

ENGLISH FOR WORK / FINANCE TEAMS / EVIDENCE / DECISIONS

Finance English

Explain the numbers. Preserve the assumptions. Make the next step clear.



Phil Stilwell

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Eight practical lessons. Eleven extended conversations.

Vocabulary, phrase banks, guided speaking, and explained answers.

Revised 2026 edition / Upper-intermediate to advanced

Your route through the book

01 Finance Communication: Drivers, Assumptions, Materiality, Risk, page 4

Explain opposing financial movements using the same period, comparison, and calculation basis.

02 Financial Statements, Close, and Accounting Judgments, page 15

Clarify the reporting question and separate service timing, recognition, posting, and cash payment.

03 FP&A, Budgeting, Forecasting, and Variance Analysis, page 29

Present a reconciled forecast update and distinguish quantified drivers from unresolved residuals.

04 Treasury, Cash, Liquidity, Working Capital, and FX, page 40

Explain conditional liquidity, test a delayed-receipt case, and distinguish available funds from unverified facilities.

05 Markets, Investments, Performance, and Client Communication, page 52

Present a qualified performance comparison and correct misleading return language.

06 Banking, Credit, Lending, and Counterparty Risk, page 63

Request specific financial evidence and explain its effect on a credit review without promising approval.

07 Controls, Audit, Compliance, Fraud, and Ethics, page 78

Hand off unresolved reconciliation items with evidence, ownership, and neutral risk language.

08 Valuation, M&A, Capital Allocation, and Executive Finance, page 90

Present valuation sensitivity and distinguish modeled enterprise value from a transaction price.

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Suggested study range: B2-C1. This is an editorial study range, not a certified proficiency assessment.

A number needs its basis.

Finance conversations connect measurements to decisions. The same number can mean different things when its period, currency, comparison, fee treatment, or approval status changes. These fictional cases practice the language that keeps those distinctions visible.

Name the comparison

Above budget, up on last year, and ahead of the previous forecast are different claims. State the period and comparison before explaining the movement.

"Revenue is 5% above this month's budget, not 5% above last year."

Separate result from estimate

An actual result, an updated forecast, and a sensitivity calculation carry different kinds of certainty. Name the status and the important assumptions.

"The cash balance is forecast on the assumption that the customer pays Friday."

Explain the unit

Distinguish dollars, percentages, percentage points, and basis points. Identify the denominator when quoting a ratio and do not hide a change in calculation basis.

"The return difference is one percentage point, before the stated fee adjustment."

Match the claim to the review

A balanced reconciliation, a reviewed assumption, and an approved decision are separate accomplishments. Report what is complete and what still needs evidence or authorization.

"The difference is identified; the correcting entry is not yet approved."

Professional boundaries

Fictional English-language practice, not investment, lending, accounting, tax, or legal advice. Definitions are concise teaching descriptions. Actual treatments and decisions require current standards, governing documents, firm policies, and qualified review. No product or transaction is recommended.

A Read the situation

LESSON 01 / FINANCE COMMUNICATION: DRIVERS, ASSUMPTIONS, MATERIALITY, RISK

Explain opposing financial movements using the same period, comparison, and calculation basis.

Revenue is ahead, but profit is behind

For the month, budgeted revenue was \$1,000,000 and operating costs were \$800,000. Actual revenue was \$1,050,000 and operating costs were \$854,000. The cost increase comprises \$30,000 in freight and \$24,000 in agency labor. The analyst has verified those categories but has not separated rate and volume effects or assessed recurrence. Lena, the analyst, and Amir, the finance director, are preparing a concise management-review explanation. All figures use the same currency and reporting scope.

People: Lena, Finance analyst; Amir, Finance director.

Read the record

Choose one answer per question using the facts above.

1. What is actual operating profit in this case?

- A. \$250,000
- B. \$54,000
- C. \$196,000
- D. \$200,000

2. How much did costs exceed budget?

- A. \$24,000
- B. \$54,000
- C. \$50,000
- D. \$4,000

3. Which question remains unresolved?

- A. How much of the cost increase reflects rate versus volume
- B. Whether revenue is \$1,050,000
- C. Whether the comparison uses the same month
- D. Whether the two cost categories total \$54,000

[Answers and explanations, page 118](#)

B Vocabulary in use

CORE TERMS

revenue

Income recognized from the business's goods or services under the relevant basis.

report recognized revenue

operating profit

Revenue less the operating costs included in the stated presentation.

explain operating profit

net income

Profit after the expenses and other items in the applicable presentation.

reconcile net income

driver

A factor contributing to a financial movement.

isolate the main driver

favorable

Beneficial against the specified comparison or objective.

label a favorable variance

price effect

The portion of a movement attributed to selling-price changes.

separate the price effect

operating cost

A cost included in the stated measure of operating activity.

analyze operating costs

gross profit

Revenue less the specified cost of goods or services sold.

distinguish gross from operating profit

variance

A difference between a result and its stated comparator.

explain a budget variance

offset

A movement that counteracts another movement.

quantify the cost offset

unfavorable

Adverse against the specified comparison or objective.

explain an unfavorable variance

volume effect

The portion attributed to a change in quantities.

estimate the volume effect

Say it in context

Stress the highlighted expression. Keep the surrounding words connected; pause at the end of the phrase.

revenue REVENUE

report recognized revenue

Keep the meaning precise: Income recognized from the business's goods or services under the relevant basis.

variance VARIANCE

explain a budget variance

Keep the meaning precise: A difference between a result and its stated comparator.

B Precision and professional shorthand

EXTEND YOUR RANGE

mix effect

The impact of a change in the composition of sales or activity.

analyze the product-mix effect

recurring

Expected to arise repeatedly under the relevant conditions.

identify recurring costs

run rate

A projected pace based on selected current activity.

qualify the implied run rate

assumption

An input or premise used without treating it as an established outcome.

state the underlying assumption

percentage point

One unit of difference between percentage values.

report a percentage-point change

like-for-like

Compared on a sufficiently consistent scope and basis.

establish a like-for-like comparison

rate effect

The portion attributed to a change in a cost or other unit rate.

separate rate from volume

one-off

An item described as unusual or nonrecurring, subject to support.

challenge a one-off classification

materiality

Significance assessed in context, not solely by an arbitrary percentage.

assess quantitative and qualitative materiality

operating margin

Operating profit divided by revenue on the specified basis.

explain operating-margin movement

basis point

One hundredth of a percentage point.

express a movement in basis points

management commentary

Explanation accompanying reported financial information.

sharpen management commentary

Say it in context

Stress the highlighted expression. Keep the surrounding words connected; pause at the end of the phrase.

volume effect VOLUME EFFECT

estimate the volume effect

Keep the meaning precise: The portion attributed to a change in quantities.

run rate RUN RATE

qualify the implied run rate

Keep the meaning precise: A projected pace based on selected current activity.

Phrases that move the work forward

Lead with the contrast

Revenue is above budget, but operating profit is below it.

State the basis

These figures cover the same month, currency, and reporting scope.

Locate the movement

Freight and agency labor account for the identified cost increase.

Avoid extrapolation

We have not established that either increase is recurring.

Clarify a comparison

Are you asking about budget, last year, or the previous forecast?

Explain a denominator

The 2% decline is measured against budgeted operating profit.

Limit causation

The category totals locate the increase but do not yet explain its cause.

Keep a caveat useful

The open question is recurrence, not whether the recorded increase exists.

Name the offset

The \$54,000 cost increase more than offsets the \$50,000 revenue increase.

Quantify the result

Operating profit is \$196,000, which is \$4,000 below budget.

Preserve uncertainty

The rate-versus-volume split remains under review.

Close with a check

I will validate the drivers before changing the forward estimate.

Correct a unit

That is a percentage-point change, not a percentage change.

Challenge a label

What supports calling that item one-off?

Separate margins

A higher revenue total does not guarantee a higher operating margin.

Offer a concise account

Sales gained \$50,000; operating costs rose by \$54,000 against budget.

Precision in real exchanges

Purpose: Quantify the result

Useful wording: Operating profit is \$196,000, which is \$4,000 below budget.

Purpose: Locate the movement

Useful wording: Freight and agency labor account for the identified cost increase.

D Choose the response that fits

Choose one response for each situation. Preserve the facts, the decision boundary, and the purpose of the exchange.

1. Which sentence correctly explains the profit movement?

- A.** Costs rose \$54,000, exceeding the \$50,000 revenue gain by \$4,000.
- B.** Revenue rose 5%, so profit must rise 5%.
- C.** Profit fell because 5 minus 2 equals 3.
- D.** Costs fell \$54,000 and therefore reduced profit.

2. Which expression accurately describes the revenue comparison?

- A.** Five percent above last year
- B.** Five dollars above the prior forecast
- C.** Five percent above the month's budget
- D.** Five percentage points of revenue earned

3. A colleague needs the term for this meaning: Revenue less the specified cost of goods or services sold. Which term fits?

- A.** favorable
- B.** recurring
- C.** gross profit
- D.** percentage point

D Choose the response that fits / continued

4. Rebuild the exchange from "Revenue is ahead, but profit is behind". Amir: "Which accounts explain the extra fifty-four thousand? Start with what you've verified, then tell me which causes still need checking." Lena: [missing response] Amir: "That distinction matters. More sales could require more activity, and a higher unit rate could also contribute. We should not call the entire increase inflation." Which response belongs in the gap?

- A.** Agreed. The volume effect needs the underlying quantity records. I will compare those with the rates rather than infer the cause from the account name.
- B.** Freight contributes thirty thousand and agency labor twenty-four thousand. Those categories explain the variance, but I have not yet separated rate and volume effects.
- C.** Yes. Operating margin uses profit divided by revenue. We should distinguish that ratio from the two percent decline in the profit amount against budget.
- D.** The offset is operating cost. Revenue gained fifty thousand dollars against budget, while costs rose fifty-four thousand, leaving profit four thousand below plan.

[Answers and explanations, page 118](#)

One useful distinction

Revenue is 5% above budget: \$50,000 divided by \$1,000,000. Operating profit is 2% below budget: a \$4,000 decline from \$200,000 to \$196,000. The percentages use different denominators and must not be subtracted to explain profit.

E Conversation

Revenue is ahead, but profit is behind

Revenue is ahead, but profit is behind

Complete the numbered gaps. Use each bank entry once; some entries contain several words.

WORD AND PHRASE BANK

offset / one-off / basis / run rate / drivers / comparator / Operating margin /
volume effect / variance / Materiality

- 01 **Amir:** The opening slide says revenue is five percent ahead, yet operating profit is two percent behind. Give me the connection before we list every account in the ledger.
- 02 **Lena:** The ¹ _____ is operating cost. Revenue gained fifty thousand dollars against budget, while costs rose fifty-four thousand, leaving profit four thousand below plan.
- 03 **Amir:** Good. Make sure ahead means ahead of this month's budget. Someone reading the slide quickly could assume the five percent is a year-on-year growth figure.
- 04 **Lena:** I will name the ² _____ in the headline. Actual profit is one hundred ninety-six thousand dollars against two hundred thousand budgeted, using the same reporting scope.
- 05 **Amir:** Which accounts explain the extra fifty-four thousand? Start with what you've verified, then tell me which causes still need checking.
- 06 **Lena:** Freight contributes thirty thousand and agency labor twenty-four thousand. Those categories explain the ³ _____, but I have not yet separated rate and volume effects.

E Conversation / continued

- 07 **Amir:** That distinction matters. More sales could require more activity, and a higher unit rate could also contribute. We should not call the entire increase inflation.
- 08 **Lena:** Agreed. The ⁴ _____ needs the underlying quantity records. I will compare those with the rates rather than infer the cause from the account name.
- 09 **Amir:** A colleague wants both increases labeled one-off because a supplier problem occurred this month. Does that event establish that the full amounts will disappear next month?
- 10 **Lena:** No. The ⁵ _____ description needs support. We must identify which costs relate to the event and whether the conditions causing them will continue.

Conversation continues on the next page.

Revenue is ahead, but profit is behind

CONVERSATION / CONTINUED

- 11 **Amir:** Then don't call it temporary yet. What carries into next month's forecast, and what are you still asking Operations to confirm?
- 12 **Lena:** I will not roll the full amount into a new ⁶ _____ or remove it automatically. The current actuals are known; the expected future pattern remains an analytical question.
- 13 **Amir:** What about operating margin? Revenue growth alone sounds encouraging, but the profit result suggests we should avoid describing the overall performance as uniformly favorable.
- 14 **Lena:** Yes. ⁷ _____ uses profit divided by revenue. We should distinguish that ratio from the two percent decline in the profit amount against budget.
- 15 **Amir:** In a short update, would you say the problem is immaterial because the profit shortfall is only two percent? I do not want a casual label to close the discussion.
- 16 **Lena:** No. ⁸ _____ requires context, including any decision or reporting implications. The small percentage alone does not establish that the matter can be ignored.
- 17 **Amir:** Give me the final two sentences, with the open question intact. The meeting needs the result and the next analytical step, not every intermediate calculation.
- 18 **Lena:** Revenue is five percent above budget, but higher costs more than offset the gain. We are validating the ⁹ _____ and recurrence of the freight and agency-labor increases before revising expectations.
- 19 **Amir:** That works. Keep the dollar bridge available for follow-up, and ensure the period and currency remain visible when the slide is copied into the executive pack.
- 20 **Lena:** I will preserve the ¹⁰ _____ and retain the unresolved checks in the commentary. The shortened version will not turn a verified category movement into a verified cause.

CHECK THE GAPS

1. offset / 2. comparator / 3. variance / 4. volume effect / 5. one-off / 6. run rate / 7. Operating margin / 8. Materiality / 9. drivers / 10. basis

[Why these answers fit, page 120](#)

F Check accuracy and scope

Revenue is ahead, but profit is behind

Return to the case

For the month, budgeted revenue was \$1,000,000 and operating costs were \$800,000. Actual revenue was \$1,050,000 and operating costs were \$854,000. The cost increase comprises \$30,000 in freight and \$24,000 in agency labor. The analyst has verified those categories but has not separated rate and volume effects or assessed recurrence. Lena, the analyst, and Amir, the finance director, are preparing a concise management-review explanation. All figures use the same currency and reporting scope.

Choose one answer per question. Use the case facts and keep any uncertainty or limits intact.

1. Which statement preserves the unresolved cause?

- A. The categories are verified; rate and volume effects are not yet separated.
- B. The entire increase is proven to be wage inflation.
- C. Freight costs are conclusively nonrecurring.
- D. The mix effect explains all agency labor.

2. Which question most directly tests the one-off label?

- A. Has the invoice been paid by month-end?
- B. Do the two cost categories reconcile to \$54,000?
- C. Which costs relate to the disruption, and will those conditions continue next month?
- D. Which cost center owns the freight account?

[Answers and explanations, page 121](#)

Listen for the distinction

Switch roles. Stress the unresolved rate, volume and recurrence checks; do not relabel the whole increase as inflation or one-off.

Answer the apparent contradiction

A manager may interrupt with "How can sales be up and profit down?" Treat this as a request to connect the figures, not necessarily a personal challenge. Give the comparison and the offsetting movement first, then separate established categories from causes still being tested.

F Say it / transfer to a new case

Margin up, revenue flat

Revenue is unchanged at \$500,000. Operating profit rises from \$50,000 to \$60,000 because costs fall by \$10,000. Both periods use the same scope and accounting basis.

Complete the four gaps. With a partner, read alternate roles, then switch. Studying alone, read both roles and pause before each response.

WORD AND PHRASE BANK

denominator / costs / increase / forecast

- 01 **Analyst:** The dollar gain comes from lower ¹ _____, not higher sales.
- 02 **Director:** The margin rises from 10% to 12%, a two-percentage-point ² _____.
- 03 **Analyst:** I will keep the revenue ³ _____ unchanged in the comparison.
- 04 **Director:** Confirm whether the savings recur before changing the ⁴ _____.

CHECK THE GAPS

1. costs / 2. increase / 3. denominator / 4. forecast

[Why these answers fit, page 121](#)

Rebuild the exchange

Choose the missing response. Read the completed three-turn exchange aloud, changing roles on the second reading.

1. Rebuild the exchange from "Revenue is ahead, but profit is behind". Amir: "What about operating margin? Revenue growth alone sounds encouraging, but the profit result suggests we should avoid describing the overall performance as uniformly favorable." Lena: [missing response] Amir: "In a short update, would you say the problem is immaterial because the profit shortfall is only two percent? I do not want a casual label to close the discussion." Which response belongs in the gap?

- A.** The offset is operating cost. Revenue gained fifty thousand dollars against budget, while costs rose fifty-four thousand, leaving profit four thousand below plan.
- B.** Yes. Operating margin uses profit divided by revenue. We should distinguish that ratio from the two percent decline in the profit amount against budget.
- C.** Freight contributes thirty thousand and agency labor twenty-four thousand. Those categories explain the variance, but I have not yet separated rate and volume effects.
- D.** Agreed. The volume effect needs the underlying quantity records. I will compare those with the rates rather than infer the cause from the account name.

[Answers and explanations, page 122](#)

A Read the situation

LESSON 02 / FINANCIAL STATEMENTS, CLOSE, AND ACCOUNTING JUDGMENTS

Clarify the reporting question and separate service timing, recognition, posting, and cash payment.

December service, January invoice, January payment

A supplier performed a December maintenance service. The \$12,000 invoice was dated 5 January and paid on 20 January. The approved policy for this fictional case expenses this type of service when received. Before confirming the December entry, accounting must verify completion and check whether an accrual was already posted. Sofia, an accountant, and Chen, the controller, are reviewing the close schedule. No new journal entry has been approved.

People: Sofia, Accountant; Chen, Controller.

Read the record

Choose one answer per question using the facts above.

1. In which month did the cash payment occur?

- A. January
- B. December
- C. February
- D. The payment date is unknown

2. What checks are required before the December entry is confirmed?

- A. Invoice approval and the bank payment date alone
- B. Supplier identity and the January cash forecast alone
- C. Whether the invoice amount equals the draft journal alone
- D. Service completion and whether an accrual already exists

3. What entry has been approved?

- A. A reversal of every December balance
- B. A transfer to share capital
- C. No new journal entry
- D. An automatic second \$12,000 expense

[Answers and explanations, page 123](#)

B Vocabulary in use

CORE TERMS

income statement

A report of income and expenses over a stated period.

review the income statement

cash flow statement

A report of cash movements classified under the relevant framework.

explain the cash flow statement

period-end close

Procedures used to finalize records for a reporting period.

complete the period-end close

recognition

Recording an item in financial statements when relevant criteria are met.

assess expense recognition

accrued liability

A recorded obligation for an incurred cost not yet settled.

substantiate an accrued liability

prepayment

Payment recorded before the related expense is recognized.

release a prepayment to expense

balance sheet

A statement of assets, liabilities, and equity at a stated date.

reconcile a balance-sheet account

reporting period

The interval covered by a financial report.

identify the reporting period

cutoff

Assignment of transactions to the appropriate accounting period.

test transaction cutoff

accrual

Recognition of income or expense before related cash is received or paid.

review the expense accrual

accounts payable

Amounts owed to suppliers for goods or services received.

reconcile accounts payable

deferred revenue

Amount recorded as a liability before related revenue is recognized.

analyze deferred revenue

Say it in context

Stress the highlighted expression. Keep the surrounding words connected; pause at the end of the phrase.

income statement INCOME STATEMENT

review the income statement

Keep the meaning precise: A report of income and expenses over a stated period.

cutoff CUTOFF

test transaction cutoff

Keep the meaning precise: Assignment of transactions to the appropriate accounting period.

B Precision and professional shorthand

EXTEND YOUR RANGE

journal entry

A recorded set of debits and credits.

approve a journal entry

subledger

Detailed records supporting a general-ledger account.

reconcile the subledger

reversing entry

An entry that offsets an earlier entry under the relevant process.

check the reversing entry

supporting schedule

A detailed record explaining a reported balance.

maintain the supporting schedule

accounting estimate

An amount measured using judgment and available information.

document an accounting estimate

capitalization

Recording qualifying expenditure as an asset rather than an immediate expense.

assess capitalization criteria

general ledger

The central record of financial accounts and postings.

inspect the general ledger

posting date

The date used to record an entry in a system.

verify the posting date

true-up

An adjustment aligning an estimate with updated support.

calculate the required true-up

account reconciliation

Comparison and explanation of records supporting an account balance.

complete the account reconciliation

accounting policy

The principles and methods used for a class of transactions.

apply the approved accounting policy

audit trail

Records that allow a transaction and its approvals to be traced.

preserve the audit trail

Say it in context

Stress the highlighted expression. Keep the surrounding words connected; pause at the end of the phrase.

deferred revenue DEFERRED REVENUE

analyze deferred revenue

Keep the meaning precise: Amount recorded as a liability before related revenue is recognized.

reversing entry REVERSING ENTRY

check the reversing entry

Keep the meaning precise: An entry that offsets an earlier entry under the relevant process.

Phrases that move the work forward

Clarify the schedule

Are we showing expense recognition or the cash payment date?

Apply the case policy

The stated policy expenses this service when received.

Check duplication

Was a December accrual already recorded for this supplier?

Separate records

The invoice date and reporting period need not answer the same question.

