

# CPFO Treasury and Investment Management (TIM) 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. What is the primary interest rate risk concern for holders of long-term fixed income securities?**
  - A. Interest rates will rise and reduce the value of the bond portfolio.**
  - B. Interest rates will fall and reduce the value of the bond portfolio.**
  - C. Interest rates will fall and limit the ability to invest at high rates.**
  - D. Interest rates will rise and increase the value of the bond portfolio.**
  
- 2. For long-term investments, which accounting method provides superior information for decision making?**
  - A. Cash basis accounting**
  - B. Accrual basis accounting**
  - C. Market (fair) value accounting**
  - D. All methods can be equally useful.**
  
- 3. What do foreign exchange (FX) risks primarily affect in investments?**
  - A. The value of domestic investments**
  - B. The value of international investments**
  - C. The amount of tax owed**
  - D. The liquidity of investments**
  
- 4. What does duration measure in bond investments?**
  - A. The time until maturity**
  - B. Sensitivity to interest rate changes**
  - C. The total yield of the bond**
  - D. The credit quality of the issuer**
  
- 5. What should credit analysis of banks primarily consider?**
  - A. Cross-industry and time-series ratio analysis.**
  - B. CRA rating.**
  - C. Expected size of deposits.**
  - D. Capital adequacy.**

- 6. Which of the following aspects does good corporate governance NOT directly enhance?**
- A. Accountability**
  - B. Market monopolies**
  - C. Ethical behavior**
  - D. Investor confidence**
- 7. What does an investment policy outline in public treasury management?**
- A. Guidelines for employee conduct**
  - B. Strategies for marketing**
  - C. Parameters for managing investments**
  - D. Methods for budget preparation**
- 8. What is the outcome of effective investment diversification?**
- A. Higher concentration of risk**
  - B. Limited opportunity for earning returns**
  - C. Increased exposure to specific assets**
  - D. Lower overall risk in the investment portfolio**
- 9. How does duration affect bond investments?**
- A. It measures the bond's overall yield**
  - B. It indicates sensitivity to interest rate changes**
  - C. It determines the credit rating of a bond**
  - D. It assesses the issuer's financial strength**
- 10. What is the key attribute for a government's p-card program?**
- A. Have set policies in place for authorized uses and users**
  - B. Keep p-cards in a central physical location so that they can be accessed by authorized users when needed**
  - C. P-card usage should have a separate procurement policy from a government's general procurement policy**
  - D. P-cards should be issued from the same institution as the entity's depository bank**

## Answers

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

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## **Explanations**

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**1. What is the primary interest rate risk concern for holders of long-term fixed income securities?**

- A. Interest rates will rise and reduce the value of the bond portfolio.**
- B. Interest rates will fall and reduce the value of the bond portfolio.**
- C. Interest rates will fall and limit the ability to invest at high rates.**
- D. Interest rates will rise and increase the value of the bond portfolio.**

The primary interest rate risk concern for holders of long-term fixed income securities is that interest rates will rise and reduce the value of the bond portfolio. When interest rates increase, the prices of existing bonds tend to fall, particularly impacting long-term bonds more significantly than short-term bonds. This is because long-term bonds lock in interest rates for an extended period. As new bonds are issued with higher interest rates, the attractiveness of existing bonds with lower rates diminishes, leading to a decrease in their market value. For investors in long-term fixed income securities, this heightened sensitivity to interest rate changes means that a market increase in interest rates can lead to substantial losses in the value of their portfolios. Thus, understanding this relationship is crucial for managing investment risk and making informed decisions regarding bond holdings.

