



**Vendor:** AFP

**Exam Code:** CTP

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**QUESTION 1**

A company with constant earnings and excess cash is considering a significant stock repurchase plan. Which of the following is MOST LIKELY to occur?

- A. Earnings per share will increase, and the number of shares outstanding will stay constant.
- B. Earnings per share will decrease, and the number of shares outstanding will increase.
- C. Earnings per share will increase, and the number of shares outstanding will decrease.
- D. Earnings per share will decrease, and the number of shares outstanding will stay constant.

**Answer: C**

**QUESTION 2**

Optimal dividend policy is one that does all of the following EXCEPT:

- A. maintain adequate retained earnings for future growth.
- B. maximize shareholder value.
- C. distribute corporate income to investors.
- D. balance tax shield benefits against agency costs.

**Answer: D**

**QUESTION 3**

Company XYZ has determined that its weighted average cost of capital is 12.5%. The capital structure of the company is made up of 75% equity and 25% debt. The before-tax cost of debt is 10%. Given a tax rate of 34%, what is XYZ's cost of common stock?

- A. 13.25%
- B. 14.47%
- C. 15.25%
- D. 16.53%

**Answer: B**

**QUESTION 4**

A company hires an investment firm to fully underwrite a new stock issuance. Which of the parties carries the MOST risk?

- A. The public
- B. The company
- C. The company's bond holders
- D. The investment firm

**Answer: D**

**QUESTION 5**

Which of the following BEST describes an advantage of a company going public?

- A. Increased management control
- B. Increased public disclosure

- C. Increased managerial flexibility
- D. Increased liquidity

**Answer: D**

**QUESTION 6**

With respect to the Sarbanes-Oxley Act, a company may avoid additional reporting requirements by:

- A. issuing shares in an IPO.
- B. providing an SSAE 16.
- C. redeeming bond issues.
- D. delisting its securities.

**Answer: D**

**QUESTION 7**

Which of the following would be expected to happen on the ex-dividend date?

- A. The stock is sold with the dividend attached.
- B. The stock price drops.
- C. The stock's volume increases.
- D. The stock's dividend is paid.

**Answer: B**

**QUESTION 8**

Regarding dividends, on which of the following dates would a company's current assets be reduced?

- A. Declaration date
- B. Ex-dividend date
- C. Payment date
- D. Record date

**Answer: C**

**QUESTION 9**

In which of the following instances does the clientele effect come into play?

- A. When a company announces its earnings forecast
- B. When a company submits its 10-Q to the SEC
- C. When a company declares a dividend
- D. When a company increases its sales

**Answer: C**

**QUESTION 10**

ASC Topic 815 (FAS 133) is applicable when accounting for which of the following?

- A. Gain on an equity investment
- B. Purchase of a bond investment
- C. Market value of collateral
- D. Purchase of a forward

**Answer: D**

**QUESTION 11**

Which of the following would be MOST suitable for a risk-averse electronics manufacturer that uses copper in many of its components?

- A. A put option on copper futures
- B. A short position in copper futures
- C. A floor option on copper futures
- D. A costless collar using options on copper futures

**Answer: D**

**QUESTION 12**

Which of the following is subject to transaction exposure?

- A. A U.S. company's foreign subsidiary in Japan has a receivable denominated in Yen.
- B. A Japanese company's foreign subsidiary in the U.S. has a receivable denominated in Yen.
- C. A U.S. company's foreign subsidiary in Japan has a payable denominated in Yen.
- D. A Japanese company's foreign subsidiary in the U.S. has a payable denominated in dollars.

**Answer: B**

**QUESTION 13**

Which of the following is subject to translation exposure?

- A. A German company with a subsidiary in Spain
- B. A Spanish company with revenues in euros
- C. A Japanese subsidiary in the United States with U.S. dollar liabilities
- D. A U.K. company that exports goods to the United States

**Answer: C**

**QUESTION 14**

Company XYZ is not sure which direction interest rates are headed. Which of the following would be MOST suitable?

- A. An interest rate cap
- B. An interest rate floor
- C. An interest rate swap
- D. An interest rate collar

**Answer: D**

**QUESTION 15**

In evaluating alternative capital investments, a company should consider qualitative factors such as:

- A. projected cash flows.
- B. estimated economic returns.
- C. corporate strategy.
- D. estimated costs.

**Answer: C**