Trace the amount

Which schedule supports the \$12,000 balance?

Name the adjustment

Is this a new expense or a true-up of an existing estimate?

Avoid a shortcut

Payment timing alone does not determine expense recognition here.

Keep status clear

Prepared for review is not the same as approved for posting.

State the sequence

Service was in December; invoicing and payment occurred in January.

Request support

Please provide evidence that the December service was completed.

Limit approval

The new entry is not approved until the supporting checks are complete.

Close the review

I will reconcile the existing balance before proposing an adjustment.

Check a reversal

Has the earlier accrual reversed, and in which posting period?

Preserve evidence

Link the service confirmation and invoice to the journal support.

Specify the account

Which ledger account contains the original accrual?

Confirm the handoff

The remaining checks are completion evidence and the existing accrual.

Precision in real exchanges

Purpose: Request support

Useful wording: Please provide evidence that the December service was completed.

Purpose: Check duplication

Useful wording: Was a December accrual already recorded for this supplier?

D Choose the response that fits

Choose one response for each situation. Preserve the facts, the decision boundary, and the purpose of the exchange.

1. Which question best clarifies the ambiguous month request?

- A.** Do you mean the expense period or the payment month?
- B.** Do you prefer December because it looks better?
- C.** Can we use whichever date is latest?
- D.** Should every schedule show January?

2. Which statement follows the case facts?

- A.** Cash was paid in December because service occurred then.
- B.** The invoice date proves no accrual exists.
- C.** Payment automatically authorizes a second expense.
- D.** Cash was paid in January; the expense-period check uses the service facts and policy.

3. A colleague needs the term for this meaning: The interval covered by a financial report. Which term fits?

- A.** accrued liability
- B.** reporting period
- C.** accounting estimate
- D.** subledger

D Choose the response that fits / continued

4. Rebuild the exchange from "December service, January invoice, January payment". Sofia: "There's also a supplier estimate on the December support schedule. I haven't found its posting reference. Should I prepare another twelve-thousand-dollar expense now?" Chen: [missing response] Sofia: "The spreadsheet has a prepared date and an approver column. Neither gives me a journal number. I'll search by supplier and document reference next." Which response belongs in the gap?

- A.** Use the general ledger history as well. A prepared estimate is not necessarily a posted expense; attach the record that establishes what actually went through.
- B.** Not before you trace the accrual. We could recognize the same service twice. Find the existing entry and its amount, rather than assuming the schedule proves a posting.
- C.** Keep that cash flow date. We are reconciling the expense treatment, not changing when the money left the bank to make two schedules look alike.
- D.** Yes, trace any reversing entry and its posting period. Don't assume it ran just because that is the usual setup; we need this transaction's history.

[Answers and explanations, page 123](#)

One useful distinction

Under the expressly stated case policy, December service receipt is relevant to the expense period. January payment belongs to January cash reporting. The invoice date alone does not answer both questions, and an existing accrual must be checked before another expense is posted.

E Conversation

December service, January invoice, January payment

December service, January invoice, January payment

Complete the numbered gaps. Use each bank entry once; some entries contain several words.

WORD AND PHRASE BANK

true-up / expense recognition / accrual / cash flow / reversing entry / general ledger / journal entry / audit trail / cutoff / handoff

- 01 **Sofia:** I'm stuck on the month field in the close schedule. Maintenance was in December, but the twelve-thousand-dollar invoice arrived January fifth and we paid it January twentieth.
- 02 **Chen:** Which schedule are you completing: cash payments or ¹ _____? The invoice date will not answer both questions, so let's fix that heading first.
- 03 **Sofia:** It's the December expense review. Our policy expenses this maintenance when received. Operations says the work finished then; the service confirmation is still on its way.
- 04 **Chen:** Leave the ² _____ check open until that confirmation arrives. We need evidence of December completion, not just the January invoice describing the job.
- 05 **Sofia:** There's also a supplier estimate on the December support schedule. I haven't found its posting reference. Should I prepare another twelve-thousand-dollar expense now?
- 06 **Chen:** Not before you trace the ³ _____. We could recognize the same service twice. Find the existing entry and its amount, rather than assuming the schedule proves a posting.

Conversation / continued

- 07 **Sofia:** The spreadsheet has a prepared date and an approver column. Neither gives me a journal number. I'll search by supplier and document reference next.
- 08 **Chen:** Use the ⁴ _____ history as well. A prepared estimate is not necessarily a posted expense; attach the record that establishes what actually went through.
- 09 **Sofia:** If I find it, do you want the January history too? An automatic reversal could explain why the current balance looks different from December's closing schedule.
- 10 **Chen:** Yes, trace any ⁵ _____ and its posting period. Don't assume it ran just because that is the usual setup; we need this transaction's history.

Conversation continues on the next page.

December service, January invoice, January payment

CONVERSATION / CONTINUED

- 11 **Sofia:** I can already confirm the bank payment on January twentieth. I'll keep that on the cash schedule even while the December expense review remains open.
- 12 **Chen:** Keep that ⁶ _____ date. We are reconciling the expense treatment, not changing when the money left the bank to make two schedules look alike.
- 13 **Sofia:** And if the December estimate differs from twelve thousand? I'll compare the amounts against the completed service and invoice before proposing the remaining adjustment.
- 14 **Chen:** Bring me the proposed ⁷ _____ with that comparison. Don't enter the full invoice amount again simply because the final document differs from the estimate.
- 15 **Sofia:** The draft balances, but I'll leave it unposted. Its status will say service confirmation and prior-posting check pending, with no new entry approved.
- 16 **Chen:** Good. Equal debits and credits don't establish that a ⁸ _____ uses the correct account, amount or period. Those checks still need their own evidence.
- 17 **Sofia:** I'll link the invoice, completion record when received, posting reference and any reversal. You'll be able to follow the sequence from the original estimate onward.
- 18 **Chen:** Include the payment reference in that ⁹ _____ too. It supports settlement in January, while the service and posting records support our separate expense-period review.
- 19 **Sofia:** So my update is: December service, January payment, completion evidence awaited and prior accrual still being traced. I'll bring back the supported treatment for your review.
- 20 **Chen:** That's the ¹⁰ _____ I need. Keep the open checks visible, and do not post a new adjustment until the evidence and approval are complete.

CHECK THE GAPS

1. expense recognition / 2. cutoff / 3. accrual / 4. general ledger / 5. reversing entry / 6. cash flow / 7. true-up / 8. journal entry / 9. audit trail / 10. handoff

[Why these answers fit, page 125](#)

F Check accuracy and scope

December service, January invoice, January payment

Return to the case

A supplier performed a December maintenance service. The \$12,000 invoice was dated 5 January and paid on 20 January. The approved policy for this fictional case expenses this type of service when received. Before confirming the December entry, accounting must verify completion and check whether an accrual was already posted. Sofia, an accountant, and Chen, the controller, are reviewing the close schedule. No new journal entry has been approved.

Choose one answer per question. Use the case facts and keep any uncertainty or limits intact.

1. Which check most directly helps prevent duplicate expense recognition?

- A. Verify the supplier address against its master record
- B. Trace the existing accrual and any reversal in the ledger
- C. Confirm that the invoice total includes all services
- D. Match the January payment to the bank statement

2. Which phrase accurately describes the proposed journal?

- A. Automatically capitalized by the invoice date
- B. Prepared for review, not approved for posting
- C. Fully authorized because it balances
- D. Irrelevant because the supplier was paid

[Answers and explanations, page 126](#)

Listen for the distinction

Switch roles. Read the request for ledger and reversal history; do not replace a prepared estimate with a claim that an entry was posted.

Clarify which date answers the question

A colleague asking "Which month?" may mean the expense period, invoice date, payment month, or posting period. Name the purpose of the schedule before choosing a date. Precision about accounting judgments is more useful than confident repetition of a familiar rule.

F Say it / transfer to a new case

A paid subscription covers future service

A company pays \$6,000 in December for service covering January through June. In this fictional case, the approved policy records a prepayment and releases \$1,000 per service month. The payment is confirmed.

Complete the four gaps. With a partner, read alternate roles, then switch. Studying alone, read both roles and pause before each response.

WORD AND PHRASE BANK

prepayment / schedule / recognition / January

- 01 **Accountant:** December payment creates a ¹ _____ under the stated policy.
- 02 **Controller:** The service period begins in ² _____.
- 03 **Accountant:** The monthly release is \$1,000, supported by the ³ _____.
- 04 **Controller:** Keep the cash date distinct from expense ⁴ _____.

CHECK THE GAPS

1. prepayment / 2. January / 3. schedule / 4. recognition

[Why these answers fit, page 126](#)

F Say it / transfer to a new case / continued

Rebuild the exchange

Choose the missing response. Read the completed three-turn exchange aloud, changing roles on the second reading.

1. Rebuild the exchange from "December service, January invoice, January payment".

Sofia: "And if the December estimate differs from twelve thousand? I'll compare the amounts against the completed service and invoice before proposing the remaining adjustment." Chen: [missing response] Sofia: "The draft balances, but I'll leave it unposted. Its status will say service confirmation and prior-posting check pending, with no new entry approved." Which response belongs in the gap?

- A.** Bring me the proposed true-up with that comparison. Don't enter the full invoice amount again simply because the final document differs from the estimate.
- B.** Which schedule are you completing: cash payments or expense recognition? The invoice date will not answer both questions, so let's fix that heading first.
- C.** Leave the cutoff check open until that confirmation arrives. We need evidence of December completion, not just the January invoice describing the job.
- D.** That's the handoff I need. Keep the open checks visible, and do not post a new adjustment until the evidence and approval are complete.

[Answers and explanations, page 127](#)

Review 1 / Meaning and context

Use language from the lessons you have completed. Choose one answer per question.

Case file

Revisit "Finance Communication: Drivers, Assumptions, Materiality, Risk" and "Financial Statements, Close, and Accounting Judgments". Choose precise terminology, then reconstruct the missing responses using both neighboring turns. The final two questions also revisit earlier conversations.

1. A colleague needs the term for this meaning: Revenue less the operating costs included in the stated presentation. Which term fits?

- A. operating margin
- B. operating profit
- C. offset
- D. rate effect

2. A colleague needs the term for this meaning: Recognition of income or expense before related cash is received or paid. Which term fits?

- A. accrual
- B. journal entry
- C. income statement
- D. supporting schedule

3. Rebuild the exchange from "Revenue is ahead, but profit is behind". Amir: "A colleague wants both increases labeled one-off because a supplier problem occurred this month. Does that event establish that the full amounts will disappear next month?" Lena: [missing response] Amir: "Then don't call it temporary yet. What carries into next month's forecast, and what are you still asking Operations to confirm?" Which response belongs in the gap?

- A. The offset is operating cost. Revenue gained fifty thousand dollars against budget, while costs rose fifty-four thousand, leaving profit four thousand below plan.
- B. Freight contributes thirty thousand and agency labor twenty-four thousand. Those categories explain the variance, but I have not yet separated rate and volume effects.
- C. No. The one-off description needs support. We must identify which costs relate to the event and whether the conditions causing them will continue.
- D. No. Materiality requires context, including any decision or reporting implications. The small percentage alone does not establish that the matter can be ignored.

Review 1 / Meaning and context / continued

4. Rebuild the exchange from "December service, January invoice, January payment". Sofia: "I'll link the invoice, completion record when received, posting reference and any reversal. You'll be able to follow the sequence from the original estimate onward." Chen: [missing response] Sofia: "So my update is: December service, January payment, completion evidence awaited and prior accrual still being traced. I'll bring back the supported treatment for your review." Which response belongs in the gap?

- A.** Include the payment reference in that audit trail too. It supports settlement in January, while the service and posting records support our separate expense-period review.
- B.** Yes, trace any reversing entry and its posting period. Don't assume it ran just because that is the usual setup; we need this transaction's history.
- C.** Keep that cash flow date. We are reconciling the expense treatment, not changing when the money left the bank to make two schedules look alike.
- D.** Use the general ledger history as well. A prepared estimate is not necessarily a posted expense; attach the record that establishes what actually went through.

[Answers and explanations, page 158](#)

A Read the situation

LESSON 03 / FP&A, BUDGETING, FORECASTING, AND VARIANCE ANALYSIS

Present a reconciled forecast update and distinguish quantified drivers from unresolved residuals.

A forecast bridge with an unexplained remainder

The annual spending budget for a service line is \$100,000. The latest full-year forecast is \$120,000, including actual spending to date and estimated remaining spending. A new supplier fee explains \$15,000 of the forecast increase. The remaining \$5,000 is not yet attributed. Mei, a financial planning and analysis analyst, is preparing a bridge for Rafael, the business lead. No budget increase or savings action has been approved.

People: Mei, Financial planning and analysis analyst; Rafael, Business lead.

Read the record

Choose one answer per question using the facts above.

1. How far is the full-year forecast above budget?

- A. \$120,000
- B. \$20,000
- C. \$15,000
- D. \$5,000

2. How much remains unattributed?

- A. \$20,000
- B. \$15,000
- C. Nothing
- D. \$5,000

3. What does the new forecast authorize?

- A. Removal of the supplier fee
- B. No budget increase or savings action by itself
- C. Automatic spending approval up to \$120,000
- D. A confirmed \$5,000 saving

[Answers and explanations, page 128](#)

B Vocabulary in use

CORE TERMS

FP&A

Financial planning and analysis, connecting forecasts and business decisions.

prepare an FP&A update

forecast

An updated estimate of expected performance using stated assumptions.

refresh the full-year forecast

year to date

The elapsed part of a financial or calendar year.

reconcile year-to-date spending

remaining-year estimate

Expected performance for the uncompleted portion of the year.

update the remaining-year estimate

reforecast

An updated forecast replacing an earlier estimate.

explain the reforecast changes

bridge

A reconciliation from one financial amount to another through identified movements.

reconcile the forecast bridge

budget

An approved financial plan for a specified period and scope.

retain the approved budget

actuals

Recorded results for completed periods on the stated basis.

load the latest actuals

full year

The complete annual period used for planning or reporting.

present the full-year outlook

rolling forecast

A forecast extended regularly over a moving future horizon.

maintain a rolling forecast

baseline

A defined starting reference for comparison or modeling.

lock the comparison baseline

waterfall

A chart showing sequential contributions from a starting value to an ending value.

label the waterfall clearly

Say it in context

Stress the highlighted expression. Keep the surrounding words connected; pause at the end of the phrase.

FP&A **FP&A**

prepare an FP&A update

Keep the meaning precise: Financial planning and analysis, connecting forecasts and business decisions.

full year **FULL YEAR**

present the full-year outlook

Keep the meaning precise: The complete annual period used for planning or reporting.

B Precision and professional shorthand

EXTEND YOUR RANGE

residual

The amount left after identified components are deducted.

investigate the unexplained residual

cost center

An organizational unit used to collect or control costs.

verify the cost-center allocation

commitment

An obligation or planned expenditure with status requiring clarification.

distinguish commitments from actuals

phasing

Distribution of an amount across periods.

revise monthly phasing

structural variance

A difference reflecting an underlying change rather than timing alone.

assess a structural variance

scenario

A coherent set of assumptions and resulting outcomes.

compare downside and base scenarios

plug

A balancing amount calculated to make a model reconcile; it needs an explicit basis and label.

avoid an unsupported plug

cost allocation

Assignment of costs to units or activities using a stated method.

review the allocation basis

purchase order

An authorized order for specified goods or services.

check the purchase-order amount

timing variance

A difference caused by an item occurring in a different period.

isolate a timing variance

contingency

A provision in a plan for specified uncertainty or risk.

explain the contingency assumption

forecast bias

A systematic tendency to overestimate or underestimate outcomes.

examine forecast bias

Say it in context

Stress the highlighted expression. Keep the surrounding words connected; pause at the end of the phrase.

waterfall **WATERFALL**

label the waterfall clearly

Keep the meaning precise: A chart showing sequential contributions from a starting value to an ending value.

commitment **COMMITMENT**

distinguish commitments from actuals

Keep the meaning precise: An obligation or planned expenditure with status requiring clarification.

Phrases that move the work forward

Lead with the outlook

Full-year spending is forecast at \$120,000 against a \$100,000 budget.

Name the residual

The remaining \$5,000 has not yet been attributed.

Avoid a plug

I will keep the residual visible rather than assign an unsupported cause.

Test phasing

Is this a shift between months or a change to the full-year total?

Define the baseline

The comparison remains the approved \$100,000 annual budget.

Check commitments

Does the estimate include the open purchase order?

Prevent double counting

Has the supplier fee already been included in the remaining-year estimate?

Preserve uncertainty

The bridge reconciles arithmetically, but one driver remains unresolved.

Quantify the bridge

The \$20,000 increase includes a verified \$15,000 supplier fee.

Separate actual and estimate

The total combines recorded actuals with a remaining-year estimate.

Distinguish authority

The updated forecast does not approve additional spending.

Close the update

The next review will identify the residual's source and any proposed action.

Challenge a saving

What action and evidence support that reduction?

Separate possibility

That is a scenario, not the current approved operating plan.

Clarify ownership

Which cost-center owner can verify the allocation?

Describe approval

Any budget revision requires a separate decision.

Precision in real exchanges

Purpose: Separate actual and estimate

Useful wording: The total combines recorded actuals with a remaining-year estimate.

Purpose: Avoid a plug

Useful wording: I will keep the residual visible rather than assign an unsupported cause.

D Choose the response that fits

Choose one response for each situation. Preserve the facts, the decision boundary, and the purpose of the exchange.

1. Which update keeps the residual honest?

- A.** The remaining \$5,000 is definitely inflation.
- B.** The fee explains \$15,000; \$5,000 remains unattributed.
- C.** The supplier fee explains the entire \$20,000.
- D.** A confirmed efficiency saving offsets the residual.

2. Which description fits the \$120,000 figure?

- A.** A guaranteed year-end result
- B.** Full-year forecast including actuals and estimated remaining spending
- C.** Actual cash already paid
- D.** A newly approved budget

3. A colleague needs the term for this meaning: Recorded results for completed periods on the stated basis. Which term fits?

- A.** actuals
- B.** structural variance
- C.** reforecast
- D.** cost center

D Choose the response that fits / continued

4. Rebuild the exchange from "A forecast bridge with an unexplained remainder".

Rafael: "Could the remainder be inflation? That would make a simple explanation for the review meeting, although I have not seen a rate calculation supporting it." Mei: [missing response] Rafael: "Please also confirm whether the supplier fee has been counted twice. The cost-center owner may have included it in the amount submitted for the rest of the year." Which response belongs in the gap?

- A.** Yes. A structural variance affects the underlying spending pattern. We should test that interpretation rather than infer permanence from one invoice or one forecast update.
- B.** Correct. We have actuals for completed periods, then estimated spending for the balance of the year. I will make that composition visible in the supporting schedule.
- C.** Not by itself. That may change phasing, while leaving the annual total unchanged. We need to know whether the cost disappears, shifts, or changes in amount.
- D.** It could have several causes, but the residual is not evidence of inflation. I will check the records instead of assigning the most convenient label.

[Answers and explanations, page 128](#)

One useful distinction

The bridge is \$100,000 budget plus \$15,000 identified supplier fee plus \$5,000 unexplained increase, giving \$120,000 forecast. The last amount is a residual, not a verified operational driver. Label it openly instead of inventing a cause.

E Conversation

A forecast bridge with an unexplained remainder

A forecast bridge with an unexplained remainder

Complete the numbered gaps. Use each bank entry once; some entries contain several words.

WORD AND PHRASE BANK

forecast / phasing / attribution / remaining-year estimate / bridge / structural variance
/ baseline / actuals / plug / residual

- 01 **Rafael:** The full-year spending outlook is one hundred twenty thousand dollars. Is that a new budget request, or are you telling me the expected result has changed?
- 02 **Mei:** It is the latest ¹ _____. The approved budget remains one hundred thousand, and no additional spending approval follows automatically from updating the estimate.
- 03 **Rafael:** Explain the twenty-thousand-dollar increase. The supplier added a fee, but the note mentions only fifteen thousand, not the complete movement.
- 04 **Mei:** The ² _____ starts at the budget, adds fifteen thousand for the fee, and shows five thousand still unattributed. It reaches one hundred twenty thousand without hiding that gap.
- 05 **Rafael:** Could the remainder be inflation? That would make a simple explanation for the review meeting, although I have not seen a rate calculation supporting it.
- 06 **Mei:** It could have several causes, but the ³ _____ is not evidence of inflation. I will check the records instead of assigning the most convenient label.
- 07 **Rafael:** Please also confirm whether the supplier fee has been counted twice. The cost-center owner may have included it in the amount submitted for the rest of the year.

E Conversation / continued

- 08 **Mei:** I will compare that submission with the ⁴ _____ and its assumptions. A separate bridge line must explain the change, not duplicate a cost already included in the forecast.
- 09 **Rafael:** The total includes spending already recorded as well as future estimates, correct? I want the meeting pack to distinguish evidence from assumptions rather than treating every dollar alike.
- 10 **Mei:** Correct. We have ⁵ _____ for completed periods, then estimated spending for the balance of the year. I will make that composition visible in the supporting schedule.

Conversation continues on the next page.

