

# Certified Treasury Professional Practice Exam (Sample)

## Study Guide



**Everything you need from our exam experts!**

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# Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

# How to Use This Guide

**This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:**

## 1. Start with a Diagnostic Review

**Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.**

## 2. Study in Short, Focused Sessions

**Break your study time into manageable blocks (e.g. 30 - 45 minutes). Review a handful of questions, reflect on the explanations.**

## 3. Learn from the Explanations

**After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.**

## 4. Track Your Progress

**Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.**

## 5. Simulate the Real Exam

**Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.**

## 6. Repeat and Review

**Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.**

**There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!**

## **Questions**

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- 1. Which of the following is not an operational risk?**
  - A. Workers' compensation risk**
  - B. Fidelity risk**
  - C. Surety risk**
  - D. Currency risk**
  
- 2. Which method can a multinational company use to locate profits in subsidiaries in low-tax countries?**
  - A. Dividends**
  - B. Transfer pricing**
  - C. Management fees**
  - D. Intracompany loans**
  
- 3. What is one primary way the Federal Reserve addresses systemic risk?**
  - A. Assigning passwords and PINs to users of Fedwire systems**
  - B. Establishing intra-day credit limits for ACH origination**
  - C. Setting minimum reserve requirements for member banks**
  - D. Setting daylight overdraft limits for member banks**
  
- 4. What is the best provision for a bank to control credit exposure for a high volume of outgoing ACH payments?**
  - A. An intraday credit limit for the company**
  - B. A limit on the number of items processed per day**
  - C. An overdraft facility for the company**
  - D. A standby letter of credit for the company**
  
- 5. Which ratio is considered the most reliable predictor of financial failure according to studies of failed companies?**
  - A. Cash flow to total debt**
  - B. Cash conversion efficiency**
  - C. Current ratio**
  - D. Quick ratio**

**6. In treasury management, which factor is crucial for assessing a factor's value?**

- A. The interest rate of bonds**
- B. The ability to improve liquidity immediately**
- C. The value of future sales**
- D. The duration of the project financed**

**7. What metric is commonly used to gauge short-term financial stability?**

- A. Profit margin**
- B. Current ratio**
- C. Return on equity**
- D. Debt-to-equity ratio**

**8. What is the present value of receiving full payment on day 30 for a seller with a cost of capital of 12% on a \$200,000 credit sale?**

- A. \$198,019.80**
- B. \$198,046.66**
- C. \$199,335.55**
- D. \$199,344.62**

**9. A company with \$50 million in foreign assets decides to increase its foreign debt by \$40 million for a debt ratio of 80%. What exposure does this action reduce?**

- A. Hedged**
- B. Economic**
- C. Transaction**
- D. Translation**

**10. What does the net present value (NPV) help determine in investment decisions?**

- A. The risk of investment**
- B. Investment profitability**
- C. The amount of debt**
- D. The duration of the investment**

## **Answers**

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1. D
2. B
3. D
4. A
5. A
6. B
7. B
8. B
9. D
10. B

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## **Explanations**

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## 1. Which of the following is not an operational risk?

- A. Workers' compensation risk**
- B. Fidelity risk**
- C. Surety risk**
- D. Currency risk**

Operational risks typically arise from internal processes, people, and systems within an organization, as well as from external events. The goal of managing these risks is to ensure the smooth operation of a business without disruptions that could affect its ability to achieve its objectives. Workers' compensation risk is an operational risk that stems from workplace injuries and associated liabilities. It directly impacts the organization's operations, costs, and employee productivity. Fidelity risk is related to the potential loss from dishonest or fraudulent actions by employees or third parties. This falls under operational risk as it relates to the integrity of the processes and systems in place. Surety risk pertains to the possibility that a contractor or service provider will not fulfill obligations and may impact the operational effectiveness of projects and contracts. This has operational implications in terms of management and execution of agreements. Currency risk, on the other hand, is classified more accurately under market risk. It arises from fluctuations in exchange rates, which can affect the value of financial transactions involving different currencies. This type of risk is not about the internal processes of an organization but rather about external financial markets and economic conditions. Therefore, it is currency risk that does not fit within the definition of operational risk.

## 2. Which method can a multinational company use to locate profits in subsidiaries in low-tax countries?

- A. Dividends**
- B. Transfer pricing**
- C. Management fees**
- D. Intracompany loans**

Transfer pricing is a fundamental method used by multinational companies to allocate their profits among subsidiaries in different jurisdictions, particularly those with varying tax rates. This practice involves setting the prices for goods and services sold between related entities within the multinational enterprise. By manipulating these internal prices, a company can shift profits from higher-tax jurisdictions to those with lower tax rates. For instance, if a subsidiary in a high-tax country sells products to a subsidiary in a low-tax country, by setting a high transfer price for goods sold, the profits can be reported in the low-tax country, ultimately reducing the overall tax liability of the multinational group. This method is frequently leveraged for strategic financial planning, as it allows companies to optimize their global tax burden and improve the after-tax returns from different regions. Regulatory framework and compliance standards governing transfer pricing are essential, as tax authorities monitor these transactions to prevent tax avoidance or profit shifting through unfair pricing strategies. Hence, the correct identification of transfer pricing as a beneficial method for profit location reflects an understanding of international tax strategy and compliance.

