buying Bitcoin, this is at proposal stage but should be discussed

Pros:

- Currencies without central authority
- Difficult to sanction, this may be the solution to SEG's trapped cash problem
- Difficult capital control, again, can help with trapped cash problems
- Great price appreciation in the past, bitcoin prices have gone up exponentially in the past, though this may change in the future
- Blockchain ensures data integrity which could avoid fraud risk, which would also be beneficial to handle business operations in unknown/emerging countries.

Cons:

- Very high volatility, price could go up or down by over 30% within a few days
- Custodianship and management of crypto assets is not easy and may come with a cost for professional help
- Protection of keys is paramount. If we are reliant on an exchange as custodian, there are potential risks if that exchange is compromised
- Regulatory risk, rules and law regarding crypto assets are still changing and highly uncertain
- May get sued by shareholders if investment turn out bad.

Other options for SEG include:

- Reduce its long-term debt, payoff any liabilities, SEG has EUR6.4bn long term debt
- Invest in new industries, SEG could buy existing and mature company of another industry
- Other short-term investments could be considered, e.g. Money Market Fund.

Syllabus refs: 5.1.LO25, 5.2.LO25

10 marks

3 marks

Total marks: 12

Total: 25 marks

QUESTION 2: CASE STUDY

Elan Auto Mechanic (EAM) is a British automotive manufacturer based in Bristol. EAM has over 60 years of history. Its cars were once regarded as a symbol of British expertise that combined style, performance and affordability. Now, EAM is struggling and has not been profitable for the past five years.

These challenges for EAM began a decade ago when overseas competitors, particularly from Asia, started flooding the European market with cheaper, more fuel-efficient vehicles. These cars, often produced at lower costs, due to economies of scale and low labour costs, quickly gained popularity among cost-conscious consumers. EAM sales began to decline, and its market share shrank.

After the COVID-19 pandemic, high inflation had gripped Britain and much of Europe. The rising cost of raw materials and labour squeezed EAM's profit margins. EAM could not raise prices as it was already uncompetitive against foreign brands. At the same time, consumers were also delaying big purchases. The high interest rates to combat inflation only made the problem worse. Loans for new cars were too expensive, and weak residual values contributed to the cars appearing expensive for monthly payments to both consumers and to the corporate market. In 2023, EAM delisted from the London Stock Exchange due to poor performance.

In 2025, America announced a 25% import tariff on all foreign-made vehicles. Sales in the US plummeted, and this again added pressure to EAM's already weak baseline. By the second half of 2025, EAM's debt to equity ratio was over 500% and the spread of credit default swap on EAM's corporate bonds was pricing a default probability of 92%. On the operating side, on average, EAM loses GBP1,200 per vehicle sold. EAM's assets were valued at GBP360m as of 31 March 2025 with outstanding debt at GBP300m. It is unlikely that EAM could sell its assets at book value. A heavy discount is expected if EAM sells assets quickly.

Rumours of EAM's insolvency have spread on social media since early 2025. EAM has over 2,000 employees and their jobs will be at risk if EAM ceases to trade.

EAM invested billions in the past 10 years to build a new energy-efficient production line. However, EAM did not receive any subsidies from the government, unlike many of its foreign competitors, who received financial support from their own governments. If there was a similar policy in the UK, EAM's cost base could be lowered and it would be more price competitive. Though many analysts believe EAM's sales would not have improved even if EAM could lower its prices. Other brands are not only competitive in pricing, but they also offer features, functionality and characteristics that EAM does not offer. Some car brands are known for economical running costs; others are well known for smart features that are integrated with smart devices; there are also brands that specialise in alternative energy sources such as hydrogen cells. EAM's engine design is unique but EAM is competing against 20 different engines designs in the passenger car segments. EAM also spends very little in advertising and marketing, while some competitors spend millions on their marketing budget.

EAM would prefer that the British government was more proactive in stimulating domestic demand. After tariffs were launched by the USA, many countries launched their own industrial policies to support their domestic manufacturers and stimulate demand. These policies included tax cuts, low-cost loans and direct government investments. EAM would like to be able to benefit from similar policies in the UK.

QUESTION 2

a.	Recommend and justify which insolvency option would be the most appropriate for EAM, should it decide to pursue insolvency.	12 marks
b.	In light of EAM's situation, discuss the role of government policies in influencing demand and supply of the economy. Your answer should also consider tools that government can employ to improve EAM's sales.	9 marks
c.	By analysing features of the market, determine the type of market structure in which EAM operates.	4 marks
		Total: 25 marks

Mark Scheme

Q2a

There are 4 options, voluntary liquidation, compulsory liquidation, administration and company voluntary arrangement:	
Voluntary liquidation: As the name suggests, a company voluntarily give up trading and liquidates all of its assets. EAM will have to sell all its assets to pay off all its debts. Voluntary liquidation can take one of two forms: a members' voluntary liquidation (MVL) or a creditors' voluntary liquidation (CVL). In both cases, the directors call a meeting of members where a special resolution is passed which votes to put the company into liquidation and an ordinary resolution is passed to appoint a liquidator. One of the key differences between an MVL and a CVL is that in an MVL the company is solvent whereas in a CVL the company is insolvent.	1 mark
Compulsory liquidation: A creditor or a group of creditors force the company into liquidation. The impact is same as the voluntary liquidation, EAM liquidate all assets and pay off creditors.	1 mark
Administration: Whereas liquidation results in the dissolution of EAM, administration is a statutory process whereby EAM may be saved from liquidation. Administration is only available to companies that are insolvent. It is an attempt to rescue an insolvent company by placing its management in the hands of an administrator. Administration is seen as giving a company breathing space to allow it, ideally, to return to financial health or, at least, to generate a more advantageous realisation of assets than would be possible in a liquidation.	1 mark
Company voluntary arrangements: Ideally, the CVA is a rescue procedure aimed at viable companies that have incurred large one-off debts that need to be written off in order to allow the company to survive.	1 mark