A forecast bridge with an unexplained remainder

CONVERSATION / CONTINUED

- 11 **Rafael:** A project manager says moving a payment from October to November saves money in October. Is that enough to reduce the full-year forecast we are discussing?
- 12 **Mei:** Not by itself. That may change ⁶ _____, while leaving the annual total unchanged. We need to know whether the cost disappears, shifts, or changes in amount.
- 13 **Rafael:** And please keep the savings target separate. Nobody has confirmed an action that delivers it yet; I don't want it quietly balancing the forecast.
- 14 **Mei:** I will keep an unsupported ⁷ _____ out of the estimate. Any proposed saving needs an identified action, timing, amount, and appropriate review of whether it belongs in the forecast.
- 15 **Rafael:** When you update the file, can you show exactly what changed? I need to explain the next version without rebuilding the whole bridge.
- 16 **Mei:** Retain the approved budget as the ⁸ _____. I will document changes to the forecast separately, including any corrected allocation or duplicate discovered in the supporting records.
- 17 **Rafael:** If the fee persists next year, distinguish that ongoing change from a cost arriving a month earlier than expected.
- 18 **Mei:** Yes. A ⁹ _____ affects the underlying spending pattern. We should test that interpretation rather than infer permanence from one invoice or one forecast update.
- 19 **Rafael:** For now, the message is twenty thousand above budget, fifteen thousand explained, five thousand under review, and no new spending authority. Is anything important missing?
- 20 **Mei:** Add that this is a full-year estimate, not an assured outcome. I will return with the ¹⁰ _____ of the residual and any proposed management action, keeping the approval decision separate.

CHECK THE GAPS

1. forecast / 2. bridge / 3. residual / 4. remaining-year estimate / 5. actuals / 6. phasing / 7. plug / 8. baseline / 9. structural variance / 10. attribution

[Why these answers fit, page 130](#)

F Check accuracy and scope

A forecast bridge with an unexplained remainder

Return to the case

The annual spending budget for a service line is \$100,000. The latest full-year forecast is \$120,000, including actual spending to date and estimated remaining spending. A new supplier fee explains \$15,000 of the forecast increase. The remaining \$5,000 is not yet attributed. Mei, a financial planning and analysis analyst, is preparing a bridge for Rafael, the business lead. No budget increase or savings action has been approved.

Choose one answer per question. Use the case facts and keep any uncertainty or limits intact.

1. Which question distinguishes phasing from a real annual change?

- A. Will the invoice use the same purchase-order number?
- B. Will a different cost center review the payment?
- C. Will the payment be included in the next monthly cash forecast?
- D. Will the cost still occur within the same full year?

2. Which sentence preserves budget authority?

- A. The forecast automatically raises the budget.
- B. An unexplained residual authorizes an exception.
- C. Every predicted cost is an approved commitment.
- D. The forecast is updated; the approved budget remains \$100,000.

[Answers and explanations, page 131](#)

Listen for the distinction

Switch roles. Stress the difference between a reconciled total and an explained driver, and between forecast and spending authority.

A forecast is an estimate, not a permission slip

Business discussions often mix an updated estimate with a request to spend more. Report the forecast honestly even when it exceeds the budget, then identify the approval or management action as a separate decision. Do not fill an unexplained residual with a plausible-sounding label.

F Say it / transfer to a new case

A delayed purchase is not a canceled purchase

A \$9,000 purchase moves from March to April within the same financial year. Its amount is unchanged, and the approved full-year plan still includes it. No cancellation is authorized.

Complete the four gaps. With a partner, read alternate roles, then switch. Studying alone, read both roles and pause before each response.

WORD AND PHRASE BANK

record / forecast / phasing / saving

- 01 **Analyst:** The move changes monthly ¹ _____, not the annual amount.
- 02 **Manager:** Do not describe the March reduction as a confirmed ² _____.
- 03 **Analyst:** The full-year ³ _____ still includes \$9,000.
- 04 **Manager:** Retain the purchase's approval and timing ⁴ _____.

CHECK THE GAPS

1. phasing / 2. saving / 3. forecast / 4. record

[Why these answers fit, page 131](#)

Rebuild the exchange

Choose the missing response. Read the completed three-turn exchange aloud, changing roles on the second reading.

1. Rebuild the exchange from "A forecast bridge with an unexplained remainder". Rafael: "And please keep the savings target separate. Nobody has confirmed an action that delivers it yet; I don't want it quietly balancing the forecast." Mei: [missing response] Rafael: "When you update the file, can you show exactly what changed? I need to explain the next version without rebuilding the whole bridge." Which response belongs in the gap?

- A.** I will compare that submission with the remaining-year estimate and its assumptions. A separate bridge line must explain the change, not duplicate a cost already included in the forecast.
- B.** Add that this is a full-year estimate, not an assured outcome. I will return with the attribution of the residual and any proposed management action, keeping the approval decision separate.
- C.** The bridge starts at the budget, adds fifteen thousand for the fee, and shows five thousand still unattributed. It reaches one hundred twenty thousand without hiding that gap.
- D.** I will keep an unsupported plug out of the estimate. Any proposed saving needs an identified action, timing, amount, and appropriate review of whether it belongs in the forecast.

[Answers and explanations, page 132](#)

A Read the situation

LESSON 04 / TREASURY, CASH, LIQUIDITY, WORKING CAPITAL, AND FX

Explain conditional liquidity, test a delayed-receipt case, and distinguish available funds from unverified facilities.

Friday cash depends on an unconfirmed receipt

Friday begins with \$80,000 of available cash. Scheduled outflows total \$100,000. The base forecast includes a \$50,000 customer receipt on Friday, but the customer has not confirmed payment. Without that receipt, the calculation shows a \$20,000 shortfall; with it, closing cash is \$30,000. Inez, the treasury analyst, and Paul, the finance manager, are reviewing the position. A credit facility exists, but its undrawn availability and draw conditions have not been verified. No payment deferral or facility draw is approved.

People: Inez, Treasury analyst; Paul, Finance manager.

Read the record

Choose one answer per question using the facts above.

1. What is forecast closing cash if the receipt arrives as assumed?

- A. \$30,000
- B. \$130,000
- C. \$50,000
- D. \$20,000

2. What happens in the stated no-receipt calculation?

- A. A \$20,000 shortfall
- B. A \$20,000 surplus
- C. A confirmed facility draw
- D. Automatic cancellation of outflows

3. What has not been verified about the facility?

- A. The opening cash amount
- B. The scheduled outflow total
- C. Undrawn availability and draw conditions
- D. Whether any facility exists

[Answers and explanations, page 133](#)

B Vocabulary in use

CORE TERMS

treasury

Management of cash, funding, and related financial risks.

prepare a treasury update

available cash

Cash accessible for the stated purpose under relevant restrictions.

confirm available cash

cash inflow

A receipt of cash during a period.

verify an expected cash inflow

cash forecast

An estimate of future receipts, payments, and balances.

refresh the short-term cash forecast

cash buffer

Cash retained as protection against uncertainty or needs.

assess the required cash buffer

receivables

Amounts due from customers or other debtors.

monitor overdue receivables

liquidity

Ability to meet obligations when due using accessible resources.

assess the liquidity position

restricted cash

Cash subject to limits on access or use.

separate restricted cash

cash outflow

A payment or other movement of cash out of the entity.

schedule the cash outflows

cash shortfall

A gap between available cash and the cash needed.

quantify the cash shortfall

working capital

Current assets less current liabilities; operational variants require definition.

define the working-capital measure

payables

Amounts owed to suppliers or other creditors.

review scheduled payables

Say it in context

Stress the highlighted expression. Keep the surrounding words connected; pause at the end of the phrase.

treasury TREASURY

prepare a treasury update

Keep the meaning precise: Management of cash, funding, and related financial risks.

cash outflow CASH OUTFLOW

schedule the cash outflows

Keep the meaning precise: A payment or other movement of cash out of the entity.

B Precision and professional shorthand

EXTEND YOUR RANGE

DSO

Days sales outstanding, a measure relating receivables to credit sales.

monitor DSO trends

cash conversion cycle

A measure combining inventory, collection, and payment timing.

analyze the cash conversion cycle

undrawn availability

A facility amount potentially accessible after applicable limits and conditions.

confirm undrawn availability

covenant

A requirement in a financing agreement.

test covenant compliance

settlement date

The date a transaction is completed through the relevant exchange of funds or assets.

confirm the settlement date

FX exposure

Sensitivity to movements in foreign-exchange rates.

identify the FX exposure

DPO

Days payable outstanding, a measure relating payables to relevant purchases or costs.

state the DPO calculation basis

revolving credit facility

Borrowing that may be drawn and repaid within agreed terms and limits.

verify revolver availability

drawdown

Borrowing an amount under a facility.

obtain drawdown approval

headroom

Capacity remaining before a defined limit is reached.

quantify covenant headroom

value date

The date assigned for funds' financial effect under the banking arrangement.

check the payment value date

hedge

A position intended to reduce a specified risk, with its own limits and costs.

evaluate a proposed hedge

Say it in context

Stress the highlighted expression. Keep the surrounding words connected; pause at the end of the phrase.

payables **PAYABLES**

review scheduled payables

Keep the meaning precise: Amounts owed to suppliers or other creditors.

undrawn availability **UNDRAWN AVAILABILITY**

confirm undrawn availability

Keep the meaning precise: A facility amount potentially accessible after applicable limits and conditions.

Phrases that move the work forward

Attach the condition

Closing cash is forecast at \$30,000 if the customer pays Friday.

Separate evidence

The expected receipt is in the model, but payment is not confirmed.

Qualify funding

The facility exists; usable availability is still being checked.

State the dependency

The base case depends on the customer receipt arriving that day.

Clarify availability

Is that cash accessible, or is any portion restricted?

Preserve the downside

Keep the delayed-receipt case beside the base case.

Separate profit

Accounting profit does not establish cash available for Friday's payments.

Limit a hedge claim

The proposed hedge addresses a specified exposure, not every financial risk.

Name the alternative

Without that receipt, the model shows a \$20,000 shortfall.

Request confirmation

Please verify the payment status and expected settlement date.

Avoid authorization

No drawdown or payment deferral has been approved.

Close with ownership

I will confirm the receipt status and route the funding options for approval.

Check timing

Does the value date support the assumed availability?

Test a limit

How much headroom remains under the agreement's definition?

Define currency

What currency and amount does the exposure relate to?

Report the decision

We need an authorized funding response, not a more optimistic assumption.

Precision in real exchanges

Purpose: Request confirmation

Useful wording: Please verify the payment status and expected settlement date.

Purpose: Qualify funding

Useful wording: The facility exists; usable availability is still being checked.

D Choose the response that fits

Choose one response for each situation. Preserve the facts, the decision boundary, and the purpose of the exchange.

1. Which sentence preserves the receipt condition?

- A.** Closing cash is forecast at \$30,000 if the \$50,000 arrives Friday.
- B.** Closing cash is guaranteed at \$30,000.
- C.** A forecast entry proves the customer paid.
- D.** A positive base case eliminates the funding gap.

2. Which calculation describes the delayed-receipt case?

- A.** \$80,000 minus \$100,000 equals a \$20,000 shortfall.
- B.** \$80,000 plus \$100,000 equals available cash.
- C.** \$50,000 minus \$30,000 proves a surplus.
- D.** The facility automatically supplies \$20,000.

3. A colleague needs the term for this meaning: Cash subject to limits on access or use. Which term fits?

- A.** restricted cash
- B.** cash conversion cycle
- C.** settlement date
- D.** cash buffer

D Choose the response that fits / continued

4. Rebuild the exchange from "Friday cash depends on an unconfirmed receipt".

Paul: "They normally pay on time, but I don't have a confirmation for Friday. Can you check when the funds would actually reach us?" **Inez:** [missing response] **Paul:** "Could we simply include the credit facility in available cash? The agreement is on file, and the facility was used earlier in the year." Which response belongs in the gap?

- A.** Agreed. The scheduled outflows remain as stated unless an authorized change is confirmed. I will show possible responses separately from the current case.
- B.** The case identifies it as available cash. In the working file, I will retain the supporting check and keep any restricted balances separately identified.
- C.** We start with eighty thousand and schedule one hundred thousand in outflows. Without the receipt, there is a twenty-thousand-dollar shortfall; with it, thirty thousand remains.
- D.** Exactly. I will request the payment status and settlement date. A planned payment date and completed settlement may not give us the same evidence.

[Answers and explanations, page 133](#)

One useful distinction

The \$30,000 closing balance is conditional on receiving \$50,000 that day. Without it, the stated arithmetic shows a \$20,000 funding gap. A customer promise, a payment instruction, a settlement notice, and available funds are different evidence states.

E Conversation

Friday cash depends on an unconfirmed receipt

Friday cash depends on an unconfirmed receipt

Complete the numbered gaps. Use each bank entry once; some entries contain several words.

WORD AND PHRASE BANK

undrawn availability / liquidity / available cash / settlement date / dependency / outflows
/ shortfall / headroom / drawdown / base case

- 01 **Paul:** The forecast shows thirty thousand dollars at Friday close. Can I tell the operating team that all scheduled payments are covered without a funding decision?
- 02 **Inez:** Only with the receipt condition attached. The ¹ _____ includes fifty thousand from the customer, and that payment has not been confirmed.
- 03 **Paul:** Walk me through the cash arithmetic and the alternative. I need to understand the dependency before the team relies on the closing balance.
- 04 **Inez:** We start with eighty thousand and schedule one hundred thousand in outflows. Without the receipt, there is a twenty-thousand-dollar ² _____; with it, thirty thousand remains.
- 05 **Paul:** They normally pay on time, but I don't have a confirmation for Friday. Can you check when the funds would actually reach us?
- 06 **Inez:** Exactly. I will request the payment status and ³ _____. A planned payment date and completed settlement may not give us the same evidence.
- 07 **Paul:** Could we simply include the credit facility in available cash? The agreement is on file, and the facility was used earlier in the year.
- 08 **Inez:** Not until we verify ⁴ _____ and the current draw conditions. An existing agreement is not itself a confirmed source of funds for the required time.
- 09 **Paul:** Please check any notice period too. Even an amount we may borrow could be too late for the particular payment schedule we are trying to cover.
- 10 **Inez:** I will assess the proposed ⁵ _____ timing and authorization with the responsible team. No borrowing action is approved merely because we have identified a possible gap.

Conversation continues on the next page.

Friday cash depends on an unconfirmed receipt

CONVERSATION / CONTINUED

- 11 **Paul:** And do not silently move supplier payments to make the forecast positive. Any deferral could affect contractual commitments and operating relationships.
- 12 **Inez:** Agreed. The scheduled ⁶ _____ remain as stated unless an authorized change is confirmed. I will show possible responses separately from the current case.
- 13 **Paul:** One more check: is all eighty thousand available to use? I don't want restricted funds included in the opening balance.
- 14 **Inez:** The case identifies it as ⁷ _____. In the working file, I will retain the supporting check and keep any restricted balances separately identified.
- 15 **Paul:** The business lead may ask why this matters when the operation is profitable. We should explain that without suggesting the accounting result is wrong.
- 16 **Inez:** Profit and ⁸ _____ answer different questions. Revenue can be recognized before collection, while suppliers and employees still need payment on their scheduled dates.
- 17 **Paul:** Once the facility terms are checked, include the relevant limit calculation. A quoted borrowing ceiling alone may hide conditions affecting how much we can use.
- 18 **Inez:** I will state the applicable ⁹ _____ and its definition, with any unverified conditions visible. We should not invent a covenant result to complete the funding table.
- 19 **Paul:** Then the update should lead with the conditional balance and the delayed-receipt gap, followed by the receipt check and the funding decision still required.
- 20 **Inez:** Yes. I will keep the ¹⁰ _____ attached to the number and route verified options for approval. An optimistic forecast assumption will not substitute for an authorized response.

CHECK THE GAPS

1. base case / 2. shortfall / 3. settlement date / 4. undrawn availability / 5. drawdown / 6. outflows / 7. available cash / 8. liquidity / 9. headroom / 10. dependency

[Why these answers fit, page 134](#)

F Check accuracy and scope

Friday cash depends on an unconfirmed receipt

Return to the case

Friday begins with \$80,000 of available cash. Scheduled outflows total \$100,000. The base forecast includes a \$50,000 customer receipt on Friday, but the customer has not confirmed payment. Without that receipt, the calculation shows a \$20,000 shortfall; with it, closing cash is \$30,000. Inez, the treasury analyst, and Paul, the finance manager, are reviewing the position. A credit facility exists, but its undrawn availability and draw conditions have not been verified. No payment deferral or facility draw is approved.

Choose one answer per question. Use the case facts and keep any uncertainty or limits intact.

1. What must be checked before counting the facility as usable funding?

- A. Only the original commitment amount and expiry date
- B. Only the bank relationship and previous successful draws
- C. Only the forecast deficit and last approved budget
- D. Current availability, draw conditions, timing and authorization

2. Which statement separates cash from profit?

- A. Profit does not itself confirm funds available for the scheduled payments.
- B. Every profitable business has unlimited cash.
- C. All receivables are already bank cash.
- D. Restricted cash is always freely usable.

[Answers and explanations, page 136](#)

Listen for the distinction

Switch roles. Keep facility availability and draw conditions unverified, and any draw or payment deferral unapproved.

State the dependency before the reassuring total

A cash number can sound certain even when it depends on an unconfirmed receipt. Attach the condition to the balance itself, then explain the delayed-receipt case and the authorized next checks. A forecast is useful precisely because it reveals dependencies early.

F Say it / transfer to a new case

A receipt slips to Monday

Friday starts with \$40,000 and has \$55,000 of scheduled outflows. A \$25,000 receipt is now confirmed for Monday, not Friday. No alternative funding or payment change is approved.

Complete the four gaps. With a partner, read alternate roles, then switch. Studying alone, read both roles and pause before each response.

WORD AND PHRASE BANK

approval / shortfall / timing / balance

- 01 **Analyst:** Exclude the Monday receipt from Friday's closing ¹ _____.
- 02 **Manager:** Friday therefore shows a \$15,000 cash ² _____.
- 03 **Analyst:** I will present possible funding options without implying ³ _____.
- 04 **Manager:** Keep Monday's receipt and its confirmed ⁴ _____ in the update.

CHECK THE GAPS

1. balance / 2. shortfall / 3. approval / 4. timing

[Why these answers fit, page 136](#)

Rebuild the exchange

Choose the missing response. Read the completed three-turn exchange aloud, changing roles on the second reading.

1. Rebuild the exchange from "Friday cash depends on an unconfirmed receipt". Paul: "One more check: is all eighty thousand available to use? I don't want restricted funds included in the opening balance." Inez: [missing response] Paul: "The business lead may ask why this matters when the operation is profitable. We should explain that without suggesting the accounting result is wrong." Which response belongs in the gap?

- A.** The case identifies it as available cash. In the working file, I will retain the supporting check and keep any restricted balances separately identified.
- B.** Exactly. I will request the payment status and settlement date. A planned payment date and completed settlement may not give us the same evidence.
- C.** Agreed. The scheduled outflows remain as stated unless an authorized change is confirmed. I will show possible responses separately from the current case.
- D.** We start with eighty thousand and schedule one hundred thousand in outflows. Without the receipt, there is a twenty-thousand-dollar shortfall; with it, thirty thousand remains.

[Answers and explanations, page 137](#)

Review 2 / Meaning and context

Use language from the lessons you have completed. Choose one answer per question.

Case file

Revisit "FP&A, Budgeting, Forecasting, and Variance Analysis" and "Treasury, Cash, Liquidity, Working Capital, and FX". Choose precise terminology, then reconstruct the missing responses using both neighboring turns. The final two questions also revisit earlier conversations.

1. A colleague needs the term for this meaning: An updated estimate of expected performance using stated assumptions. Which term fits?

- A. forecast
- B. plug
- C. rolling forecast
- D. timing variance

2. A colleague needs the term for this meaning: A gap between available cash and the cash needed. Which term fits?

- A. cash shortfall
- B. DSO
- C. treasury
- D. covenant

3. Rebuild the exchange from "December service, January invoice, January payment". Sofia: "If I find it, do you want the January history too? An automatic reversal could explain why the current balance looks different from December's closing schedule." Chen: [missing response] Sofia: "I can already confirm the bank payment on January twentieth. I'll keep that on the cash schedule even while the December expense review remains open." Which response belongs in the gap?

- A. Yes, trace any reversing entry and its posting period. Don't assume it ran just because that is the usual setup; we need this transaction's history.
- B. Use the general ledger history as well. A prepared estimate is not necessarily a posted expense; attach the record that establishes what actually went through.
- C. Keep that cash flow date. We are reconciling the expense treatment, not changing when the money left the bank to make two schedules look alike.
- D. Good. Equal debits and credits don't establish that a journal entry uses the correct account, amount or period. Those checks still need their own evidence.

Review 2 / Meaning and context / continued

4. Rebuild the exchange from "Friday cash depends on an unconfirmed receipt".

Paul: "Once the facility terms are checked, include the relevant limit calculation. A quoted borrowing ceiling alone may hide conditions affecting how much we can use."

Inez: [missing response] Paul: "Then the update should lead with the conditional balance and the delayed-receipt gap, followed by the receipt check and the funding decision still required." Which response belongs in the gap?