**3. What is one primary way the Federal Reserve addresses systemic risk?**

- A. Assigning passwords and PINs to users of Fedwire systems**
- B. Establishing intra-day credit limits for ACH origination**
- C. Setting minimum reserve requirements for member banks**
- D. Setting daylight overdraft limits for member banks**

The primary way the Federal Reserve addresses systemic risk through setting daylight overdraft limits for member banks is crucial because it helps to ensure the stability of the overall financial system. Daylight overdrafts occur when a bank's payments exceed its available funds during the business day, potentially leading to negative balances in a real-time payment environment. By establishing limits on these overdrafts, the Federal Reserve mitigates the risk that one bank's failure to meet its obligations could trigger a chain reaction affecting other institutions, which could jeopardize the liquidity and stability of the entire banking system. When banks have clear overdraft limits, they are encouraged to manage their liquidity more effectively, reducing the overall risk of systemic failures. This practice is especially important during stress periods in the financial markets when the ability to manage real-time payments efficiently is critical. In contrast, while assigning passwords and PINs, establishing intra-day credit limits, and setting minimum reserve requirements all play roles in the overall functioning of the financial system, they do not directly target the risk of one bank's inability to settle transactions impacting others in the same immediate timeframe, which is the core concern addressed by daylight overdraft limits.

**4. What is the best provision for a bank to control credit exposure for a high volume of outgoing ACH payments?**

- A. A. An intraday credit limit for the company**
- B. B. A limit on the number of items processed per day**
- C. C. An overdraft facility for the company**
- D. D. A standby letter of credit for the company**

Setting an intraday credit limit for a company is an effective provision for managing credit exposure, especially in the context of high volumes of outgoing Automated Clearing House (ACH) payments. This approach allows the bank to establish a predetermined cap on the amount of money a company can borrow or have available during the business day. By implementing such a limit, the bank can closely monitor real-time transactions and effectively mitigate the risk of excessive credit exposure. This limit safeguards against potential overextension of credit that might occur due to high transaction volumes, ensuring that the company's financial activities remain within manageable and secure boundaries. While other options may also address certain aspects of risk management, they do not provide the same level of proactive control over credit exposure in real-time transactions. For example, a limit on the number of items processed per day could help manage operational risk but does not directly address the credit risk involved in those transactions. An overdraft facility may provide flexibility for short-term funding; however, it might not adequately control overall credit exposure. A standby letter of credit serves a different purpose, often related to guaranteeing payment, rather than directly limiting credit exposure associated with ACH payments.

**5. Which ratio is considered the most reliable predictor of financial failure according to studies of failed companies?**

- A. Cash flow to total debt**
- B. Cash conversion efficiency**
- C. Current ratio**
- D. Quick ratio**

The most reliable predictor of financial failure among the options presented is the cash flow to total debt ratio. This ratio provides insight into a company's ability to meet its debt obligations using the cash generated from its operations. A low ratio indicates that the company may struggle to cover its debts, making it a strong indicator of potential financial distress. In studies of failed companies, cash flow is crucial because it reflects the actual funds available for fulfilling obligations, rather than just accounting measures of profitability or asset liquidity. Cash flow to total debt essentially highlights whether a company generates sufficient cash to service its debts, encompassing both interest payments and principal repayments. Therefore, companies with a consistent shortfall in this ratio are more likely to face bankruptcy or insolvency. The other options, while valuable in their own contexts, do not specifically highlight the operational cash flow aspect as thoroughly as the cash flow to total debt ratio does. For example, cash conversion efficiency focuses more on the efficiency of converting sales into cash but does not directly assess the company's overall debt burden. The current ratio and quick ratio measure liquidity and short-term financial health but do not provide insights into cash flow related to debt obligations.

**6. In treasury management, which factor is crucial for assessing a factor's value?**

- A. The interest rate of bonds**
- B. The ability to improve liquidity immediately**
- C. The value of future sales**
- D. The duration of the project financed**

In treasury management, the ability to improve liquidity immediately is a critical factor when assessing a factor's value. This is because a factor primarily provides financing for accounts receivable, allowing a company to convert its outstanding invoices into cash quickly. Improving liquidity is essential for businesses to meet immediate financial obligations, invest in growth opportunities, or manage day-to-day operational needs. When a company utilizes factoring, it transfers its receivables to a third party (the factor) and receives immediate cash, which directly enhances its liquidity position. This immediacy is what makes the factor's value significant; it enables businesses to maintain smooth cash flow, which is fundamental for effective treasury management. Other factors, like the interest rate of bonds or the value of future sales, may play a role in financing decisions but do not directly address the immediate cash flow benefits that are crucial in assessing the factoring process. Similarly, while the duration of the project financed is important for overall financial strategy, it does not have the same direct impact on liquidity as immediate cash flow does. Therefore, the focus on improving liquidity positions the assessment of a factor's value accurately within the context of treasury management.

