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Question: 1

All of the following are primary functions of treasury management EXCEPT:

- A. maintaining liquidity
- B. managing risk
- C. collecting and presenting financial information
- D. investing for short and long-term needs

Answer: C

Explanation:

All of the above are primary functions of treasury management except for collecting and presenting financial information, which is internal in nature and therefore a function of the controller. In contrast, maintaining liquidity, managing risk, and investing for short-and-long-term needs fall under treasury management, which primarily deals with external financing matters.

Question: 2

In order to perform effectively, the treasury management function of the company must:

- A. have extensive internal collaboration with other departments within the company.
- B. limit its internal collaboration to only those with accounting-related functions within the company.
- C. have external collaborations involving interactions with financial institutions, rating agencies and legal counsel.
- D. have collaborative relationships with departments internal to the company such as purchasing and accounting, as well as with various outside financial institutions and agencies.

Answer: D

Explanation:

In order for the treasury management function of the company to perform effectively, it must maintain relationships and collaborate with BOTH its internal departments, such as purchasing, risk management, and tax, as well as external groups, such as investment managers, regulatory agencies, and legal counsel.

Question: 3

Which of the following statements defines the term "benchmarking" as it pertains to treasury management?

- A. A company looks to have a third party take on, in whole or in part, its treasury functions.
- B. A company seeks to improve its efficiency and productivity, and moves to entirely redesign its business processes.
- C. A company researches other successful companies for the purpose of examining what they do and its treasury management processes to theirs, in the hope of identifying "best practices" that it can recreate and benefit from.
- D. A company combines with another so as to have only the acquiring company retain its legal identity, along with the downsizing or potential elimination of one of the two companies' treasury operations.

Answer: C

Explanation:

Benchmarking is when a company seeks out other successful companies in order to identify "best practices," imitate their processes, and benefit from their demonstrated success. Outsourcing is when a third party performs some part of a company's business function for it. Reengineering is when a company redesigns its business processes to provide better efficiencies. A merger is when one or more companies combine to form one legal entity.

Question: 4

The Federal Reserve (Fed) acting to raise the discount rate has all of the following effects on the economy EXCEPT:

- A. The cost of credit increases for banks, thus raising the rates they set for their own lending to consumers.
- B. The higher cost of credit is imposed on consumers, which results in a slowing of their rate and level of borrowing.
- C. The level of growth as related to the money supply becomes more limited.
- D. The new rate provides an increase in the level of borrowing due to banks lowering their rates for providing credit to consumers.

Answer: D

Explanation:

All of the above are consequences of the Fed raising the discount rate except "D," which is actually the result of the Fed lowering the discount rate.

Question: 5

What is the Federal Reserve Board's banking regulation that covers consumers and their informed use of various forms of credit and lending?

- A. Regulation Z
- B. Regulation J
- C. Regulation E
- D. Regulation D

Answer: A

Explanation:

Regulation Z is associated with the Truth in Lending Act of 1968 and involves consumers' informed use of credit. Regulation J involves check collection and settlement, Regulation E involves the Electronic Funds Transfer Act of 1978, and Regulation D establishes reserve requirements for all depository institutions.

Question: 6

What are some of the services that U.S.-based investment banks provide?

- A. They offer a full range of financial services, including personal savings accounts and consumer lending.
- B. They underwrite an issuance of securities by a company to be sold to the public, and act as Correct an advisor to their institutional clients.
- C. They act as agents to provide commercial paper to investors and facilitate the purchase of municipal securities.
- D. They operate in multiple countries, primarily with international corporations, providing foreign exchange and transaction services.

Answer: B

Explanation:

U.S.-based investment banks primarily underwrite issues of securities, facilitate merger and reorganization activities, and maintain broker relationships with their institutional clients. Credit unions have as their primary focus providing consumer deposit accounts as well as lending. U.S. commercial banks work to facilitate the purchase of commercial paper and municipal securities with potential investors. Global (non- U.S.) financial institutions operate worldwide with international corporations and provide services similar to those provided by U.S.-based investment banks, with the exception that they primarily act globally.

Question: 7

The document that provides authorization for a representative of a company to contract financial services with a financial institution is called a/an:

- A. service agreement
- B. service level agreement
- C. account resolution
- D. signature card

Answer: C

Explanation:

The account resolution provides authorization for a representative of a company to contract with the financial institution. The service agreement specifies what is to be expected and required regarding the service relationship between the company and a financial institution. The service level agreement contains benchmark standards of service that must be met by the contracting financial institution, as well as the penalties to be imposed if it does not. The signature card provides to the bank the signatures of all authorized signers within the company needed to conduct the business contracted for.

Question: 8

With regard to counterparty risk, which of the following market-traded derivative products offers the LEAST amount of risk to the contracting parties?

- A. over-the-counter options
- B. currency forwards
- C. interest rate swaps
- D. exchange-traded options

Answer: D

Explanation:

Exchange-traded options present the LEAST counterparty risk because the counterparty is the exchange itself. Over-the-counter options, currency forwards, and interest rate swaps are not traded on an organized exchange, and thus the risk is heightened by dealing with a single party as opposed to the exchange.

Question: 9

Of the four main principles that underlie all of the Generally Accepted Accounting Principles (GAAP), which of the following specifies that a company's expenses must be reported once the revenues resulting from those expenses are reported?

- A. The Revenue-Recognition Principle
- B. The Full-Disclosure Principle
- C. The Matching Principle
- D. The Historical-Cost Principle

Answer: C

Explanation:

The Matching Principle requires expenses to be "matched" with the appropriate revenues once reported. The Revenue-Recognition Principle dictates that revenues be reported once cash is received, is recognized in accounts receivable, or is substantially earned through the sale of a product or service provided. The Full-Disclosure Principle states that any information that could affect the financial decisions of someone referring or relying on it, should be disclosed. The Historical-Cost Principle

requires that assets and liabilities be valued at a historical cost as evidenced by some record of previous historical value.

Question: 10

Of the various types of investment analysis used to assess the value or risk of a given investment, which aims to assess both a best- and worst-case outcome when different circumstances are imposed on the variables?

- A. Cost/benefit analysis
- B. Sensitivity analysis
- C. Scenario analysis
- D. Simulation

Answer: C

Explanation:

Scenario analysis evaluates different outcomes (best and worst) as a variety of circumstances are imposed on the variables. Cost/benefit analysis seeks to answer the question of whether the economic benefits of a given plan outweigh its economic costs. Sensitivity analysis looks at how an outcome is influenced by the change in the value of variables and various assumptions. Simulation analysis is a combination of scenario and sensitivity analysis.

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