- A.** I will state the applicable headroom and its definition, with any unverified conditions visible. We should not invent a covenant result to complete the funding table.
- B.** I will assess the proposed drawdown timing and authorization with the responsible team. No borrowing action is approved merely because we have identified a possible gap.
- C.** Not until we verify undrawn availability and the current draw conditions. An existing agreement is not itself a confirmed source of funds for the required time.
- D.** We start with eighty thousand and schedule one hundred thousand in outflows. Without the receipt, there is a twenty-thousand-dollar shortfall; with it, thirty thousand remains.

[Answers and explanations, page 161](#)

A Read the situation

LESSON 05 / MARKETS, INVESTMENTS, PERFORMANCE, AND CLIENT COMMUNICATION

Present a qualified performance comparison and correct misleading return language.

A six-percent return without the fee label

A portfolio earned 6% before fees over the stated twelve-month period. Its selected benchmark returned 5% for that period. A draft client slide says "outperformed by 1%" but omits the portfolio fee basis. The net-of-fees return is not supplied, and the reporting team must verify currency and calculation consistency before approving the comparison. Omar, the performance analyst, and Grace, the client-reporting manager, are revising the slide. No claim about future returns is authorized.

People: Omar, Performance analyst; Grace, Client-reporting manager.

Read the record

Choose one answer per question using the facts above.

1. What does the 6% measure represent?

- A. A guaranteed next-year return
- B. The benchmark return
- C. The portfolio return before fees for the stated period
- D. A verified net-of-fees client return

2. What is the arithmetic difference between 6% and 5%?

- A. Five basis points
- B. One percentage point
- C. One percent of 5%
- D. Six percentage points

3. What is missing before the full comparison can be approved?

- A. Net-return information and the required basis checks
- B. The stated twelve-month period
- C. The existence of a selected benchmark
- D. The fact that the portfolio return is before fees

[Answers and explanations, page 138](#)

B Vocabulary in use

CORE TERMS

portfolio

A collection of investments held or managed together.

review portfolio performance

gross return

Return before the specified fees or costs are deducted.

label gross return

total return

A measure combining income and price movement under a stated method.

compare total-return measures

annualized return

Return expressed as an equivalent annual rate using a specified method.

explain an annualized return

time-weighted return

A method designed to reduce the effect of external cash-flow timing.

calculate time-weighted return

attribution

Analysis allocating performance to defined contributing factors.

review performance attribution

benchmark

A reference used to evaluate investment performance or exposure.

select an appropriate benchmark

net return

Return after the specified fees or costs are accounted for.

verify the net-return basis

price return

Return from price movement excluding specified income effects.

distinguish price return from total return

cumulative return

The total return over the stated multi-period interval.

report cumulative return

money-weighted return

A return measure affected by the size and timing of cash flows.

explain money-weighted return

excess return

Return above or below a stated benchmark on a consistent basis.

quantify historical excess return

Say it in context

Stress the highlighted expression. Keep the surrounding words connected; pause at the end of the phrase.

portfolio **PORTFOLIO**

review portfolio performance

Keep the meaning precise: A collection of investments held or managed together.

price return **PRICE RETURN**

distinguish price return from total return

Keep the meaning precise: Return from price movement excluding specified income effects.

B Precision and professional shorthand

EXTEND YOUR RANGE

volatility

Variability of returns or prices over the measured interval.

state the volatility measure

tracking error

Variability of returns relative to a benchmark under a defined method.

measure tracking error

security selection

Choice of individual investments within the relevant universe.

assess security-selection contribution

coupon

The contractual interest payment terms of a bond.

distinguish coupon from yield

duration

A bond measure related to timing or rate sensitivity, depending on the type.

specify modified duration

unrealized gain

An increase in the value of a position not yet disposed of.

distinguish unrealized from realized gain

drawdown

A decline from a previous peak in the specified value series.

assess maximum drawdown

asset allocation

Distribution of investment exposure among asset categories.

explain asset-allocation effects

yield

An income or valuation-based rate whose meaning depends on its defined type.

specify the yield measure

maturity

The contractual date when a debt's principal is due, subject to its terms.

identify the maturity date

credit spread

A yield difference against a reference, reflecting several risk and market factors.

monitor credit-spread movement

realized gain

A gain recognized on disposal under the stated reporting basis.

report realized gains

Say it in context

Stress the highlighted expression. Keep the surrounding words connected; pause at the end of the phrase.

excess return **EXCESS RETURN**

quantify historical excess return

Keep the meaning precise: Return above or below a stated benchmark on a consistent basis.

security selection **SECURITY SELECTION**

assess security-selection contribution

Keep the meaning precise: Choice of individual investments within the relevant universe.

Phrases that move the work forward

Label the result

The portfolio returned 6% before fees over the stated twelve months.

State the gap

The net-of-fees figure has not been supplied.

Clarify the benchmark

Which index and return version are used in this comparison?

Limit the claim

This reports historical performance, not an expected future return.

Distinguish measures

Is that a price-return index or a total-return index?

Avoid a shortcut

A higher headline return does not establish lower risk.

Name the yield

Do you mean current yield or yield to maturity?

Qualify a result

The comparison remains provisional while the calculation basis is checked.

Correct the unit

The arithmetic difference is one percentage point, not simply "1% higher."

Check comparability

We need consistent period, currency, and calculation bases.

Preserve context

Keep the fee label beside the portfolio return.

Close with review

I will verify the basis before the client version is approved.

Check cash flows

Does the method account for client contributions and withdrawals consistently?

Explain attribution

The report separates allocation and selection effects under its stated method.

Separate income

The coupon rate is not the same as the investor's total return.

Correct a promise

We cannot present last year's outperformance as a guarantee.

Precision in real exchanges

Purpose: Check comparability

Useful wording: We need consistent period, currency, and calculation bases.

Purpose: Clarify the benchmark

Useful wording: Which index and return version are used in this comparison?

D Choose the response that fits

Choose one response for each situation. Preserve the facts, the decision boundary, and the purpose of the exchange.

1. Which headline preserves the known fee treatment?

- A.** Net return: 6%, because the gross return is known
- B.** Portfolio return: 6% before fees for the stated twelve months
- C.** Client return after all fees: 6%
- D.** Guaranteed next-year return: 6%

2. How should the arithmetic gap be expressed?

- A.** One basis point
- B.** One percent of the benchmark
- C.** Six percent above every alternative
- D.** One percentage point, or 100 basis points

3. A colleague needs the term for this meaning: Return after the specified fees or costs are accounted for. Which term fits?

- A.** tracking error
- B.** time-weighted return
- C.** duration
- D.** net return

D Choose the response that fits / continued

4. Rebuild the exchange from "A six-percent return without the fee label". Grace: "Before we call the result outperformance, are the period and measurement bases aligned? The dates match, but that may not settle currency or income treatment." Omar: [missing response] Grace: "Please check whether the index includes reinvested income. A price-only series would answer a different question from a series including both price changes and distributions." Which response belongs in the gap?

- A.** The portfolio figure is a gross return. It is before fees, and the reporting file does not supply the net figure for this version.
- B.** Agreed. We should identify the total return treatment rather than assume it. The portfolio and reference need compatible descriptions before the client comparison is approved.
- C.** I need to verify the selected benchmark version and calculation method. Matching dates alone does not make every return series directly comparable.
- D.** No. It does not establish volatility or other risk characteristics. We need the relevant risk measures and limitations before making any comparative risk claim.

[Answers and explanations, page 138](#)

One useful distinction

Six percent minus five percent is one percentage point, or 100 basis points. Saying "1% higher" is ambiguous and can be read as a relative comparison. The arithmetic difference alone does not establish a fair benchmark comparison without consistent methods and scope.

Conversation

A six-percent return without the fee label

A six-percent return without the fee label

Complete the numbered gaps. Use each bank entry once; some entries contain several words.

WORD AND PHRASE BANK

gross return / time-weighted return / net return / benchmark / total return /
percentage point / attribution / volatility / excess return / coupon

- 01 **Grace:** The slide shows six percent for the portfolio and five percent for the benchmark. It says outperformed by one percent, but I cannot see a fee label.
- 02 **Omar:** The portfolio figure is a ¹ _____. It is before fees, and the reporting file does not supply the net figure for this version.
- 03 **Grace:** Put that qualification beside the number. A client should not have to search the appendix to discover that the headline is not an after-fee result.
- 04 **Omar:** I will also change the difference to one ² _____. Saying one percent can suggest a relative calculation rather than the subtraction of six and five.
- 05 **Grace:** Before we call the result outperformance, are the period and measurement bases aligned? The dates match, but that may not settle currency or income treatment.
- 06 **Omar:** I need to verify the selected ³ _____ version and calculation method. Matching dates alone does not make every return series directly comparable.

E Conversation / continued

- 07 **Grace:** Please check whether the index includes reinvested income. A price-only series would answer a different question from a series including both price changes and distributions.
- 08 **Omar:** Agreed. We should identify the ⁴ _____ treatment rather than assume it. The portfolio and reference need compatible descriptions before the client comparison is approved.
- 09 **Grace:** The account also had contributions during the period. We should know whether the performance method is intended to isolate investment results from the timing of those flows.
- 10 **Omar:** I will verify whether this is ⁵ _____ and confirm its calculation. I will not substitute a money-weighted figure without explaining the change in method.

Conversation continues on the next page.

A six-percent return without the fee label

CONVERSATION / CONTINUED

- 11 **Grace:** Once the comparison checks out, what explains the difference? The client will want more than a line saying the manager did well.
- 12 **Omar:** The ⁶ _____ report can help, provided we use its stated method. We should distinguish allocation and security-selection contributions rather than invent a narrative from the headline.
- 13 **Grace:** A sales colleague suggested saying the portfolio delivered higher returns with no added risk. Is the return comparison enough to support that statement?
- 14 **Omar:** No. It does not establish ⁷ _____ or other risk characteristics. We need the relevant risk measures and limitations before making any comparative risk claim.
- 15 **Grace:** The next slide shows a bond coupon. Please avoid presenting that contractual interest rate as though it were the investor's overall gain over the period.
- 16 **Omar:** Yes. The ⁸ _____ is not the same as total return. The explanation needs to distinguish income terms from the effect of price movement and other factors.
- 17 **Grace:** If the net figure isn't ready for our review, leave it unavailable and flag the missing calculation. Don't carry six percent into that box.
- 18 **Omar:** I will mark ⁹ _____ as unavailable for review and route the missing calculation to its owner. The client version will follow the required approval process.
- 19 **Grace:** Finally, remove the sentence implying that we will beat the benchmark again. We can describe the past result without offering a promise about the next year.
- 20 **Omar:** I will identify the one-percentage-point arithmetic gap as historical ¹⁰ _____, subject to the basis checks, and preserve the fee, period, and uncertainty labels in the revised slide.

CHECK THE GAPS

1. gross return / 2. percentage point / 3. benchmark / 4. total return / 5. time-weighted return / 6. attribution / 7. volatility / 8. coupon / 9. net return / 10. excess return

[Why these answers fit, page 140](#)

F Check accuracy and scope

A six-percent return without the fee label

Return to the case

A portfolio earned 6% before fees over the stated twelve-month period. Its selected benchmark returned 5% for that period. A draft client slide says "outperformed by 1%" but omits the portfolio fee basis. The net-of-fees return is not supplied, and the reporting team must verify currency and calculation consistency before approving the comparison. Omar, the performance analyst, and Grace, the client-reporting manager, are revising the slide. No claim about future returns is authorized.

Choose one answer per question. Use the case facts and keep any uncertainty or limits intact.

1. Which check goes beyond simply matching dates?

- A. Verify the two reports display the same twelve-month label
- B. Confirm both figures appear in the same presentation
- C. Check that both percentages use the same decimal places
- D. Verify currency, income treatment and calculation method

2. Which statement avoids a future-performance promise?

- A. The same excess return will occur next year.
- B. Past outperformance removes market risk.
- C. Six percent is the client's minimum future return.
- D. The result describes this historical period, not a guaranteed future outcome.

[Answers and explanations, page 141](#)

Listen for the distinction

Switch roles. Stress that net performance and comparison checks are unfinished; do not turn the historical result into a promised return.

A clear headline needs a fair comparison

Clients may reasonably read an unlabeled return as the amount they earned after costs. Put important fee and period information near the number, not only in remote explanatory text. Precision about historical performance is part of clear communication, not an obstacle to it.

F Say it / transfer to a new case

Two years is not one year

A report shows a 12% cumulative return over two years. It has not supplied an annualized calculation. The editor wants a short headline without changing the reported measure.

Complete the four gaps. With a partner, read alternate roles, then switch. Studying alone, read both roles and pause before each response.

WORD AND PHRASE BANK

cumulative / period / annualized / basis

- 01 **Analyst:** The 12% figure is ¹ _____ over two years.
- 02 **Editor:** Do not relabel it as an ² _____ rate.
- 03 **Analyst:** The headline must keep the two-year ³ _____.
- 04 **Editor:** Retain the calculation ⁴ _____ with the supporting report.

CHECK THE GAPS

1. cumulative / 2. annualized / 3. period / 4. basis

[Why these answers fit, page 141](#)

Rebuild the exchange

Choose the missing response. Read the completed three-turn exchange aloud, changing roles on the second reading.

1. Rebuild the exchange from "A six-percent return without the fee label". Grace: "A sales colleague suggested saying the portfolio delivered higher returns with no added risk. Is the return comparison enough to support that statement?" Omar: [missing response] Grace: "The next slide shows a bond coupon. Please avoid presenting that contractual interest rate as though it were the investor's overall gain over the period." Which response belongs in the gap?

- A.** I will verify whether this is time-weighted return and confirm its calculation. I will not substitute a money-weighted figure without explaining the change in method.
- B.** The portfolio figure is a gross return. It is before fees, and the reporting file does not supply the net figure for this version.
- C.** No. It does not establish volatility or other risk characteristics. We need the relevant risk measures and limitations before making any comparative risk claim.
- D.** Agreed. We should identify the total return treatment rather than assume it. The portfolio and reference need compatible descriptions before the client comparison is approved.

[Answers and explanations, page 142](#)

A Read the situation

LESSON 06 / BANKING, CREDIT, LENDING, AND COUNTERPARTY RISK

Request specific financial evidence and explain its effect on a credit review without promising approval.

A credit review needs current borrower information

A lender will review a fictional borrower file on Thursday. The file contains audited statements for the prior December year-end but lacks the requested management accounts through 30 June. The team needs a balance sheet, income statement, and supporting debt schedule. Ellis, the credit analyst, asks Morgan, the relationship manager, to obtain them by Wednesday at 3 p.m. for internal preparation. The borrower has not confirmed delivery. No lending decision or exception to the information requirement is approved.

People: Ellis, Credit analyst; Morgan, Relationship manager.

Read the record

Choose one answer per question using the facts above.

1. Which information is missing?

- A. Evidence that every loan is in default
- B. Management accounts through 30 June and the requested debt support
- C. All prior-year audited statements
- D. A completed Thursday approval

2. What does Wednesday at 3 p.m. represent?

- A. The requested delivery time for internal preparation
- B. A confirmed borrower promise
- C. A contractual loan maturity
- D. A guaranteed approval time

3. What decision has been approved?

- A. Immediate default classification
- B. Removal of all review requirements
- C. Neither lending approval nor an information exception
- D. Automatic approval if any file arrives

[Answers and explanations, page 143](#)

B Vocabulary in use

CORE TERMS

borrower

A party receiving or seeking funds with repayment obligations.

assess the borrower's position

credit file

Records supporting assessment and administration of credit.

complete the credit file

credit committee

A body reviewing or deciding credit matters within its authority.

prepare the credit-committee pack

audited statements

Financial statements accompanied by an independent audit opinion.

inspect the audited statements

debt schedule

A listing of borrowings and relevant terms and balances.

reconcile the debt schedule

DSCR

Debt service coverage ratio, comparing a defined cash-flow measure with debt service.

specify the DSCR definition

lender

A party providing or considering credit.

clarify the lender's requirements

underwriting

Assessment of risk and terms before accepting an exposure.

support the underwriting review

management accounts

Internally prepared financial information, not necessarily audited.

request current management accounts

interim period

A reporting interval shorter than a full financial year.

identify the interim reporting period

debt service

Principal and interest payments due under the relevant obligations.

assess scheduled debt service

leverage ratio

A measure of debt relative to a specified earnings, asset, or equity base.

verify the leverage-ratio basis

Say it in context

Stress the highlighted expression. Keep the surrounding words connected; pause at the end of the phrase.

borrower BORROWER

assess the borrower's position

Keep the meaning precise: A party receiving or seeking funds with repayment obligations.

management accounts MANAGEMENT ACCOUNTS

request current management accounts

Keep the meaning precise: Internally prepared financial information, not necessarily audited.

B Precision and professional shorthand

EXTEND YOUR RANGE

LTV

Loan-to-value ratio, comparing the loan with defined collateral value.

assess the LTV ratio

security interest

A legal interest in assets securing an obligation, subject to applicable law.

review the security-interest documentation

maturity profile

The distribution of debt repayment dates.

review the maturity profile

counterparty risk

Risk of loss from another contracting party's failure to perform.

monitor counterparty risk

probability of default

Estimated likelihood of default under a specified model and horizon.

state the probability-of-default horizon

exposure at default

Estimated amount exposed when default occurs under the defined model.

calculate exposure at default

collateral

Assets pledged to support an obligation.

verify the collateral description

guarantor

A party undertaking a specified obligation if another party fails to perform.

assess the guarantor's capacity

refinancing risk

Risk that replacement funding is unavailable or unattractive when needed.

assess refinancing risk

concentration risk

Risk arising from exposures sharing a borrower, sector, or other dependence.

assess customer concentration risk

loss given default

Estimated share of exposure lost if default occurs under stated assumptions.

evaluate loss given default

credit exception

A departure from a credit requirement requiring authorized assessment.

seek approval for a credit exception

Say it in context

Stress the highlighted expression. Keep the surrounding words connected; pause at the end of the phrase.

leverage ratio LEVERAGE RATIO

verify the leverage-ratio basis

Keep the meaning precise: A measure of debt relative to a specified earnings, asset, or equity base.

maturity profile MATURITY PROFILE

review the maturity profile

Keep the meaning precise: The distribution of debt repayment dates.

Phrases that move the work forward

Specify the request

Please obtain management accounts through 30 June.

Explain the purpose

These records support Thursday's credit review.

Preserve status

The borrower has not yet confirmed that timing.

Clarify the limitation

The current file does not support a complete interim assessment.

Distinguish assurance

These are management accounts, not audited interim statements.

Define the ratio

Which cash-flow and debt-service definitions are used for DSCR?

Separate decisions

Any exception requires its own authorized review.

Trace support

Please reconcile the debt schedule to the reported balances.

Name the components

We need the balance sheet, income statement, and supporting debt schedule.

State the requested time

We have requested delivery by Wednesday at 3 p.m. for preparation.

Avoid a promise

Document delivery does not guarantee approval.

Close the request

Please confirm what can be supplied and flag any missing component.

Check the period

Does the income statement cover the six months ending 30 June?

Check completeness

Does the schedule include all borrowings and upcoming repayments?

Avoid a default claim

The missing information does not itself establish a default.

Confirm receipt

We received the file; its completeness review is still pending.

Precision in real exchanges

Purpose: State the requested time

Useful wording: We have requested delivery by Wednesday at 3 p.m. for preparation.

Purpose: Preserve status

Useful wording: The borrower has not yet confirmed that timing.

D Choose the response that fits

Choose one response for each situation. Preserve the facts, the decision boundary, and the purpose of the exchange.

1. Which request is most precise for this case?

- A.** Send the 30 June balance sheet, six-month income statement and debt schedule.
- B.** Send June monthly sales and the latest bank balance.
- C.** Send December audited accounts and a projected year-end income statement.
- D.** Send the six-month income statement without the position or debt records.

2. Which statement accurately describes the requested timing?

- A.** Delivery is requested for Wednesday at 3 p.m.; the borrower has not confirmed.
- B.** Delivery is guaranteed because the meeting is Thursday.
- C.** The loan matures Wednesday at 3 p.m.
- D.** Approval is automatic if a message arrives before Thursday.

3. A colleague needs the term for this meaning: Assessment of risk and terms before accepting an exposure. Which term fits?

- A.** security interest
- B.** debt schedule
- C.** underwriting
- D.** probability of default

D Choose the response that fits / continued

4. Rebuild the exchange from "A credit review needs current borrower information".
Morgan: "We requested Wednesday at three for preparation before Thursday's meeting. The borrower has not confirmed whether that timing is possible, so I should not promise the pack is complete." **Ellis:** [missing response] **Morgan:** "If they send a signed spreadsheet, should I describe the June numbers as audited? The finance director's signature may make the document look more formal." **Which response belongs in the gap?**

- A.** We still need the June management accounts. Specify the reporting date and required components rather than repeating latest financials, which they are interpreting differently.
- B.** No. Audited statements have a different assurance status. Name the preparer and the actual review status without upgrading it because the file looks official.
- C.** Correct. Keep the requested deadline distinct from confirmed delivery. Ask what they can provide and identify any component that will remain missing.
- D.** Specify the DSCR definition and period before quoting it. A ratio can look precise while comparing mismatched amounts or omitting required adjustments.

