

Cash Management quiz

Test your knowledge of cash management with the following CPD questions. If you feel you need an update in this key area, visit the full range of on-line tests and resources at <http://www.treasurers.org/know/cpd>.

Question 1

During a period of high inflation you have had problems with some customers stretching the credit period which they have been given. You are considering offering a discount to encourage early payment. You estimate that the overall debtor days will reduce by 60 days if you offered 1.5% discount for payment within 30 days. If interest rates are 18%, what net benefit will be achieved for every £1000 received early?

- (a) -£29.59
- (b) £15.00
- (c) £14.59
- (d) £13.27

Question 2

When attempting to project cash flows for a business, which of the following definitions would you use for the working capital investment?

- (a) current assets less creditors due before one year
- (b) stocks plus debtors and prepayments less trade creditors and accruals
- (c) current assets less stocks less creditors due within one year
- (d) stocks plus tax payable plus dividend payable

Question 3

Your company has many small

customers in the US served by a US office near New York. You have estimated that using lockboxes for all customers would reduce your collections process by 5 days. Your annual US revenue is \$50m, involving 1,050 items per month on average.

The cost for the lockbox service is 14 cents per item plus a fee of \$3,750 per month. Interest rates are 7.5%.

What would be the annual net benefit of using lockboxes?

- (a) + \$5,300
- (b) + \$7,600
- (c) - \$1,700
- (d) + \$2,300

Question 4

ABC PLC uses a cash management system which allows offset of credit and debit balances such that the notional net balance is the basis for interest calculation. There is no actual movement or co-mingling of funds.

This system is referred to as which of the following:

- (a) cash concentration
- (b) cash pooling
- (c) cash sweeping
- (d) zero balancing

Question 5

What characteristics would you look for when evaluating the ability of a TMS to interface to an accounting system?

- A Ability to export detailed journal entries
- B Ability to represent the Chart of Accounts in the TMS
- C Ability to export summary journal entries
- D Ability to export treasury transactions to the accounting system
- E Ability to raise reversing entries

- (a) ABCE
- (b) BCDE
- (c) ACDE
- (d) ABDE

Question 6

You are investigating the profitability of one particular customer who always pays late. Your terms are that payment should be received 30 days after the invoice. This customer though always delays payment until 60 days.

The average order size for the customer is £2000, your sales margin is 6% and your effective interest rate is 10%. What is your net margin for this customer?

- (a) 6%
- (b) 4.67%
- (c) 4.36%
- (d) 4.04%

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Answers are available on our website:
www.treasurers.org/know/cpd/index.cfm

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