**2. For long-term investments, which accounting method provides superior information for decision making?**

- A. Cash basis accounting**
- B. Accrual basis accounting**
- C. Market (fair) value accounting**
- D. All methods can be equally useful.**

The reason market (fair) value accounting is recognized as the superior method for long-term investments lies in its ability to provide a more accurate and real-time representation of an asset's true value. This accounting method reflects the current market conditions, allowing stakeholders to see how much an investment is worth at any given moment based on prevailing prices. This is particularly beneficial for long-term investments, where fluctuating market conditions can significantly impact asset valuation. By using market value accounting, decision-makers can evaluate the performance of their investments more effectively, making informed choices regarding buying, holding, or selling assets based on their current worth rather than historical costs. In contrast, cash basis accounting records revenues and expenses when cash is actually received or paid, which may not adequately capture the value of an investment over time, especially for long-term holdings that might not generate immediate cash flow. Accrual basis accounting recognizes revenues and expenses when they are incurred, but it still relies on estimations and does not provide the immediacy and relevance found in market value assessments. While this method improves upon cash basis accounting in reflecting financial performance, it does not fully embrace the current economic landscape as market value accounting does. The assertion that all methods can be equally useful overlooks the fact that each

### 3. What do foreign exchange (FX) risks primarily affect in investments?

- A. The value of domestic investments
- B. The value of international investments**
- C. The amount of tax owed
- D. The liquidity of investments

Foreign exchange (FX) risks primarily affect the value of international investments. When an investor holds assets denominated in foreign currencies, fluctuations in exchange rates can significantly impact the value of those investments in the investor's home currency. For instance, if a U.S. investor owns shares in a foreign company and the foreign currency depreciates relative to the U.S. dollar, the value of those shares will diminish when converted back to dollars, even if the price of the shares has remained stable in their local currency. This sensitivity to currency fluctuations is crucial for anyone involved in international finance or investments, as it directly influences returns. Understanding FX risk is essential for effectively managing and mitigating potential losses in a portfolio that includes foreign assets.

### 4. What does duration measure in bond investments?

- A. The time until maturity
- B. Sensitivity to interest rate changes**
- C. The total yield of the bond
- D. The credit quality of the issuer

Duration is a crucial concept in bond investments as it measures the sensitivity of a bond's price to changes in interest rates. Specifically, duration estimates how much the price of a bond will change in response to a 1% change in yield, making it an essential tool for bond investors. A higher duration indicates greater sensitivity, meaning that the bond's price will fluctuate more with changes in interest rates. Understanding this concept is important for managing interest rate risk in a bond portfolio. For example, if interest rates rise, the price of bonds with longer durations will typically drop more than those with shorter durations. This information can significantly influence investment strategies, portfolio duration management, and risk assessment in various interest rate environments. The other choices, while related to bonds, do not address the specific measurement that duration represents. The time until maturity refers to the length of time until the principal is repaid, the total yield pertains to the return on investment from the bond, and the credit quality of the issuer assesses the likelihood of default on the bond. None of these elements capture the essence of what duration measures.

## 5. What should credit analysis of banks primarily consider?

- A. Cross-industry and time-series ratio analysis.
- B. CRA rating.
- C. Expected size of deposits.
- D. Capital adequacy.**

Credit analysis of banks primarily focuses on the assessment of their capital adequacy because this measure indicates a bank's financial health and its ability to absorb potential losses. Capital adequacy is crucial for banks as it provides a buffer against losses while still maintaining sufficient liquidity for operational needs. Regulators often require banks to maintain a minimum level of capital, and those with higher capital adequacy ratios are seen as more resilient during economic downturns or financial crises. By analyzing capital adequacy, credit analysts can determine whether a bank has sufficient capital not only to meet its regulatory requirements but also to protect depositors' interests. This aspect of credit analysis is vital for assessing the overall stability and creditworthiness of a financial institution. It ensures that the bank is not over-leveraged and has a stable foundational structure to support its operations and growth. Other aspects such as cross-industry and time-series ratio analysis, CRA ratings, and expected size of deposits can provide relevant information but do not encompass the fundamental risk assessment that capital adequacy provides in the context of understanding a bank's ability to manage credit risk effectively.

## 6. Which of the following aspects does good corporate governance NOT directly enhance?

- A. Accountability
- B. Market monopolies**
- C. Ethical behavior
- D. Investor confidence

Good corporate governance is fundamentally designed to promote accountability, ethical behavior, and investor confidence within organizations. Accountability is enhanced because good governance sets clear roles and responsibilities for individuals and management, ensuring that decision-making processes are transparent and that those in power are answerable for their actions. Ethical behavior is also promoted, as effective governance establishes a framework that encourages integrity and ethical conduct, helping to align the interests of stakeholders and minimizing the risk of corporate scandals. Investor confidence is bolstered by good corporate governance practices as they provide assurance that the company is managed in a fair and transparent manner, which is crucial for making informed investment decisions. When investors see that a company adheres to good governance principles, they are more likely to trust the organization's management and invest their capital. In contrast, market monopolies do not benefit from good corporate governance. In fact, monopolistic environments can thrive in situations where governance is weak, allowing for the concentration of market power without the checks and balances that good governance provides. Thus, good corporate governance does not directly enhance market monopolies, aligning with the correct choice.