[Answers and explanations, page 143](#)

One useful distinction

Audited December statements and unaudited June management accounts cover different periods and assurance levels. Describe each accurately. Receipt of a file does not establish completeness, reconciliation, reliable ratios, or credit approval.

E Conversation

A credit review needs current borrower information

A credit review needs current borrower information

Complete the numbered gaps. Use each bank entry once; some entries contain several words.

WORD AND PHRASE BANK

requested deadline / completeness review / Audited statements / Collateral / credit file /
credit exception / DSCR / debt schedule / maturity profile / management accounts

- 01 **Morgan:** The borrower sent December's audited statements again. They believe that completes the request because those are the most recent documents signed by their external auditor.
- 02 **Ellis:** We still need the June ¹ _____. Specify the reporting date and required components rather than repeating latest financials, which they are interpreting differently.
- 03 **Morgan:** I will ask for the balance sheet as of June thirtieth and the income statement for the six months ending then. What support should accompany them?
- 04 **Ellis:** Include the ² _____, with balances and relevant repayment dates. It should reconcile to the accounts so we can understand the obligations rather than rely on a single total.
- 05 **Morgan:** We requested Wednesday at three for preparation before Thursday's meeting. The borrower has not confirmed whether that timing is possible, so I should not promise the pack is complete.
- 06 **Ellis:** Correct. Keep the ³ _____ distinct from confirmed delivery. Ask what they can provide and identify any component that will remain missing.

E Conversation / continued

- 07 **Morgan:** If they send a signed spreadsheet, should I describe the June numbers as audited? The finance director's signature may make the document look more formal.
- 08 **Ellis:** No. ⁴ _____ have a different assurance status. Name the preparer and the actual review status without upgrading it because the file looks official.
- 09 **Morgan:** The team wants a coverage ratio as soon as the file arrives. But the cash-flow figure covers six months and the debt payments cover a year.
- 10 **Ellis:** Specify the ⁵ _____ definition and period before quoting it. A ratio can look precise while comparing mismatched amounts or omitting required adjustments.

Conversation continues on the next page.

A credit review needs current borrower information

CONVERSATION / CONTINUED

- 11 **Morgan:** We should also see which loans come due soon. A reasonable total debt balance may still hide several repayments concentrated in a short period.
- 12 **Ellis:** That is why the ⁶ _____ matters. Check dates and amounts, and identify any refinancing assumption rather than treating replacement borrowing as already available.
- 13 **Morgan:** One colleague says the pledged property makes the missing accounts unimportant. I can explain that security and repayment capacity are separate parts of the assessment.
- 14 **Ellis:** Exactly. ⁷ _____ does not replace current financial information. Its value, enforceability, and recovery assumptions also require appropriate review.
- 15 **Morgan:** What happens if the June package cannot arrive before the meeting? I need a clear message that does not sound like automatic rejection or a promise to waive requirements.
- 16 **Ellis:** Report the gap and route any proposed ⁸ _____ through the authorized process. Neither the meeting date nor the relationship team's preference approves an exception.
- 17 **Morgan:** I will avoid saying the borrower is in default just because a document is missing. Any contractual reporting issue would need its own assessment against the agreement.
- 18 **Ellis:** Correct. This update concerns an incomplete ⁹ _____, not an approved default determination. Separate the known information gap from legal or credit conclusions still requiring review.

A credit review needs current borrower information / continued

- 19 **Morgan:** I'll request all three components with the June date and Wednesday timing. If they can't deliver, I'll tell you what is missing before Thursday's review.
- 20 **Ellis:** Good. On receipt, acknowledge delivery and begin the ¹⁰ _____. Keep receipt, validation, committee consideration, and lending authorization as separate statuses in the handoff.

CHECK THE GAPS

1. management accounts / **2.** debt schedule / **3.** requested deadline / **4.** Audited statements / **5.** DSCR / **6.** maturity profile / **7.** Collateral / **8.** credit exception / **9.** credit file / **10.** completeness review

[Why these answers fit, page 145](#)

F Check accuracy and scope

A credit review needs current borrower information

Return to the case

A lender will review a fictional borrower file on Thursday. The file contains audited statements for the prior December year-end but lacks the requested management accounts through 30 June. The team needs a balance sheet, income statement, and supporting debt schedule. Ellis, the credit analyst, asks Morgan, the relationship manager, to obtain them by Wednesday at 3 p.m. for internal preparation. The borrower has not confirmed delivery. No lending decision or exception to the information requirement is approved.

Choose one answer per question. Use the case facts and keep any uncertainty or limits intact.

1. Which label preserves assurance status?

- A. Audited because a spreadsheet is signed
- B. Guaranteed accurate because the borrower emailed them
- C. Final credit approval documentation
- D. Internally prepared management accounts, audit status not established

2. Which response avoids an unsupported credit conclusion?

- A. The file is incomplete for the requested review; no decision is approved.
- B. Missing June accounts prove default.
- C. December statements guarantee repayment.
- D. Collateral removes every lending risk.

[Answers and explanations, page 146](#)

Listen for the distinction

Switch roles. Keep borrower confirmation, completeness review and credit approval separate; no delivery promise or exception is established.

Make the request exact and the consequence proportionate

A vague request for "latest financials" often produces the wrong period or document set. Specify the records, reporting date, purpose, and requested time. Explain an incomplete review without turning the missing information into an unsupported default finding or an automatic rejection.

F Say it / transfer to a new case

A guarantee does not replace a current assessment

A borrower offers a parent guarantee, but the guarantor financial information and guarantee wording are unreviewed. The credit team has not approved the loan or reliance on the guarantee.

Complete the four gaps. With a partner, read alternate roles, then switch. Studying alone, read both roles and pause before each response.

WORD AND PHRASE BANK

approved / risk / review / wording

- 01 **Manager:** The guarantee is offered, but reliance is not ¹ _____.
- 02 **Analyst:** We need the guarantor's financial information and the actual ² _____.
- 03 **Manager:** Do not describe the offer as eliminating credit ³ _____.
- 04 **Analyst:** I will route the evidence through the authorized ⁴ _____.

CHECK THE GAPS

1. approved / 2. wording / 3. risk / 4. review

[Why these answers fit, page 146](#)

F Say it / transfer to a new case / continued

Rebuild the exchange

Choose the missing response. Read the completed three-turn exchange aloud, changing roles on the second reading.

1. Rebuild the exchange from "A credit review needs current borrower information".

Morgan: "One colleague says the pledged property makes the missing accounts unimportant. I can explain that security and repayment capacity are separate parts of the assessment." Ellis: [missing response] Morgan: "What happens if the June package cannot arrive before the meeting? I need a clear message that does not sound like automatic rejection or a promise to waive requirements." Which response belongs in the gap?

- A.** We still need the June management accounts. Specify the reporting date and required components rather than repeating latest financials, which they are interpreting differently.
- B.** Specify the DSCR definition and period before quoting it. A ratio can look precise while comparing mismatched amounts or omitting required adjustments.
- C.** Exactly. Collateral does not replace current financial information. Its value, enforceability, and recovery assumptions also require appropriate review.
- D.** Correct. Keep the requested deadline distinct from confirmed delivery. Ask what they can provide and identify any component that will remain missing.

[Answers and explanations, page 147](#)

Review 3 / Meaning and context

Use language from the lessons you have completed. Choose one answer per question.

Case file

Revisit "Markets, Investments, Performance, and Client Communication" and "Banking, Credit, Lending, and Counterparty Risk". Choose precise terminology, then reconstruct the missing responses using both neighboring turns. The final two questions also revisit earlier conversations.

1. A colleague needs the term for this meaning: Return before the specified fees or costs are deducted. Which term fits?

- A. cumulative return
- B. gross return
- C. drawdown
- D. maturity

2. A colleague needs the term for this meaning: A reporting interval shorter than a full financial year. Which term fits?

- A. LTV
- B. borrower
- C. interim period
- D. counterparty risk

3. Rebuild the exchange from "Friday cash depends on an unconfirmed receipt". Paul: "Please check any notice period too. Even an amount we may borrow could be too late for the particular payment schedule we are trying to cover." Inez: [missing response] Paul: "And do not silently move supplier payments to make the forecast positive. Any deferral could affect contractual commitments and operating relationships." Which response belongs in the gap?

- A. I will assess the proposed drawdown timing and authorization with the responsible team. No borrowing action is approved merely because we have identified a possible gap.
- B. Not until we verify undrawn availability and the current draw conditions. An existing agreement is not itself a confirmed source of funds for the required time.
- C. I will state the applicable headroom and its definition, with any unverified conditions visible. We should not invent a covenant result to complete the funding table.
- D. We start with eighty thousand and schedule one hundred thousand in outflows. Without the receipt, there is a twenty-thousand-dollar shortfall; with it, thirty thousand remains.

Review 3 / Meaning and context / continued

4. Rebuild the exchange from "A credit review needs current borrower information". Morgan: "I will avoid saying the borrower is in default just because a document is missing. Any contractual reporting issue would need its own assessment against the agreement." Ellis: [missing response] Morgan: "I'll request all three components with the June date and Wednesday timing. If they can't deliver, I'll tell you what is missing before Thursday's review." Which response belongs in the gap?

- A.** We still need the June management accounts. Specify the reporting date and required components rather than repeating latest financials, which they are interpreting differently.
- B.** Report the gap and route any proposed credit exception through the authorized process. Neither the meeting date nor the relationship team's preference approves an exception.
- C.** No. Audited statements have a different assurance status. Name the preparer and the actual review status without upgrading it because the file looks official.
- D.** Correct. This update concerns an incomplete credit file, not an approved default determination. Separate the known information gap from legal or credit conclusions still requiring review.

[Answers and explanations, page 164](#)

A Read the situation

LESSON 07 / CONTROLS, AUDIT, COMPLIANCE, FRAUD, AND ETHICS

Hand off unresolved reconciliation items with evidence, ownership, and neutral risk language.

Three unmatched entries that happen to net to zero

Yara is preparing a bank reconciliation for Noah to review. Three bank entries remain unmatched to ledger support: a \$1,200 receipt, a \$700 payment, and a \$500 payment. Their net amount is zero, but their individual causes are unknown. Yara has attached the bank references and a list of records already checked. No correcting entries, fraud conclusion, or reconciliation sign-off is approved. Noah will continue the review after Yara leaves.

People: Yara, Reconciliation preparer; Noah, Reviewer.

Read the record

Choose one answer per question using the facts above.

1. What is the net of the three unmatched bank entries?

- A. \$1,200
- B. Minus \$1,200
- C. Zero
- D. \$2,400

2. What remains unknown?

- A. Whether bank references are attached
- B. Who will continue the review
- C. The causes of the three unmatched items
- D. Whether the entries total zero

3. What can Yara accurately report?

- A. Approved correcting entries
- B. Three unresolved items with attached references and checks performed
- C. A signed-off reconciliation
- D. Confirmed fraud

[Answers and explanations, page 148](#)

B Vocabulary in use

CORE TERMS

internal control

A process intended to provide reasonable assurance about specified objectives.

assess an internal control

control owner

The person accountable for the assigned control's operation.

confirm the control owner

preventive control

A control designed to stop an error or unwanted event before it occurs.

evaluate a preventive control

segregation of duties

Separation of responsibilities to reduce error or misuse risk.

maintain segregation of duties

bank reconciliation

Comparison of bank and ledger records with explained differences.

complete a bank reconciliation

unmatched entry

A transaction lacking an identified counterpart or supporting match.

investigate an unmatched entry

control objective

The result a control is designed to support.

identify the control objective

control evidence

Records supporting that a control was performed and what it found.

retain control evidence

detective control

A control designed to identify an error or unwanted event.

perform a detective control

maker-checker

A process separating preparation from an independent check.

follow the maker-checker procedure

reconciling item

A difference identified between records being compared.

resolve a reconciling item

suspense account

An account holding items temporarily pending appropriate classification.

clear supported suspense-account items

Say it in context

Stress the highlighted expression. Keep the surrounding words connected; pause at the end of the phrase.

internal control INTERNAL CONTROL

assess an internal control

Keep the meaning precise: A process intended to provide reasonable assurance about specified objectives.

detective control DETECTIVE CONTROL

perform a detective control

Keep the meaning precise: A control designed to identify an error or unwanted event.

B Precision and professional shorthand

EXTEND YOUR RANGE

aging

Classification of unresolved items or balances by time outstanding.

review the aging of open items

root-cause analysis

Examination of the underlying reason a problem occurred.

document the root-cause analysis

control deficiency

A weakness in a control's design or operation.

assess a potential control deficiency

misstatement

An error or omission in reported financial information under the relevant framework.

assess a possible misstatement

professional skepticism

A questioning approach to evidence and possible misstatement.

apply professional skepticism

exception log

A record of deviations or unresolved items and their status.

update the exception log

corrective action

A step intended to resolve an identified problem.

approve corrective action

material weakness

In US AS 2201, a control deficiency with a reasonable possibility that a material misstatement escapes timely prevention or detection.

refer a material-weakness assessment

fraud indicator

A sign warranting assessment of possible deliberate wrongdoing.

escalate a fraud indicator

sign-off

Recorded confirmation that a specified review or approval is complete.

withhold sign-off pending resolution

B Precision and professional shorthand / continued

remediation

Work to address an identified issue and its causes.

track remediation progress

whistleblowing channel

An authorized or protected route for reporting concerns under applicable arrangements.

identify the reporting channel

Say it in context

Stress the highlighted expression. Keep the surrounding words connected; pause at the end of the phrase.

suspense account **SUSPENSE ACCOUNT**

clear supported suspense-account items

Keep the meaning precise: An account holding items temporarily pending appropriate classification.

control deficiency **CONTROL DEFICIENCY**

assess a potential control deficiency

Keep the meaning precise: A weakness in a control's design or operation.

Phrases that move the work forward

State the open work

Three entries remain unmatched despite a zero net difference.

Separate arithmetic

The amounts offset, but the individual causes remain unknown.

Limit a conclusion

No fraud finding or corrective entry has been approved.

Avoid forced clearance

We should not net unsupported items merely to close the reconciliation.

Name a reference

Please use the bank transaction reference, not only the amount.

State a negative finding

I did not find a match in the records reviewed.

Request confirmation

Please acknowledge the three open items and next checks.

Preserve history

Keep the original exception and the reason for any later correction.

Give the amounts

The receipt is \$1,200; the payments are \$700 and \$500.

Preserve evidence

Bank references and the records checked are attached.

Assign continuation

Noah will continue the review after this handoff.

Close with status

Sign-off remains pending resolution and the required review.

Describe a check

I checked the ledger export through the stated cutoff.

Avoid overreach

Not found in this extract does not mean the transaction never occurred.

Check independence

The required reviewer must assess the proposed adjustment.

Escalate evidence

Route any supported concern through the appropriate reporting process.

Precision in real exchanges

Purpose: Preserve evidence

Useful wording: Bank references and the records checked are attached.

Purpose: Limit a conclusion

Useful wording: No fraud finding or corrective entry has been approved.

D Choose the response that fits

Choose one response for each situation. Preserve the facts, the decision boundary, and the purpose of the exchange.

1. Which statement accurately separates total and support?

- A.** The \$1,200 receipt cancels the need to review payments.
- B.** A zero total authorizes removal of all three records.
- C.** The entries net to zero, but each remains unmatched.
- D.** Zero net difference proves every transaction is valid.

2. Which phrase reports the search result without overclaiming?

- A.** Every possible record has been checked.
- B.** No match was found in the ledger extract reviewed.
- C.** The transaction never existed anywhere.
- D.** The supplier definitely committed fraud.

3. A colleague needs the term for this meaning: Records supporting that a control was performed and what it found. Which term fits?

- A.** professional skepticism
- B.** control evidence
- C.** bank reconciliation
- D.** root-cause analysis

D Choose the response that fits / continued

4. Rebuild the exchange from "Three unmatched entries that happen to net to zero".
Noah: "Show me the last check you completed. I'll take this forward, but I don't want to repeat a search without knowing which records you used." **Yara:** [missing response]
Noah: "That's useful. I'll compare the references with the next relevant records. Where have you kept the open status so it won't disappear from the handoff?" **Which response belongs in the gap?**

- A.** The attached control evidence lists the bank references, ledger extract, cutoff and searches. I found no match in those records; I haven't checked every possible later posting.
- B.** There's no fraud finding. The entries need investigation. If further evidence raises a concern, we'll use the reporting process rather than speculate in the reconciliation comment.
- C.** Only the arithmetic links them. Each reconciling item still needs its own support. I haven't proposed entries or treated the receipt as a reversal of those payments.
- D.** They remain unmatched entries: a twelve-hundred-dollar receipt and payments of seven hundred and five hundred. They cancel numerically, but I haven't established what caused any of them.

[Answers and explanations, page 148](#)

One useful distinction

The net difference is zero, but a receipt and two payments remain unsupported. Offsetting amounts do not prove that each transaction is valid, recorded, classified, or in the correct period. Do not clear unexplained items solely to obtain a clean total.

E Conversation

Three unmatched entries that happen to net to zero

Three unmatched entries that happen to net to zero

Complete the numbered gaps. Use each bank entry once; some entries contain several words.

WORD AND PHRASE BANK

corrective action / sign-off / exception log / fraud finding / status / control evidence /
audit trail / segregation of duties / unmatched entries / reconciling item

- 01 **Noah:** The summary shows zero difference. Before you leave, can I sign this reconciliation, or are the three lines underneath still waiting for support?
- 02 **Yara:** They remain ¹ _____: a twelve-hundred-dollar receipt and payments of seven hundred and five hundred. They cancel numerically, but I haven't established what caused any of them.
- 03 **Noah:** Keep all three visible. Did you find a customer or supplier reference that connects them, or is the amount the only apparent link so far?
- 04 **Yara:** Only the arithmetic links them. Each ² _____ still needs its own support. I haven't proposed entries or treated the receipt as a reversal of those payments.
- 05 **Noah:** Show me the last check you completed. I'll take this forward, but I don't want to repeat a search without knowing which records you used.
- 06 **Yara:** The attached ³ _____ lists the bank references, ledger extract, cutoff and searches. I found no match in those records; I haven't checked every possible later posting.

Conversation / continued

- 07 **Noah:** That's useful. I'll compare the references with the next relevant records. Where have you kept the open status so it won't disappear from the handoff?
- 08 **Yara:** In the ⁴ _____, on three separate lines. Each has an amount, bank reference and checks completed; I haven't replaced them with a net-zero summary.
- 09 **Noah:** A manager asked whether unexplained payments mean wrongdoing. What have you told them? I need the concern recorded without presenting suspicion as an established cause.
- 10 **Yara:** There's no ⁵ _____. The entries need investigation. If further evidence raises a concern, we'll use the reporting process rather than speculate in the reconciliation comment.

Conversation continues on the next page.

Three unmatched entries that happen to net to zero

CONVERSATION / CONTINUED

- 11 **Noah:** Understood. Have any corrections been approved, or has anything been moved to suspense? Tell me now so I use the right starting balances.
- 12 **Yara:** No ⁶ _____ is approved or posted. I haven't moved the items elsewhere just to clear the list; the original differences are still there for review.
- 13 **Noah:** Then I'll acknowledge the handoff, not certify completion. The amount may balance, but we still need to establish the treatment of each transaction.
- 14 **Yara:** Yes, ⁷ _____ remains pending. I'll leave that stated beside the zero net amount so someone reading only the headline doesn't mistake it for a completed reconciliation.
- 15 **Noah:** I'll own the next checks. If I prepare a correcting entry myself, it will need a separate reviewer under our process, not my own approval.
- 16 **Yara:** That keeps ⁸ _____ intact. The preparer and reviewer roles stay separate even though you are taking over the investigation from me this evening.
- 17 **Noah:** When an item is resolved, retain its original bank reference and the decision behind any adjustment. We need to explain the change, not just show a cleaner list.
- 18 **Yara:** The ⁹ _____ will include the original exception, later support, proposed treatment and approval. Resolving a line won't erase how it reached that decision.
- 19 **Noah:** Let me read it back: three unmatched items, causes unknown, references and searches attached, no entries approved, and I own the next review. Anything missing?
- 20 **Yara:** That's the current ¹⁰ _____. I'll be available for questions about the searches, but the attached evidence and open-item list are ready for you to continue.

CHECK THE GAPS

1. unmatched entries / 2. reconciling item / 3. control evidence / 4. exception log / 5. fraud finding / 6. corrective action / 7. sign-off / 8. segregation of duties / 9. audit trail / 10. status

[Why these answers fit, page 150](#)

F Check accuracy and scope

Three unmatched entries that happen to net to zero

Return to the case

Yara is preparing a bank reconciliation for Noah to review. Three bank entries remain unmatched to ledger support: a \$1,200 receipt, a \$700 payment, and a \$500 payment. Their net amount is zero, but their individual causes are unknown. Yara has attached the bank references and a list of records already checked. No correcting entries, fraud conclusion, or reconciliation sign-off is approved. Noah will continue the review after Yara leaves.

Choose one answer per question. Use the case facts and keep any uncertainty or limits intact.