	Liquidation options are divided into voluntary and compulsory liquidation. The voluntary further divides into MVL and CVL. EAM does not really have a lot of assets, GBP360m assets are only GBP60m over its liabilities. There is a risk that creditors may not even get their money back. Also, liquidation involves a lot of other factors, as EAM employs over 2000 people, which is a big political risk for the local economy. Creditors lose future interest income and shareholders are completely wiped out (though they may not have much left after the LSE delist). Employees would lose their jobs. These all appear to point out that liquidation is a costly option.	2 marks
	For any liquidation options to happen, EAM needs to be insolvent. Even though EAM is in financial trouble, the case study did not provide enough information about whether EAM is insolvent or not. Unless the management willingly give up or agree with the creditors for CVL, it is unlikely it will be forced into compulsory liquidation as the cost of forced sales is high. This means the company may be better off following other insolvency options.	2 marks
	There are two options that can save EAM in the long term.	1 mark
	Administration: This might be a better option if EAM has a future, as administration aims to cocoon EAM from its creditors by seeking to: • rescue the company as a going concern, or, failing that • lead to a better realisation of the assets than would be likely if the company was • wound up, or failing that • to realise the company's property so as to make a distribution to creditors.	1 mark
	During the period when the administration is in force a number of protections from creditors come into effect including: • moratorium: this is a key protection and means that no creditor can enforce their debt during the administration period without the court's permission • halt to legal proceedings: winding-up proceedings or any other legal process against the company cannot be commenced by a creditor • securities cannot be enforced: a creditor may not enforce any charge, hire purchase or retention of title provision against the company without the leave of the court.	1 mark
	In addition to this, the administrator also has the power to, • appoint and remove directors from office • take possession of company property • sell or dispose of company property • raise or borrow money • appoint agents • carry on the business of the company • make payments to creditors.	
	All this means that EAM will have time to restructure its debt, change the production process and reduce costs wherever it is possible. Given EAM is losing	1 mark

money for each vehicle sold, administration is a perfect chance for EAM to reform its production process and cut cost.

Company Voluntary Arrangement is another option that prevents direct liquidation of EAM. It is very similar to administration where firms can keep operating. The key difference is that CVA is more favouring of creditors. Its aim is to repay creditors. Hence EAM has less protection, and creditors could enforce their debt during the period. If EAM still has a long-term future, CVA is good to help EAM deal with temporary setbacks. However, the case study appears to suggest EAM's problem is structural.

Administration seems to be the best choice overall.

Total marks: 12

Q2b

The role of government policies in the economy should be to reduce unemployment and promote economic growth. The government has a range of macroeconomic policies to influence growth and unemployment. Macroeconomic policy tends to focus on the balance of aggregate demand (the total level of spending in the economy by consumers, the government, companies, foreign tourists etc) and aggregate supply (the total amount of output in the economy). When there is a mismatch between supply and demand, prices could go up or down too much, that means undesired deflation/inflation. The government could use policy tools to bring them back to equilibrium.

1 mark

1 mark

Demand policy seeks to change the level of spending in the economy (i.e. aggregate demand). The aim would be to shift the aggregate demand curve to the right. This would lead to changes in the level of production, prices and employment. A direct demand policy like tax credits on cars increases car demand and would improve EAM's sales.

1 mark

Supply side policy is designed to influence the level of production directly by encouraging employers and employees to produce more. Supply side economics refers to policies aimed at increasing aggregate supply, i.e. shifting the aggregate supply curve to the right. If EAM's cars are not price competitive, direct government subsidies to EAM could reduce production cost hence increase EAM's production. However, these policies could make EAM more competitive in the short run but less competitive in the long run.

1 mark

1 mark

To stimulate economic growth, the government can use loosening monetary policy, increasing money supply or just simply reducing cost of capital. A high interest rate is a tightening monetary policy. A high interest rate is big issue to EAM as it increases EAM's financing cost, lowers consumers purchasing power, and reduces demand on cars. High interest rates also reduce economic growth and overall employment, again reducing demand for cars.

1 mark

On the other hand, the government is also responsible for managing inflation. While high interest creates an unfriendly environment for businesses, it also prevents the economy from overheating. EAM may blame the high interest rate for low consumer demand, however, lower interest would only increase inflation and further increase EAM's production cost. The net effect is that EAM sales could be reduced despite high or low interest rates.	1 mark
Overall, the government can help to some extent to increase EAM's sales, their objectives are to balance the whole economy and not propping up one industry and destroying another one. Countries are in different development stages and utilise different resources so they have different focuses on which industries to develop. Some countries have focused on the auto industry, some in the financial sector. So government may have different priorities rather than the auto industry.	2 marks **Total marks: 9**
Q2c	
The market is monopolistic competition, these are the reasons:	1 mark
There are many sellers of a similar (but not identical) product in a market.	1 mark
Sellers aim to differentiate their product in some way from their competitors. Differentiation can take many forms, for example, through advertising, brand name, packaging, performance characteristics, services, as EAM's competitors are offering features and functionality that are unique, this is traits of monopolistic competition.	1 mark
Finally, companies compete in price and non-price considerations.	1 mark **Total marks: 4**
This mark scheme is not exhaustive – all valid points within answers will be awarded marks. **Syllabus refs: 1.2 LO21, 1.3 LO21, 3.3 LO23**	
	Total: 25 marks

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