**7. What metric is commonly used to gauge short-term financial stability?**

- A. Profit margin**
- B. Current ratio**
- C. Return on equity**
- D. Debt-to-equity ratio**

The current ratio is a critical metric used to evaluate short-term financial stability because it provides a clear picture of a company's ability to meet its short-term obligations. Specifically, the current ratio compares a company's current assets to its current liabilities. A higher current ratio indicates that the company has a substantial amount of assets readily available to cover its short-term debts, which signifies financial health and stability. This metric is particularly valued because it highlights liquidity, which is essential for managing the day-to-day operations of a business. By ensuring that current assets exceed current liabilities, stakeholders can gauge the company's short-term financial resilience, especially in times of economic uncertainty or unforeseen expenditures. A current ratio below 1 may suggest potential liquidity issues, indicating that the company does not have enough near-term assets to cover its short-term liabilities, leading to possible financial difficulties. In contrast, the other options focus on different aspects of financial performance. Profit margin is concerned with overall profitability rather than short-term stability, return on equity evaluates the efficiency of generating profit relative to shareholders' equity, and debt-to-equity ratio measures financial leverage but does not directly assess liquidity or short-term obligations. Thus, the current ratio is uniquely suited for assessing short-term financial stability.

**8. What is the present value of receiving full payment on day 30 for a seller with a cost of capital of 12% on a \$200,000 credit sale?**

- A. \$198,019.80**
- B. \$198,046.66**
- C. \$199,335.55**
- D. \$199,344.62**

To determine the present value of receiving full payment on day 30 at a cost of capital of 12% for a \$200,000 credit sale, the present value formula is used. This formula accounts for the time value of money, reflecting that receiving a dollar today is worth more than receiving it in the future due to its potential earning capacity. The present value (PV) can be calculated using the formula: 
$$PV = \frac{FV}{(1 + r)^n}$$
 where: -  $FV$  is the future value or the amount to be received (\$200,000), -  $r$  is the interest rate per period (annual cost of capital of 12%, or 0.12), and -  $n$  is the number of periods until payment is received (30 days, expressed as a fraction of a year, which is 30/365). Substituting in those values: 1. Convert the interest rate into a daily rate:  $r = \frac{0.12}{365} \approx 0.000328767$ . 2. Calculate the number of periods:  $n = \frac{30}{365}$ . Plugging these into the present

**9. A company with \$50 million in foreign assets decides to increase its foreign debt by \$40 million for a debt ratio of 80%. What exposure does this action reduce?**

- A. Hedged**
- B. Economic**
- C. Transaction**
- D. Translation**

Increasing foreign debt helps the company reduce its translation exposure. Translation exposure occurs when a company has foreign assets and liabilities, leading to the risk of fluctuations in exchange rates affecting the reported financial position when converting foreign currency values to the home currency. In this scenario, the company has \$50 million in foreign assets and decides to take on \$40 million in foreign debt. With this increase in foreign debt, the company effectively adjusts its capital structure, aligning its foreign assets more closely with its foreign liabilities. Consequently, any potential changes in exchange rates will have a less pronounced impact on the overall value when consolidating financial statements into the home currency. Reducing translation exposure is particularly beneficial for companies operating internationally, as it mitigates the impact of foreign exchange volatility on the balance sheet, thus providing a more stable financial outlook.

**10. What does the net present value (NPV) help determine in investment decisions?**

- A. The risk of investment**
- B. Investment profitability**
- C. The amount of debt**
- D. The duration of the investment**

Net Present Value (NPV) is a crucial financial metric used in investment decisions to evaluate the profitability of an investment. It calculates the present value of a series of cash flows expected from an investment, discounted back to the present at a specified rate (usually the cost of capital). By subtracting the initial investment cost from this present value, NPV provides a clear indication of whether an investment will generate value or not. When the NPV is positive, this indicates that the expected returns exceed the costs, suggesting that the investment will be profitable and generate wealth for the investor. Conversely, a negative NPV signals that the costs may outweigh the expected returns, making the investment less attractive. Therefore, NPV serves as a vital tool in assessing whether to proceed with an investment by highlighting its profitability potential, aligning financial decisions with value creation. This understanding of NPV's role in determining investment profitability distinguishes it from considerations like risk assessment, amount of debt, or the duration of the investment, which, while important, serve different aspects of investment analysis.

# Next Steps

**Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.**

**As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.**

**If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at [hello@examzify.com](mailto:hello@examzify.com).**

**Or visit your dedicated course page for more study tools and resources:**

**<https://certifiedtreasuryprofessional.examzify.com>**

**We wish you the very best on your exam journey. You've got this!**

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