1. Which action preserves the control?

- A. Post a net-zero clearing journal without transaction support
- B. Retain open items and independently review any supported corrections
- C. Match the receipt to both payments because their total agrees
- D. Close the reconciliation but retain the unexplained items in an informal note

2. Which classification is supported now?

- A. Confirmed material weakness
- B. Proven fraud
- C. Approved misstatement correction
- D. Unmatched entries with causes unknown

[Answers and explanations, page 151](#)

Listen for the distinction

Switch roles. Keep three items open, causes unknown and corrections unapproved. Read Noah's final check-back against Yara's confirmation.

A clean total is not a completed control

A reviewer may ask why a zero difference remains open. Explain that individual transactions still need support and correct treatment. Keep observations separate from allegations, and preserve the work history so the next person can continue without guessing what was checked.

F Say it / transfer to a new case

A matching amount is not a matching transaction

Two unrelated payments are each \$800. One has full supporting references; the other has no identified invoice. The reviewer has not approved treating them as the same transaction.

Complete the four gaps. With a partner, read alternate roles, then switch. Studying alone, read both roles and pause before each response.

WORD AND PHRASE BANK

evidence / open / amount / reference

- 01 **Preparer:** The equal ¹ _____ does not establish a common transaction.
- 02 **Reviewer:** Check the payee and transaction ² _____.
- 03 **Preparer:** The unsupported item remains ³ _____.
- 04 **Reviewer:** Do not clear it without sufficient ⁴ _____.

CHECK THE GAPS

1. amount / 2. reference / 3. open / 4. evidence

[Why these answers fit, page 151](#)

Rebuild the exchange

Choose the missing response. Read the completed three-turn exchange aloud, changing roles on the second reading.

1. Rebuild the exchange from "Three unmatched entries that happen to net to zero".

Noah: "Then I'll acknowledge the handoff, not certify completion. The amount may balance, but we still need to establish the treatment of each transaction." Yara: [missing response] Noah: "I'll own the next checks. If I prepare a correcting entry myself, it will need a separate reviewer under our process, not my own approval." Which response belongs in the gap?

- A. No corrective action is approved or posted. I haven't moved the items elsewhere just to clear the list; the original differences are still there for review.
- B. Yes, sign-off remains pending. I'll leave that stated beside the zero net amount so someone reading only the headline doesn't mistake it for a completed reconciliation.
- C. They remain unmatched entries: a twelve-hundred-dollar receipt and payments of seven hundred and five hundred. They cancel numerically, but I haven't established what caused any of them.
- D. There's no fraud finding. The entries need investigation. If further evidence raises a concern, we'll use the reporting process rather than speculate in the reconciliation comment.

[Answers and explanations, page 152](#)

A Read the situation

LESSON 08 / VALUATION, M&A, CAPITAL ALLOCATION, AND EXECUTIVE FINANCE

Present valuation sensitivity and distinguish modeled enterprise value from a transaction price.

A valuation slide showing only the higher case

A fictional discounted-cash-flow model estimates enterprise value at \$20 million using 2% terminal growth and \$30 million using 4% terminal growth. Other modeled inputs are unchanged, including the 9% discount rate. Both are scenarios, not offers. The presentation currently shows only \$30 million. Daniel, a corporate-finance analyst, and Aisha, the chief financial officer, review the slide. The illustrative enterprise-to-equity bridge deducts \$3 million of net debt and assumes no other adjustments. No acquisition or financing decision is approved.

People: Daniel, Corporate-finance analyst; Aisha, Chief financial officer.

Read the record

Choose one answer per question using the facts above.

1. Which input changes between the two stated scenarios?

- A. Net debt, from \$3 million to \$30 million
- B. Every forecast input
- C. Terminal growth, from 2% to 4%
- D. Discount rate, from 2% to 9%

2. What does the \$30 million figure represent?

- A. A guaranteed future sale value
- B. Modeled enterprise value in the 4% terminal-growth case
- C. An accepted purchase price
- D. Equity value after debt

3. What is equity value in the higher case under the stated simplified bridge?

- A. \$33 million
- B. \$30 million
- C. \$3 million
- D. \$27 million

[Answers and explanations, page 153](#)

B Vocabulary in use

CORE TERMS

valuation

An estimate of value using specified methods and assumptions.

explain the valuation basis

discount rate

A rate used to convert future cash flows to present value.

test the discount-rate assumption

present value

Today's modeled equivalent of future cash flows under a discount rate.

calculate present value

terminal growth

The assumed growth rate used for the continuing period in a model.

justify the terminal-growth assumption

enterprise value

Value attributed to the operating business before the specified financing adjustments.

bridge enterprise value to equity value

net debt

Debt less the cash or cash-like items included in the chosen definition.

verify the net-debt definition

DCF

Discounted cash flow, estimating value from projected cash flows and a discount rate.

review the DCF assumptions

WACC

Weighted average cost of capital, combining funding costs using defined weights.

assess the WACC input

terminal value

Value assigned beyond an explicit forecast horizon.

test the terminal-value contribution

free cash flow

A cash-flow measure after defined operating and investment needs.

define the free-cash-flow measure

equity value

Value attributable to equity holders after relevant adjustments.

reconcile equity value

valuation multiple

A ratio relating value to a specified financial or operating measure.

compare valuation multiples

Say it in context

Stress the highlighted expression. Keep the surrounding words connected; pause at the end of the phrase.

valuation VALUATION

explain the valuation basis

Keep the meaning precise: An estimate of value using specified methods and assumptions.

terminal value TERMINAL VALUE

test the terminal-value contribution

Keep the meaning precise: Value assigned beyond an explicit forecast horizon.

B Precision and professional shorthand

EXTEND YOUR RANGE

comparable companies

Businesses selected as relevant valuation references.

screen comparable companies

sensitivity analysis

Testing how a result changes when selected inputs change.

present sensitivity analysis

NPV

Net present value, discounted net cash flows including the investment on a stated basis.

evaluate project NPV

hurdle rate

A specified minimum return criterion for a decision.

confirm the hurdle rate

capital expenditure

Spending on assets under the applicable accounting and planning definitions.

forecast capital expenditure

precedent transactions

Past deals used as valuation references after comparability review.

analyze precedent transactions

base-case valuation

The value produced by the selected central scenario.

qualify the base-case valuation

IRR

Internal rate of return, a rate making the modeled NPV zero where such a rate exists.

compare IRR with the stated hurdle

capital allocation

Decisions about committing resources among uses.

support capital-allocation decisions

synergy

A benefit expected from combining operations or capabilities.

challenge the synergy estimate

B Precision and professional shorthand / continued

due diligence

Investigation of relevant information before a proposed transaction.

complete financial due diligence

accretion and dilution

Increases or decreases in a specified per-share measure after a transaction.

distinguish EPS accretion from value creation

Say it in context

Stress the highlighted expression. Keep the surrounding words connected; pause at the end of the phrase.

valuation multiple VALUATION MULTIPLE

compare valuation multiples

Keep the meaning precise: A ratio relating value to a specified financial or operating measure.

NPV NPV

evaluate project NPV

Keep the meaning precise: Net present value, discounted net cash flows including the investment on a stated basis.

C Phrases that move the work forward

Present both cases

The model gives \$20 million at 2% terminal growth and \$30 million at 4%.

State the sensitivity

The output is sensitive to the continuing-growth assumption.

Explain the bridge

The illustrative equity bridge deducts \$3 million of net debt.

Separate authority

No acquisition or financing decision has been approved.

Challenge selection

Why does the slide show only the higher case?

Test a driver

Which input change produces the difference between these outputs?

Qualify synergies

The benefits are modeled assumptions, not realized cash flows.

Separate outcomes

Earnings-per-share accretion is not proof of value creation.

Name the constant

The discount rate remains 9% in both scenarios.

Avoid a price claim

These are modeled values, not offers or agreed transaction prices.

Limit the simplification

This example assumes no other adjustments.

Close with evidence

We need support for the assumptions before recommending a decision.

Define the metric

Is that enterprise value or value attributable to equity holders?

Preserve context

Keep the growth and discount-rate assumptions beside the values.

Compare methods

Do the selected comparable companies have relevant business and risk characteristics?

Make uncertainty usable

The range identifies an assumption requiring review, not a guaranteed pricing interval.

Precision in real exchanges

Purpose: Avoid a price claim

Useful wording: These are modeled values, not offers or agreed transaction prices.

Purpose: Explain the bridge

Useful wording: The illustrative equity bridge deducts \$3 million of net debt.

D Choose the response that fits

Choose one response for each situation. Preserve the facts, the decision boundary, and the purpose of the exchange.

1. Which revision most accurately presents the valuation?

- A.** Show both values with their growth assumptions and the unchanged discount rate.
- B.** Show \$30 million as a guaranteed selling price.
- C.** Hide the \$20 million case because it is lower.
- D.** Relabel both scenarios as accepted bids.

2. Which arithmetic follows the case's simplified equity bridge?

- A.** Net debt has no role because the model uses cash flows.
- B.** \$30 million minus \$3 million equals \$27 million.
- C.** \$30 million plus \$3 million equals \$33 million.
- D.** \$30 million divided by 4% is equity value.

3. A colleague needs the term for this meaning: Weighted average cost of capital, combining funding costs using defined weights. Which term fits?

- A.** sensitivity analysis
- B.** enterprise value
- C.** capital expenditure
- D.** WACC

D Choose the response that fits / continued

4. Rebuild the exchange from "A valuation slide showing only the higher case".

Aisha: "Then make that sensitivity explicit. A ten-million-dollar difference should not be presented as extra value we have already created or secured from a buyer."

Daniel: [missing response] **Aisha:** "Why four percent? Is there evidence for that continuing growth rate, or have we chosen it because we prefer the thirty-million output?" Which response belongs in the gap?

- A.** Agreed. I will label the resulting figures equity value under the stated bridge, not cash proceeds guaranteed to each shareholder or an approved purchase consideration.
- B.** It is enterprise value under the four-percent terminal-growth case. The two-percent case gives twenty million, but that lower output is missing from the current slide.
- C.** I will separate accretion in the stated accounting metric from value creation. The financing structure, price, risk, and cash-flow assumptions still matter to the investment assessment.
- D.** I will describe the sensitivity analysis and keep the input labels beside the outputs. Neither result is an offer, and neither guarantees a transaction price.

[Answers and explanations, page 153](#)

One useful distinction

The \$20 million and \$30 million values are conditional model outputs. Holding other inputs constant isolates the modeled sensitivity to terminal growth, but does not prove either growth assumption is achievable or that a buyer will pay either amount.

E Conversation

A valuation slide showing only the higher case

A valuation slide showing only the higher case

Complete the numbered gaps. Use each bank entry once; some entries contain several words.

WORD AND PHRASE BANK

due diligence / synergies / net debt / accretion / enterprise value / sensitivity analysis / discount rate / capital allocation / equity value / terminal growth

- 01 **Aisha:** The executive slide shows thirty million dollars. Before we discuss a bid, tell me which value that is and what assumption produces it in the model.
- 02 **Daniel:** It is ¹ _____ under the four-percent terminal-growth case. The two-percent case gives twenty million, but that lower output is missing from the current slide.
- 03 **Aisha:** Show both. Are any other inputs changing, or can the audience attribute the difference to growth alone within this particular comparison?
- 04 **Daniel:** The ² _____ remains nine percent, and the other modeled inputs are unchanged. This comparison isolates the model's response to the terminal-growth assumption.
- 05 **Aisha:** Then make that sensitivity explicit. A ten-million-dollar difference should not be presented as extra value we have already created or secured from a buyer.
- 06 **Daniel:** I will describe the ³ _____ and keep the input labels beside the outputs. Neither result is an offer, and neither guarantees a transaction price.
- 07 **Aisha:** Why four percent? Is there evidence for that continuing growth rate, or have we chosen it because we prefer the thirty-million output?

E Conversation / continued

- 08 **Daniel:** The ⁴ _____ input still needs review against the business and model context. The higher scenario is available for analysis, not established as the most likely outcome.
- 09 **Aisha:** The audience may also confuse business value with the amount attributable to shareholders. Show the bridge and identify exactly which adjustments this example includes.
- 10 **Daniel:** The simplified bridge deducts three million of ⁵ _____ and assumes no other adjustments. That gives twenty-seven million in the higher case and seventeen million in the lower one.

Conversation continues on the next page.

A valuation slide showing only the higher case

CONVERSATION / CONTINUED

- 11 **Aisha:** Keep the simplification visible. Actual deal adjustments may differ, and the slide must not imply that this training calculation settles every component of transaction proceeds.
- 12 **Daniel:** Agreed. I will label the resulting figures ⁶ _____ under the stated bridge, not cash proceeds guaranteed to each shareholder or an approved purchase consideration.
- 13 **Aisha:** A team member wants to add synergies to the higher value without changing the cost assumptions. Have the benefits, implementation costs, and timing been assessed?
- 14 **Daniel:** No. The proposed ⁷ _____ are not verified. We should not add the benefits while omitting the costs and dependencies needed to achieve them.
- 15 **Aisha:** Then show the costs before adding the benefits. We also need to compare this transaction with the other uses of those funds.
- 16 **Daniel:** The ⁸ _____ discussion needs consistent assumptions and relevant alternatives. We should identify what further evidence would support a recommendation instead of treating the model as authorization.
- 17 **Aisha:** One presenter says the transaction would increase earnings per share, so it must create value. That sentence needs a more careful distinction.
- 18 **Daniel:** I will separate ⁹ _____ in the stated accounting metric from value creation. The financing structure, price, risk, and cash-flow assumptions still matter to the investment assessment.

A valuation slide showing only the higher case / continued

- 19 **Aisha:** Revise the slide with both scenarios, the debt bridge, and the assumptions requiring review. No bid or financing commitment should be implied by the presentation.
- 20 **Daniel:** I will preserve that approval boundary and list the outstanding
10 _____. The pack will support an informed decision without turning conditional model outputs into promises or approvals.

CHECK THE GAPS

1. enterprise value / 2. discount rate / 3. sensitivity analysis / 4. terminal growth / 5. net debt / 6. equity value / 7. synergies / 8. capital allocation / 9. accretion / 10. due diligence

[Why these answers fit, page 155](#)

F Check accuracy and scope

A valuation slide showing only the higher case

Return to the case

A fictional discounted-cash-flow model estimates enterprise value at \$20 million using 2% terminal growth and \$30 million using 4% terminal growth. Other modeled inputs are unchanged, including the 9% discount rate. Both are scenarios, not offers. The presentation currently shows only \$30 million. Daniel, a corporate-finance analyst, and Aisha, the chief financial officer, review the slide. The illustrative enterprise-to-equity bridge deducts \$3 million of net debt and assumes no other adjustments. No acquisition or financing decision is approved.

Choose one answer per question. Use the case facts and keep any uncertainty or limits intact.

1. Which statement properly limits the scenario range?

- A.** It shows outcomes under stated assumptions, not a guaranteed pricing interval.
- B.** It proves every buyer will pay between the two values.
- C.** It establishes a 100% probability of a \$30 million sale.
- D.** It eliminates the need to review growth assumptions.

2. Which question most directly tests whether a synergy is deliverable?

- A.** Which presentation slide will show the combined earnings?
- B.** Which transaction name will appear in the announcement?
- C.** Can the model display the benefit as a single annual total?
- D.** What evidence, timing, implementation cost and dependencies support the benefit?

[Answers and explanations, page 156](#)

Listen for the distinction

Switch roles. Give \$27 million equity value only under the stated \$3 million net-debt deduction and no-other-adjustments assumption.

Make sensitivity visible before defending a single number

Executives may ask for one decisive figure, but a model-dependent range can be the more accurate answer. Explain what changed between cases and what stayed constant. A valuation output supports a decision; it is not an offer, an approved bid, or proof of a future sale price.

F Say it / transfer to a new case

The higher project return has different assumptions

Project A and Project B have modeled returns based on different forecast periods and cost inclusions. No comparable analysis or investment approval is complete. The presenter wants to rank them by the headline rates.

Complete the four gaps. With a partner, read alternate roles, then switch. Studying alone, read both roles and pause before each response.

WORD AND PHRASE BANK

provisional / costs / bases / approval

- 01 **Analyst:** The headline rates use different calculation ¹ _____.
- 02 **Director:** Align the periods and included ² _____ before comparing.
- 03 **Analyst:** The ranking remains ³ _____ until that review.
- 04 **Director:** A model result does not itself provide investment ⁴ _____.

CHECK THE GAPS

1. bases / 2. costs / 3. provisional / 4. approval

[Why these answers fit, page 156](#)

F Say it / transfer to a new case / continued

Rebuild the exchange

Choose the missing response. Read the completed three-turn exchange aloud, changing roles on the second reading.

1. Rebuild the exchange from "A valuation slide showing only the higher case". Aisha: "A team member wants to add synergies to the higher value without changing the cost assumptions. Have the benefits, implementation costs, and timing been assessed?" Daniel: [missing response] Aisha: "Then show the costs before adding the benefits. We also need to compare this transaction with the other uses of those funds." Which response belongs in the gap?

- A.** No. The proposed synergies are not verified. We should not add the benefits while omitting the costs and dependencies needed to achieve them.
- B.** I will describe the sensitivity analysis and keep the input labels beside the outputs. Neither result is an offer, and neither guarantees a transaction price.
- C.** The discount rate remains nine percent, and the other modeled inputs are unchanged. This comparison isolates the model's response to the terminal-growth assumption.
- D.** It is enterprise value under the four-percent terminal-growth case. The two-percent case gives twenty million, but that lower output is missing from the current slide.

[Answers and explanations, page 157](#)

Review 4 / Meaning and context

Use language from the lessons you have completed. Choose one answer per question.

Case file

Revisit "Controls, Audit, Compliance, Fraud, and Ethics" and "Valuation, M&A, Capital Allocation, and Executive Finance". Choose precise terminology, then reconstruct the missing responses using both neighboring turns. The final two questions also revisit earlier conversations.

1. A colleague needs the term for this meaning: The person accountable for the assigned control's operation. Which term fits?

- A. control owner
- B. fraud indicator
- C. exception log
- D. maker-checker

2. A colleague needs the term for this meaning: A cash-flow measure after defined operating and investment needs. Which term fits?

- A. valuation
- B. free cash flow
- C. hurdle rate
- D. comparable companies

3. Rebuild the exchange from "A credit review needs current borrower information". Morgan: "The team wants a coverage ratio as soon as the file arrives. But the cash-flow figure covers six months and the debt payments cover a year." Ellis: [missing response] Morgan: "We should also see which loans come due soon. A reasonable total debt balance may still hide several repayments concentrated in a short period." Which response belongs in the gap?

- A. Specify the DSCR definition and period before quoting it. A ratio can look precise while comparing mismatched amounts or omitting required adjustments.
- B. Correct. Keep the requested deadline distinct from confirmed delivery. Ask what they can provide and identify any component that will remain missing.
- C. No. Audited statements have a different assurance status. Name the preparer and the actual review status without upgrading it because the file looks official.
- D. We still need the June management accounts. Specify the reporting date and required components rather than repeating latest financials, which they are interpreting differently.

Review 4 / Meaning and context / continued

4. Rebuild the exchange from "A valuation slide showing only the higher case".

Aisha: "One presenter says the transaction would increase earnings per share, so it must create value. That sentence needs a more careful distinction." **Daniel:** [missing response] **Aisha:** "Revise the slide with both scenarios, the debt bridge, and the assumptions requiring review. No bid or financing commitment should be implied by the presentation." **Which response belongs in the gap?**

- A.** I will separate accretion in the stated accounting metric from value creation. The financing structure, price, risk, and cash-flow assumptions still matter to the investment assessment.
- B.** The terminal growth input still needs review against the business and model context. The higher scenario is available for analysis, not established as the most likely outcome.
- C.** I will describe the sensitivity analysis and keep the input labels beside the outputs. Neither result is an offer, and neither guarantees a transaction price.
- D.** It is enterprise value under the four-percent terminal-growth case. The two-percent case gives twenty million, but that lower output is missing from the current slide.

[Answers and explanations, page 167](#)

Language for the next case

The supplier price is fixed, but the dollar cost is not

currency exposure

Currency exposure means the domestic-currency cost can change when the exchange rate changes.

Maya: The invoice is fixed in euros, not dollars. We still have currency exposure until the payment is covered under the approved arrangements.

budget rate

Budget rate is an assumption for planning, not evidence that a foreign-exchange transaction was executed.

Maya: A budget rate isn't a trade confirmation. I'll check whether any approved coverage already applies to this payment.

hedging policy

Hedging policy defines the organization's permitted objectives, instruments, limits, and approval process.

Maya: The invoice, due date, existing coverage, expected receipts, and any change in the payment plan. We'll compare them with the approved hedging policy.

sensitivity

Sensitivity shows how a modeled result changes when an input changes, not a prediction that it will occur.

Maya: One hundred fifteen thousand. That's a five-thousand-dollar sensitivity to the rate change in this example.

natural hedge

Natural hedge means offsetting business cash flows reduce exposure without necessarily using a derivative.

Maya: Potentially, if the currency, amount, timing, and availability align. We must verify those details before describing a natural hedge.

confirmation

Confirmation is the record of an executed transaction's terms, unlike an unexecuted proposal or indicative rate.

Maya: Thanks. We'll report the proposal separately from an executed trade and retain its confirmation if a transaction is authorized and completed.