## 7. What does an investment policy outline in public treasury management?

- A. Guidelines for employee conduct
- B. Strategies for marketing
- C. Parameters for managing investments**
- D. Methods for budget preparation

An investment policy in public treasury management is crucial as it establishes clear parameters for managing investments. This policy serves as a comprehensive framework that governs the investment activities of a treasury or public entity. It outlines acceptable types of investment vehicles, risk tolerances, diversification strategies, and the overall objectives of the investment portfolio. By defining these parameters, the investment policy helps ensure that the treasury management adheres to legal requirements and institutional goals while minimizing risks and optimizing returns. This clarity not only guides the investment decisions made by treasury officials but also provides transparency and accountability to stakeholders, including the public and governing bodies. While other options touch on important aspects of management and operations within a public entity, they do not specifically address the strategic and regulatory environment necessary for effective investment management, which is the core purpose of an investment policy.

## 8. What is the outcome of effective investment diversification?

- A. Higher concentration of risk
- B. Limited opportunity for earning returns
- C. Increased exposure to specific assets
- D. Lower overall risk in the investment portfolio**

The outcome of effective investment diversification is to achieve a lower overall risk in the investment portfolio. Diversification involves spreading investments across various asset classes, sectors, or geographic regions, which can protect against significant losses in any one area. By investing in a variety of assets that do not move in tandem, the negative performance of one asset can be offset by the positive performance of another. This strategy reduces the portfolio's volatility and enhances the potential for consistent returns over time without exposing investors to excessive risk from one specific investment. In essence, effective diversification helps to create a more stable investment environment, where the overall risk is minimized while still allowing for the possibility of earning returns. This principle is fundamental to sound investment strategy and is key for both individual and institutional investors.

## 9. How does duration affect bond investments?

- A. It measures the bond's overall yield
- B. It indicates sensitivity to interest rate changes**
- C. It determines the credit rating of a bond
- D. It assesses the issuer's financial strength

Duration is a key concept in fixed-income investing, as it provides insight into how sensitive a bond's price is to changes in interest rates. Specifically, duration measures the weighted average time until a bond's cash flows are received, and it reflects the bond's price volatility in response to interest rate movements. When interest rates rise, bond prices typically fall, and the extent of this price change is influenced by the bond's duration. A bond with a longer duration will generally experience a greater price decline when interest rates increase compared to a bond with a shorter duration. Conversely, if interest rates fall, longer-duration bonds will rise more sharply in price. This characteristic makes duration a vital tool for investors seeking to manage interest rate risk. By understanding duration, investors can better position their portfolios in response to anticipated market movements and make informed decisions about bond investments.

## 10. What is the key attribute for a government's p-card program?

- A. Have set policies in place for authorized uses and users**
- B. Keep p-cards in a central physical location so that they can be accessed by authorized users when needed
- C. P-card usage should have a separate procurement policy from a government's general procurement policy
- D. P-cards should be issued from the same institution as the entity's depository bank

The key attribute for a government's p-card program is to have set policies in place for authorized uses and users. This ensures that the program is governed by clear guidelines that outline who is permitted to use the p-cards, for what purposes they can be utilized, and what spending limits or restrictions apply. Establishing well-defined policies is crucial for promoting accountability, preventing misuse, and ensuring that the program aligns with the overall financial management objectives of the government. Without these policies, there could be confusion regarding acceptable expenditures, which could lead to unauthorized transactions or compliance issues. This structured approach not only safeguards public funds but also enhances transparency and integrity within the procurement process. By focusing on authorized uses and setting criteria for users, the government can effectively manage the risks associated with p-card usage while maximizing the benefits of the program.

## 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://cpfotim.examzify.com>**

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

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