Read the phrases aloud. Then complete the conversation on the following pages using the word bank.

Conversation

The supplier price is fixed, but the dollar cost is not

A US business owes a supplier EUR 100,000 in sixty days. Its budget uses USD 1.10 per euro. The team compares that with an illustrative USD 1.15 per euro; neither is a live quote or an executed hedge. Treasury must review any hedging proposal.

Complete the numbered gaps. Use each bank entry once; some entries contain several words.

WORD AND PHRASE BANK

currency exposure / natural hedge / budget rate / hedging policy / confirmation / sensitivity

- 01 **Jon:** The supplier agreed a fixed price. Why has Finance increased the dollar forecast?
- 02 **Maya:** The invoice is fixed in euros, not dollars. We still have ¹ _____ until the payment is covered under the approved arrangements.
- 03 **Jon:** The purchase order is for one hundred thousand euros. What did the budget assume?
- 04 **Maya:** One dollar ten per euro, so one hundred ten thousand dollars before any additional charges.
- 05 **Jon:** And at one dollar fifteen?
- 06 **Maya:** One hundred fifteen thousand. That's a five-thousand-dollar ² _____ to the rate change in this example.
- 07 **Jon:** Could I tell the supplier we need a five-thousand-dollar reduction?
- 08 **Maya:** You can discuss commercial options through your process, but the supplier hasn't changed the euro price. The forecast movement is on our currency side.
- 09 **Jon:** I thought Treasury locked the rate when we approved the budget.
- 10 **Maya:** A ³ _____ isn't a trade confirmation. I'll check whether any approved coverage already applies to this payment.

Conversation continues on the next page.

The supplier price is fixed, but the dollar cost is not

CONVERSATION / CONTINUED

- 11 **Jon:** Would an expected euro receipt reduce the amount we need to cover?
- 12 **Maya:** Potentially, if the currency, amount, timing, and availability align. We must verify those details before describing a ⁴ _____.
- 13 **Jon:** We may receive forty thousand euros, but the customer hasn't confirmed the payment date.
- 14 **Maya:** Then show that receipt separately. Don't reduce the exposure as though the funds are already available on the supplier's due date.
- 15 **Jon:** What will Treasury need for its review?
- 16 **Maya:** The invoice, due date, existing coverage, expected receipts, and any change in the payment plan. We'll compare them with the approved ⁵ _____.
- 17 **Jon:** If a hedge is executed, can I assume the accounting treatment is settled too?
- 18 **Maya:** No. The economic transaction and any hedge-accounting treatment require separate review under the applicable framework.
- 19 **Jon:** I'll send the confirmed payment details and flag the uncertain receipt.
- 20 **Maya:** Thanks. We'll report the proposal separately from an executed trade and retain its ⁶ _____ if a transaction is authorized and completed.

CHECK THE GAPS

1. currency exposure / 2. sensitivity / 3. budget rate / 4. natural hedge / 5. hedging policy / 6. confirmation

[Why these answers fit, page 170](#)

An indicative rate appears in the payment forecast

An analyst has copied an indicative bank rate into the forecast. No trade has been executed and no binding rate has been confirmed.

Complete the exchange using each phrase once. Read both roles, then switch roles and repeat with the bank covered.

WORD AND PHRASE BANK

locked in / indicative / assumption / execution

- 01 **Manager:** Is this the rate we've ¹ _____ for payment?
- 02 **Analyst:** No. It's an ² _____ rate used for this estimate.
- 03 **Manager:** Then retain the foreign-currency amount and the rate ³ _____ beside it.
- 04 **Analyst:** I will update it when Treasury confirms the actual ⁴ _____ status.

CHECK THE GAPS

1. locked in / 2. indicative / 3. assumption / 4. execution

[Why these answers fit, page 170](#)

Keep the distinction audible

Explain currency exposure and distinguish a budget rate from a contracted rate.

Language for the next case

The payback slide leaves out recurring maintenance

cash-flow

Cash-flow identifies cash movements, which must include relevant outflows as well as expected savings.

Lena: Four years uses the gross savings. Where is the recurring maintenance in your cash-flow schedule?

ramp-up

Ramp-up is the period during which activity or output builds toward its expected operating level.

Lena: Then add a ramp-up case. Training and commissioning may delay the benefits, even if the purchase price doesn't change.

double counting

Double counting includes the same economic benefit or cost more than once in the analysis.

Lena: Exactly. Avoid double counting a productivity gain as both lower payroll and extra output without a consistent operating case.

simple payback

Simple payback measures time to recover the initial outlay without discounting and may omit later cash flows.

Lena: Under those simplified assumptions, yes. But simple payback isn't a complete measure of value.

discount rate

Discount rate converts future cash flows to present values under the chosen investment-appraisal assumptions.

Lena: Good. I'll use the approved discount rate and show how the result changes under relevant alternative assumptions.

investment appraisal

Investment appraisal evaluates the proposal using relevant costs, benefits, risks, and comparison criteria.

Lena: And we'll complete the investment appraisal before recommending approval. The arithmetic correction isn't approval of the project.

Read the phrases aloud. Then complete the conversation on the following pages using the word bank.

Conversation

The payback slide leaves out recurring maintenance

A proposed machine costs \$600,000 initially. The sponsor estimates \$150,000 of annual cash savings but excludes \$30,000 of annual maintenance. Figures are constant illustrative amounts; tax, discounting, working capital, and residual value have not been modeled.

Complete the numbered gaps. Use each bank entry once; some entries contain several words.

WORD AND PHRASE BANK

simple payback / double counting / discount rate / ramp-up / investment appraisal / cash-flow

- 01 **Owen:** The machine pays for itself in four years. Can we put that in the approval request?
- 02 **Lena:** Four years uses the gross savings. Where is the recurring maintenance in your
1 _____ schedule?
- 03 **Owen:** I left it in the operating budget. It's thirty thousand a year.
- 04 **Lena:** It still affects this investment comparison. With that cost, the simple annual net benefit is one hundred twenty thousand, not one hundred fifty.
- 05 **Owen:** So simple payback becomes five years: six hundred thousand divided by one hundred twenty thousand.
- 06 **Lena:** Under those simplified assumptions, yes. But 2 _____ isn't a complete measure of value.
- 07 **Owen:** What else do you need before the committee reviews it?
- 08 **Lena:** Installation costs, useful life, ramp-up timing, working-capital effects, and the basis for the savings. We'll also review tax and residual-value assumptions.
- 09 **Owen:** The savings assume the machine operates at full capacity from day one.
- 10 **Lena:** Then add a 3 _____ case. Training and commissioning may delay the benefits, even if the purchase price doesn't change.

Conversation continues on the next page.

The payback slide leaves out recurring maintenance

CONVERSATION / CONTINUED

- 11 **Owen:** Would discounting make the payback calculation more accurate?
- 12 **Lena:** Discounted payback answers a related question, but we also need the complete present-value analysis required by our process. Don't relabel one metric as another.
- 13 **Owen:** I'll ask Engineering to confirm the installation schedule and expected useful life.
- 14 **Lena:** Good. I'll use the approved ⁴ _____ and show how the result changes under relevant alternative assumptions.
- 15 **Owen:** Could we include the benefit of redeploying staff as a cash saving?
- 16 **Lena:** Only to the extent the cash-flow effect is supported. Freed capacity and reduced payroll aren't automatically the same benefit.
- 17 **Owen:** Then the staffing line needs an owner to validate what actually changes.
- 18 **Lena:** Exactly. Avoid ⁵ _____ a productivity gain as both lower payroll and extra output without a consistent operating case.
- 19 **Owen:** I'll replace the four-year headline with the revised simple payback and the outstanding assumptions.
- 20 **Lena:** And we'll complete the ⁶ _____ before recommending approval. The arithmetic correction isn't approval of the project.

CHECK THE GAPS

1. cash-flow / 2. simple payback / 3. ramp-up / 4. discount rate / 5. double counting / 6. investment appraisal

[Why these answers fit, page 172](#)

Freed staff time is presented as a payroll reduction

A process change saves ten staff hours a week. The employees remain on the same paid schedules, and no approved staffing change exists.

Complete the exchange using each phrase once. Read both roles, then switch roles and repeat with the bank covered.

WORD AND PHRASE BANK

capacity / effect / saving / business

- 01 **Sponsor:** Can I call the ten hours a payroll ¹ _____?
- 02 **Analyst:** We have freed ² _____, not a confirmed reduction in pay.
- 03 **Sponsor:** I'll show the operational benefit and identify the cash-flow ³ _____ separately.
- 04 **Analyst:** Good. Don't count the same benefit twice in the ⁴ _____ case.

CHECK THE GAPS

1. saving / 2. capacity / 3. effect / 4. business

[Why these answers fit, page 172](#)

Keep the distinction audible

Challenge an investment-appraisal shortcut and request a complete cash-flow basis.

Language for the next case

Two subsidiaries disagree on an intercompany balance

counterparty

Counterparty identifies the other entity in the transaction, which must match in both sides of the reconciliation.

Rina: Let's compare by counterparty and invoice reference, not just the overall balances.

reconciling difference

Reconciling difference is the unresolved mismatch between records that should agree under the defined basis.

Rina: We need to explain the reconciling difference. An unexplained balance shouldn't disappear inside the consolidation process.

reconciliation

Reconciliation compares corresponding records and explains or resolves the differences between them.

Cal: I'll send a revised reconciliation showing the exact five-thousand-dollar item if I can trace it.

cutoff

Cutoff concerns assigning transactions to the appropriate reporting period, not merely the date a document arrived.

Rina: Good. Don't assume a late invoice means the service belongs to the next period. We need the cutoff assessment and any existing entry.

consolidated

Consolidated statements present the included group as one economic entity rather than simply adding all internal transactions.

Rina: It removes internal activity from the consolidated view. It doesn't mean the underlying transaction never occurred in the entity's books.

elimination

Elimination is a consolidation adjustment removing intragroup balances or transactions under the applicable accounting rules.

Rina: Then Group can assess the appropriate elimination after the underlying difference has been addressed.

Read the phrases aloud. Then complete the conversation on the following pages using the word bank.

Conversation

Two subsidiaries disagree on an intercompany balance

Two subsidiaries are within the same consolidation group. Entity A reports a USD 60,000 receivable from Entity B. B reports a USD 55,000 payable to A for the same month-end. The USD 5,000 difference is unexplained. No adjustment has been approved.

Complete the numbered gaps. Use each bank entry once; some entries contain several words.

WORD AND PHRASE BANK

reconciliation / cutoff / consolidated / counterparty / reconciling difference / elimination

- 01 **Rina:** A's intercompany receivable is sixty thousand. Your payable is fifty-five. Can we reconcile the difference before the close review?
- 02 **Cal:** I have the invoice list. The totals don't match, but I haven't identified the missing item yet.
- 03 **Rina:** Let's compare by ¹ _____ and invoice reference, not just the overall balances.
- 04 **Cal:** Both schedules name Entity A. Are they using the same cutoff?
- 05 **Rina:** That's the first check. A's schedule is month-end; please confirm your extract includes all postings through that date.
- 06 **Cal:** It does, but one invoice arrived after our last review. I'll check whether it was accrued or left out.
- 07 **Rina:** Good. Don't assume a late invoice means the service belongs to the next period. We need the ² _____ assessment and any existing entry.
- 08 **Cal:** Could Group just eliminate fifty-five thousand and leave the rest until next month?
- 09 **Rina:** We need to explain the ³ _____. An unexplained balance shouldn't disappear inside the consolidation process.
- 10 **Cal:** Understood. And a consolidation adjustment wouldn't automatically change our local ledger, would it?

Conversation continues on the next page.

Two subsidiaries disagree on an intercompany balance

CONVERSATION / CONTINUED

- 11 **Rina:** Correct. The entity books and group consolidation entries are different records. Any required local correction follows its own approval route.
- 12 **Cal:** The operations manager thinks eliminating the intercompany sale means Group is deleting our revenue.
- 13 **Rina:** It removes internal activity from the ⁴ _____ view. It doesn't mean the underlying transaction never occurred in the entity's books.
- 14 **Cal:** I'll explain that distinction. Do you also need the service period on each invoice?
- 15 **Rina:** Yes, and the currency, posted amount, and any related accrual or credit note.
- 16 **Cal:** I'll send a revised ⁵ _____ showing the exact five-thousand-dollar item if I can trace it.
- 17 **Rina:** If it remains unresolved, keep it visible with an owner and the next check. Don't insert a balancing entry just to make the schedules agree.
- 18 **Cal:** Agreed. I'll bring the supporting records and any proposed correction for review.
- 19 **Rina:** Then Group can assess the appropriate ⁶ _____ after the underlying difference has been addressed.
- 20 **Cal:** I'll send the status this afternoon, including whether the amount, period, and approval are actually confirmed.

CHECK THE GAPS

1. counterparty / 2. cutoff / 3. reconciling difference / 4. consolidated / 5. reconciliation / 6. elimination

[Why these answers fit, page 174](#)

A group adjustment is mistaken for a local posting

A group accountant has prepared an intercompany elimination in the consolidation file. No local-ledger correction has been authorized.

Complete the exchange using each phrase once. Read both roles, then switch roles and repeat with the bank covered.

WORD AND PHRASE BANK

consolidation / distinct / ledger / approval

- 01 **Controller:** Does the group adjustment change our local ¹ _____ automatically?
- 02 **Group accountant:** No. This entry belongs to the ² _____ process.
- 03 **Controller:** Any local correction still needs its own support and ³ _____.
- 04 **Group accountant:** Exactly. Keep the two records ⁴ _____ and traceable.

CHECK THE GAPS

1. ledger / 2. consolidation / 3. approval / 4. distinct

[Why these answers fit, page 174](#)

Keep the distinction audible

Reconcile counterpart records before explaining consolidation adjustments.

01 / Answers and explanations

A / Read the situation

A1. What is actual operating profit in this case?

C. \$196,000

Actual revenue of \$1,050,000 less operating costs of \$854,000 gives operating profit of \$196,000.

[Return to the exercise, page 4](#)

A2. How much did costs exceed budget?

B. \$54,000

Subtract budgeted costs of \$800,000 from actual costs of \$854,000; the category increases also total \$54,000.

[Return to the exercise, page 4](#)

A3. Which question remains unresolved?

A. How much of the cost increase reflects rate versus volume

The briefing verifies category amounts but explicitly leaves rate, volume, and recurrence analysis incomplete.

[Return to the exercise, page 4](#)

D / Response choices

D1. Which sentence correctly explains the profit movement?

A. Costs rose \$54,000, exceeding the \$50,000 revenue gain by \$4,000.

The dollar bridge reconciles the \$4,000 profit shortfall without mixing percentages with different bases.

[Return to the exercise, page 8](#)

D2. Which expression accurately describes the revenue comparison?

C. Five percent above the month's budget

The \$50,000 increase is 5% of the \$1,000,000 monthly budget, not a different period or unit.

[Return to the exercise, page 8](#)

01 / Answers and explanations / continued

D3. A colleague needs the term for this meaning: Revenue less the specified cost of goods or services sold. Which term fits?

C. gross profit

A Not here. favorable: Beneficial against the specified comparison or objective. The usual combination is "label a favorable variance".

B Not here. recurring: Expected to arise repeatedly under the relevant conditions. The usual combination is "identify recurring costs".

C Correct. gross profit: Revenue less the specified cost of goods or services sold. The usual combination is "distinguish gross from operating profit".

D Not here. percentage point: One unit of difference between percentage values. The usual combination is "report a percentage-point change".

[Return to the exercise, page 8](#)

D4. Rebuild the exchange from "Revenue is ahead, but profit is behind". Amir: "Which accounts explain the extra fifty-four thousand? Start with what you've verified, then tell me which causes still need checking." Lena: [missing response] Amir: "That distinction matters. More sales could require more activity, and a higher unit rate could also contribute. We should not call the entire increase inflation." Which response belongs in the gap?

B. Freight contributes thirty thousand and agency labor twenty-four thousand. Those categories explain the variance, but I have not yet separated rate and volume effects.

A Not here. This line belongs to turn 8, after Amir says: "That distinction matters. More sales could require more activity, and a higher unit rate could also contribute. We should not call the entire increase inflation." It addresses that point, not the missing turn in the supplied exchange.

B Correct. This is Lena's response in turn 6. It connects Amir's preceding point with Amir's follow-up. Variance is the difference from the stated reference; the two verified category amounts reconcile the total cost increase.

C Not here. This line belongs to turn 14, after Amir says: "What about operating margin? Revenue growth alone sounds encouraging, but the profit result suggests we should avoid describing the overall performance as uniformly favorable." It addresses that point, not the missing turn in the supplied exchange.

D Not here. This line belongs to turn 2, after Amir says: "The opening slide says revenue is five percent ahead, yet operating profit is two percent behind. Give me the connection before we list every account in the ledger." It addresses that point, not the missing turn in the supplied exchange.

[Return to the exercise, page 8](#)

01 / Answers and explanations / continued

E / Conversation

1. offset

Turn 2. An offset counteracts another movement; here the cost increase exceeds the revenue gain and reduces profit.

2. comparator

Turn 4. The comparator is the reference used for the measurement, here the same month's budget rather than last year.

3. variance

Turn 6. Variance is the difference from the stated reference; the two verified category amounts reconcile the total cost increase.

4. volume effect

Turn 8. The volume effect relates to changed quantities or activity; it must be separated from unit-rate changes before attributing the increase.

5. one-off

Turn 10. One-off claims nonrecurrence; one unusual event does not establish that all costs in the categories will disappear.

6. run rate

Turn 12. A run rate projects a pace from selected activity; untested recurrence makes automatic extrapolation unreliable.

7. Operating margin

Turn 14. Operating margin relates operating profit to revenue; it can decline even when the revenue amount increases.

8. Materiality

Turn 16. Materiality depends on context and qualitative factors as well as size; a single percentage does not settle significance.

9. drivers

Turn 18. Drivers explain the contributing factors; rate, volume, and recurrence checks turn category totals into a more useful causal account.

01 / Answers and explanations / continued

10. basis

Turn 20. The basis identifies the period, currency, scope, and definitions that make the figures comparable and interpretable.

[Return to the conversation, page 10](#)

F / Accuracy and scope

F1. Which statement preserves the unresolved cause?

A. The categories are verified; rate and volume effects are not yet separated.

Only the categories are established; attributing specific causes would go beyond the stated review.

[Return to the exercise, page 13](#)

F2. Which question most directly tests the one-off label?

C. Which costs relate to the disruption, and will those conditions continue next month?

Nonrecurrence depends on the cause and its expected persistence. Ownership, payment and the already verified category total do not settle whether the cost will recur.

[Return to the exercise, page 13](#)

F / Guided speaking

1. costs

Analyst: The dollar gain comes from lower costs, not higher sales.

Turn 1. Unchanged revenue and a \$10,000 cost reduction explain the \$10,000 increase in operating profit.

2. increase

Director: The margin rises from 10% to 12%, a two-percentage-point increase.

Turn 2. The difference between the two margin percentages is two percentage points, not a two percent relative change.

3. denominator

Analyst: I will keep the revenue denominator unchanged in the comparison.

Turn 3. Each margin divides profit by the same \$500,000 revenue, making the ratio comparison consistent.

01 / Answers and explanations / continued

4. forecast

Director: Confirm whether the savings recur before changing the forecast.

Turn 4. A historical cost reduction does not automatically establish the future pattern used in a forecast.

[Return to the conversation, page 14](#)

F / Rebuild the exchange

1. Rebuild the exchange from "Revenue is ahead, but profit is behind". Amir: "What about operating margin? Revenue growth alone sounds encouraging, but the profit result suggests we should avoid describing the overall performance as uniformly favorable." **Lena:** [missing response] **Amir:** "In a short update, would you say the problem is immaterial because the profit shortfall is only two percent? I do not want a casual label to close the discussion." Which response belongs in the gap?

B. Yes. Operating margin uses profit divided by revenue. We should distinguish that ratio from the two percent decline in the profit amount against budget.

A Not here. This line belongs to turn 2, after Amir says: "The opening slide says revenue is five percent ahead, yet operating profit is two percent behind. Give me the connection before we list every account in the ledger." It addresses that point, not the missing turn in the supplied exchange.

B Correct. This is Lena's response in turn 14. It connects Amir's preceding point with Amir's follow-up. Operating margin relates operating profit to revenue; it can decline even when the revenue amount increases.

C Not here. This line belongs to turn 6, after Amir says: "Which accounts explain the extra fifty-four thousand? Start with what you've verified, then tell me which causes still need checking." It addresses that point, not the missing turn in the supplied exchange.

D Not here. This line belongs to turn 8, after Amir says: "That distinction matters. More sales could require more activity, and a higher unit rate could also contribute. We should not call the entire increase inflation." It addresses that point, not the missing turn in the supplied exchange.

[Return to the exercise, page 14](#)

02 / Answers and explanations

A / Read the situation

A1. In which month did the cash payment occur?

A. January

The invoice was paid on 20 January; that cash date is distinct from service delivery and expense recognition.

[Return to the exercise, page 15](#)

A2. What checks are required before the December entry is confirmed?

D. Service completion and whether an accrual already exists

Completion evidence supports the stated expense policy; checking prior accruals prevents duplication. Payment, identity and matching amounts do not establish both points.

[Return to the exercise, page 15](#)

A3. What entry has been approved?

C. No new journal entry

The briefing explicitly leaves the new entry unapproved pending the specified accounting checks.

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D / Response choices

D1. Which question best clarifies the ambiguous month request?

A. Do you mean the expense period or the payment month?

The correct question identifies the two distinct reporting purposes before selecting a date.

[Return to the exercise, page 19](#)

D2. Which statement follows the case facts?

D. Cash was paid in January; the expense-period check uses the service facts and policy.

It preserves the known cash date and the separate policy-based accounting review.

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02 / Answers and explanations / continued

D3. A colleague needs the term for this meaning: The interval covered by a financial report. Which term fits?

B. reporting period

A Not here. accrued liability: A recorded obligation for an incurred cost not yet settled. The usual combination is "substantiate an accrued liability".

B Correct. reporting period: The interval covered by a financial report. The usual combination is "identify the reporting period".

C Not here. accounting estimate: An amount measured using judgment and available information. The usual combination is "document an accounting estimate".

D Not here. subledger: Detailed records supporting a general-ledger account. The usual combination is "reconcile the subledger".

[Return to the exercise, page 19](#)

D4. Rebuild the exchange from "December service, January invoice, January payment". Sofia: "There's also a supplier estimate on the December support schedule. I haven't found its posting reference. Should I prepare another twelve-thousand-dollar expense now?" Chen: [missing response] Sofia: "The spreadsheet has a prepared date and an approver column. Neither gives me a journal number. I'll search by supplier and document reference next." Which response belongs in the gap?

B. Not before you trace the accrual. We could recognize the same service twice. Find the existing entry and its amount, rather than assuming the schedule proves a posting.

A Not here. This line belongs to turn 8, after Sofia says: "The spreadsheet has a prepared date and an approver column. Neither gives me a journal number. I'll search by supplier and document reference next." It addresses that point, not the missing turn in the supplied exchange.

B Correct. This is Chen's response in turn 6. It connects Sofia's preceding point with Sofia's follow-up. An accrual may already recognize the service cost before payment; checking it prevents recording the same expense twice.

C Not here. This line belongs to turn 12, after Sofia says: "I can already confirm the bank payment on January twentieth. I'll keep that on the cash schedule even while the December expense review remains open." It addresses that point, not the missing turn in the supplied exchange.

D Not here. This line belongs to turn 10, after Sofia says: "If I find it, do you want the January history too? An automatic reversal could explain why the current balance looks different from December's closing schedule." It addresses that point, not the missing turn in the supplied exchange.

[Return to the exercise, page 19](#)

02 / Answers and explanations / continued

E / Conversation

1. expense recognition

Turn 2. Expense recognition records the cost in the relevant reporting period; it is not determined solely by when cash is paid.

2. cutoff

Turn 4. Cutoff assigns a transaction to the proper accounting period; completion evidence helps apply the stated service-receipt policy.

3. accrual

Turn 6. An accrual may already recognize the service cost before payment; checking it prevents recording the same expense twice.

4. general ledger

Turn 8. The general ledger records postings; a supporting estimate does not by itself establish that an entry was posted.

5. reversing entry

Turn 10. A reversing entry offsets an earlier entry; its timing affects how the later invoice should be reconciled.

6. cash flow

Turn 12. Cash flow concerns actual cash movements; January payment remains distinct from the accounting period of the expense.

7. true-up

Turn 14. A true-up aligns an estimate with updated evidence; it is not automatically a second full recognition of the cost.

8. journal entry

Turn 16. A journal entry can have equal debits and credits while still using an incorrect period, account, amount, or unsupported basis.

9. audit trail

Turn 18. An audit trail connects the transaction, evidence, entries, and approvals so another reviewer can trace the decision.

02 / Answers and explanations / continued

10. handoff

Turn 20. The handoff identifies known timing, applicable policy, unfinished checks, and the unapproved entry rather than falsely announcing a completed close.

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F / Accuracy and scope

F1. Which check most directly helps prevent duplicate expense recognition?

B. Trace the existing accrual and any reversal in the ledger

A prior accrual may already recognize the cost. Invoice completeness, payment matching and supplier details can matter, but do not establish whether that expense was already posted.

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F2. Which phrase accurately describes the proposed journal?

B. Prepared for review, not approved for posting

The required supporting checks and approval remain incomplete even if a draft journal is mathematically balanced.

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F / Guided speaking

1. prepayment

Accountant: December payment creates a prepayment under the stated policy.

Turn 1. The case policy treats the advance payment as an asset before the future service months are expensed.

2. January

Controller: The service period begins in January.

Turn 2. January is the first month covered, despite the earlier December cash payment.

3. schedule

Accountant: The monthly release is \$1,000, supported by the schedule.

Turn 3. The six-month schedule allocates the stated \$6,000 according to the expressly supplied case policy.

02 / Answers and explanations / continued

4. recognition

Controller: Keep the cash date distinct from expense recognition.

Turn 4. Cash payment and recording the expense have different timing under this case's advance-payment policy.

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F / Rebuild the exchange

1. Rebuild the exchange from "December service, January invoice, January payment". Sofia: "And if the December estimate differs from twelve thousand? I'll compare the amounts against the completed service and invoice before proposing the remaining adjustment." Chen: [missing response] Sofia: "The draft balances, but I'll leave it unposted. Its status will say service confirmation and prior-posting check pending, with no new entry approved." Which response belongs in the gap?

A. Bring me the proposed true-up with that comparison. Don't enter the full invoice amount again simply because the final document differs from the estimate.

A Correct. This is Chen's response in turn 14. It connects Sofia's preceding point with Sofia's follow-up. A true-up aligns an estimate with updated evidence; it is not automatically a second full recognition of the cost.

B Not here. This line belongs to turn 2, after Sofia says: "I'm stuck on the month field in the close schedule. Maintenance was in December, but the twelve-thousand-dollar invoice arrived January fifth and we paid it January twentieth." It addresses that point, not the missing turn in the supplied exchange.

C Not here. This line belongs to turn 4, after Sofia says: "It's the December expense review. Our policy expenses this maintenance when received. Operations says the work finished then; the service confirmation is still on its way." It addresses that point, not the missing turn in the supplied exchange.

D Not here. This line belongs to turn 20, after Sofia says: "So my update is: December service, January payment, completion evidence awaited and prior accrual still being traced. I'll bring back the supported treatment for your review." It addresses that point, not the missing turn in the supplied exchange.

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03 / Answers and explanations

A / Read the situation

A1. How far is the full-year forecast above budget?

B. \$20,000

The \$120,000 forecast minus the \$100,000 budget gives a \$20,000 unfavorable spending variance.

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A2. How much remains unattributed?

D. \$5,000

The supplier fee explains \$15,000 of the \$20,000 increase, leaving \$5,000 for investigation.

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A3. What does the new forecast authorize?

B. No budget increase or savings action by itself

A forecast estimates expected performance; the briefing expressly leaves budget and action approvals incomplete.

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D / Response choices

D1. Which update keeps the residual honest?

B. The fee explains \$15,000; \$5,000 remains unattributed.

Only \$15,000 has an identified driver, so attributing the balance invents evidence.

[Return to the exercise, page 33](#)

D2. Which description fits the \$120,000 figure?

B. Full-year forecast including actuals and estimated remaining spending

The briefing defines the figure as an estimate combining completed and future periods, not cash or authorization.

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03 / Answers and explanations / continued

D3. A colleague needs the term for this meaning: Recorded results for completed periods on the stated basis. Which term fits?

A. actuals

A Correct. actuals: Recorded results for completed periods on the stated basis. The usual combination is "load the latest actuals".

B Not here. structural variance: A difference reflecting an underlying change rather than timing alone. The usual combination is "assess a structural variance".

C Not here. reforecast: An updated forecast replacing an earlier estimate. The usual combination is "explain the reforecast changes".

D Not here. cost center: An organizational unit used to collect or control costs. The usual combination is "verify the cost-center allocation".

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D4. Rebuild the exchange from "A forecast bridge with an unexplained remainder". Rafael: "Could the remainder be inflation? That would make a simple explanation for the review meeting, although I have not seen a rate calculation supporting it." Mei: [missing response] Rafael: "Please also confirm whether the supplier fee has been counted twice. The cost-center owner may have included it in the amount submitted for the rest of the year." Which response belongs in the gap?

D. It could have several causes, but the residual is not evidence of inflation. I will check the records instead of assigning the most convenient label.

A Not here. This line belongs to turn 18, after Rafael says: "If the fee persists next year, distinguish that ongoing change from a cost arriving a month earlier than expected." It addresses that point, not the missing turn in the supplied exchange.

B Not here. This line belongs to turn 10, after Rafael says: "The total includes spending already recorded as well as future estimates, correct? I want the meeting pack to distinguish evidence from assumptions rather than treating every dollar alike." It addresses that point, not the missing turn in the supplied exchange.

C Not here. This line belongs to turn 12, after Rafael says: "A project manager says moving a payment from October to November saves money in October. Is that enough to reduce the full-year forecast we are discussing?" It addresses that point, not the missing turn in the supplied exchange.

D Correct. This is Mei's response in turn 6. It connects Rafael's preceding point with Rafael's follow-up. The residual is the amount not explained by identified components; it should not receive a causal label without evidence.

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03 / Answers and explanations / continued

E / Conversation

1. forecast

Turn 2. A forecast estimates the expected result; it does not itself request or authorize a revised spending limit.

2. bridge

Turn 4. A bridge reconciles a starting amount to an ending amount through components, including any explicitly unresolved balance.

3. residual

Turn 6. The residual is the amount not explained by identified components; it should not receive a causal label without evidence.

4. remaining-year estimate

Turn 8. The remaining-year estimate covers future spending; checking its contents helps prevent adding the same supplier fee twice.

5. actuals

Turn 10. Actuals are recorded results for elapsed periods, unlike estimates for the remaining period in the full-year forecast.

6. phasing

Turn 12. Phasing distributes an amount across periods; moving it within the same year does not necessarily reduce the annual total.

7. plug

Turn 14. Here the plug would be an unsupported balancing reduction. An unconfirmed savings target cannot be presented as a verified cost saving.

8. baseline

Turn 16. The baseline is the defined comparison reference; retaining it makes successive explanations of the forecast movement traceable.

9. structural variance

Turn 18. A structural variance reflects an underlying change rather than a timing shift; recurrence needs evidence before informing the next plan.

03 / Answers and explanations / continued

10. attribution

Turn 20. Attribution assigns the movement to supported sources; completing it explains the residual rather than merely making the arithmetic balance.

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F / Accuracy and scope

F1. Which question distinguishes phasing from a real annual change?

D. Will the cost still occur within the same full year?

Moving a cost within the same year can change monthly timing without reducing its annual amount. The document reference, reviewer and forecast inclusion do not settle that annual effect.

[Return to the exercise, page 38](#)

F2. Which sentence preserves budget authority?

D. The forecast is updated; the approved budget remains \$100,000.

Forecasting expected expenditure and authorizing a budget change are separate processes.

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F / Guided speaking

1. phasing

Analyst: The move changes monthly phasing, not the annual amount.

Turn 1. The purchase moves between months in the same year without changing its stated cost.

2. saving

Manager: Do not describe the March reduction as a confirmed saving.

Turn 2. The purchase remains in the plan, so lower March spending does not establish an annual saving.

3. forecast

Analyst: The full-year forecast still includes \$9,000.

Turn 3. The unchanged purchase remains expected within the year and therefore belongs in the full-year estimate.

03 / Answers and explanations / continued

4. record

Manager: Retain the purchase's approval and timing record.

Turn 4. A traceable record preserves what changed and avoids implying that the purchase was canceled.

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F / Rebuild the exchange

1. Rebuild the exchange from "A forecast bridge with an unexplained remainder".

Rafael: "And please keep the savings target separate. Nobody has confirmed an action that delivers it yet; I don't want it quietly balancing the forecast." **Mei:** [missing response] **Rafael:** "When you update the file, can you show exactly what changed? I need to explain the next version without rebuilding the whole bridge." Which response belongs in the gap?

D. I will keep an unsupported plug out of the estimate. Any proposed saving needs an identified action, timing, amount, and appropriate review of whether it belongs in the forecast.

A Not here. This line belongs to turn 8, after Rafael says: "Please also confirm whether the supplier fee has been counted twice. The cost-center owner may have included it in the amount submitted for the rest of the year." It addresses that point, not the missing turn in the supplied exchange.

B Not here. This line belongs to turn 20, after Rafael says: "For now, the message is twenty thousand above budget, fifteen thousand explained, five thousand under review, and no new spending authority. Is anything important missing?" It addresses that point, not the missing turn in the supplied exchange.

C Not here. This line belongs to turn 4, after Rafael says: "Explain the twenty-thousand-dollar increase. The supplier added a fee, but the note mentions only fifteen thousand, not the complete movement." It addresses that point, not the missing turn in the supplied exchange.

D Correct. This is Mei's response in turn 14. It connects Rafael's preceding point with Rafael's follow-up. Here the plug would be an unsupported balancing reduction. An unconfirmed savings target cannot be presented as a verified cost saving.

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04 / Answers and explanations

A / Read the situation

A1. What is forecast closing cash if the receipt arrives as assumed?

A. \$30,000

Opening cash of \$80,000 plus the \$50,000 receipt less \$100,000 of outflows gives \$30,000.

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A2. What happens in the stated no-receipt calculation?

A. A \$20,000 shortfall

Without the receipt, \$80,000 minus \$100,000 is negative \$20,000; no mitigation is approved.

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A3. What has not been verified about the facility?

C. Undrawn availability and draw conditions

The briefing confirms existence only, not usable availability or satisfaction of drawing conditions.

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D / Response choices

D1. Which sentence preserves the receipt condition?

A. Closing cash is forecast at \$30,000 if the \$50,000 arrives Friday.

The conditional sentence keeps the unconfirmed receipt attached to the resulting balance.

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D2. Which calculation describes the delayed-receipt case?

A. \$80,000 minus \$100,000 equals a \$20,000 shortfall.

The case removes only the unconfirmed receipt, leaving a negative \$20,000 balance before any approved mitigation.

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04 / Answers and explanations / continued

D3. A colleague needs the term for this meaning: Cash subject to limits on access or use. Which term fits?

A. restricted cash

A Correct. restricted cash: Cash subject to limits on access or use. The usual combination is "separate restricted cash".

B Not here. cash conversion cycle: A measure combining inventory, collection, and payment timing. The usual combination is "analyze the cash conversion cycle".

C Not here. settlement date: The date a transaction is completed through the relevant exchange of funds or assets. The usual combination is "confirm the settlement date".

D Not here. cash buffer: Cash retained as protection against uncertainty or needs. The usual combination is "assess the required cash buffer".

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D4. Rebuild the exchange from "Friday cash depends on an unconfirmed receipt".

Paul: "They normally pay on time, but I don't have a confirmation for Friday. Can you check when the funds would actually reach us?" **Inez:** [missing response] **Paul:** "Could we simply include the credit facility in available cash? The agreement is on file, and the facility was used earlier in the year." Which response belongs in the gap?

D. Exactly. I will request the payment status and settlement date. A planned payment date and completed settlement may not give us the same evidence.

A Not here. This line belongs to turn 12, after Paul says: "And do not silently move supplier payments to make the forecast positive. Any deferral could affect contractual commitments and operating relationships." It addresses that point, not the missing turn in the supplied exchange.

B Not here. This line belongs to turn 14, after Paul says: "One more check: is all eighty thousand available to use? I don't want restricted funds included in the opening balance." It addresses that point, not the missing turn in the supplied exchange.

C Not here. This line belongs to turn 4, after Paul says: "Walk me through the cash arithmetic and the alternative. I need to understand the dependency before the team relies on the closing balance." It addresses that point, not the missing turn in the supplied exchange.

D Correct. This is Inez's response in turn 6. It connects Paul's preceding point with Paul's follow-up. The settlement date concerns transaction completion; confirming it is more informative than assuming a forecasted receipt is already available.

[Return to the exercise, page 44](#)

E / Conversation

1. base case

Turn 2. The base case uses the selected planning assumptions, including the unconfirmed customer receipt; it is not a guaranteed outcome.

04 / Answers and explanations / continued

2. shortfall

Turn 4. The shortfall is the gap between the available \$80,000 and the \$100,000 scheduled outflows when the receipt is excluded.

3. settlement date

Turn 6. The settlement date concerns transaction completion; confirming it is more informative than assuming a forecasted receipt is already available.

4. undrawn availability

Turn 8. Undrawn availability depends on current limits and conditions; past use or an existing agreement does not establish usable funds now.

5. drawdown

Turn 10. A drawdown is borrowing under a facility; its amount, conditions, timing, and approval must support the proposed funding use.

6. outflows

Turn 12. Outflows are planned cash payments; changing their dates requires support and authority rather than a cosmetic forecast adjustment.

7. available cash

Turn 14. Available cash is accessible for the relevant purpose; restricted funds should not be silently included in a spendable opening balance.

8. liquidity

Turn 16. Liquidity concerns meeting obligations when due; accounting profit does not establish timely access to funds for the scheduled payments.

9. headroom

Turn 18. Headroom measures remaining capacity against a defined limit; its calculation must follow the actual agreement rather than a guessed ceiling.

10. dependency

Turn 20. The dependency is the receipt on which the positive closing balance relies; naming it makes the unresolved funding exposure visible.

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04 / Answers and explanations / continued

F / Accuracy and scope

F1. What must be checked before counting the facility as usable funding?

D. Current availability, draw conditions, timing and authorization

The funding must be usable in the required amount and time, subject to current terms and authority. Historical access and headline limits do not establish a permitted draw now.

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F2. Which statement separates cash from profit?

A. Profit does not itself confirm funds available for the scheduled payments.

Profit and cash access measure different things; payment timing and restrictions can still create a liquidity gap.

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F / Guided speaking

1. balance

Analyst: Exclude the Monday receipt from Friday's closing balance.

Turn 1. The later receipt cannot be counted as Friday funds under the stated timing.

2. shortfall

Manager: Friday therefore shows a \$15,000 cash shortfall.

Turn 2. Available \$40,000 less \$55,000 of outflows leaves a \$15,000 funding gap.

3. approval

Analyst: I will present possible funding options without implying approval.

Turn 3. The case leaves all alternatives unapproved, so identifying an option is not authority to execute it.

4. timing

Manager: Keep Monday's receipt and its confirmed timing in the update.

Turn 4. The receipt still matters to the forecast, but its actual Monday timing must remain explicit.

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04 / Answers and explanations / continued

F / Rebuild the exchange

1. Rebuild the exchange from "Friday cash depends on an unconfirmed receipt".

Paul: "One more check: is all eighty thousand available to use? I don't want restricted funds included in the opening balance." Inez: [missing response] Paul: "The business lead may ask why this matters when the operation is profitable. We should explain that without suggesting the accounting result is wrong." Which response belongs in the gap?

A. The case identifies it as available cash. In the working file, I will retain the supporting check and keep any restricted balances separately identified.

A Correct. This is Inez's response in turn 14. It connects Paul's preceding point with Paul's follow-up. Available cash is accessible for the relevant purpose; restricted funds should not be silently included in a spendable opening balance.

B Not here. This line belongs to turn 6, after Paul says: "They normally pay on time, but I don't have a confirmation for Friday. Can you check when the funds would actually reach us?" It addresses that point, not the missing turn in the supplied exchange.

C Not here. This line belongs to turn 12, after Paul says: "And do not silently move supplier payments to make the forecast positive. Any deferral could affect contractual commitments and operating relationships." It addresses that point, not the missing turn in the supplied exchange.

D Not here. This line belongs to turn 4, after Paul says: "Walk me through the cash arithmetic and the alternative. I need to understand the dependency before the team relies on the closing balance." It addresses that point, not the missing turn in the supplied exchange.

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05 / Answers and explanations

A / Read the situation

A1. What does the 6% measure represent?

C. The portfolio return before fees for the stated period

The briefing identifies 6% as historical portfolio performance before fees, not net performance or a forecast.

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A2. What is the arithmetic difference between 6% and 5%?

B. One percentage point

Subtracting the two return percentages gives one percentage point, equivalent to 100 basis points.

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A3. What is missing before the full comparison can be approved?

A. Net-return information and the required basis checks

The case supplies period and gross return but leaves net performance and currency and method consistency unverified.

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D / Response choices

D1. Which headline preserves the known fee treatment?

B. Portfolio return: 6% before fees for the stated twelve months

The correct headline retains the stated historical period and before-fees basis without inventing net performance.

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D2. How should the arithmetic gap be expressed?

D. One percentage point, or 100 basis points

The subtraction is 6% minus 5%, producing a one-percentage-point difference, not a one-percent relative increase.

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05 / Answers and explanations / continued

D3. A colleague needs the term for this meaning: Return after the specified fees or costs are accounted for. Which term fits?

D. net return

A Not here. tracking error: Variability of returns relative to a benchmark under a defined method. The usual combination is "measure tracking error".

B Not here. time-weighted return: A method designed to reduce the effect of external cash-flow timing. The usual combination is "calculate time-weighted return".

C Not here. duration: A bond measure related to timing or rate sensitivity, depending on the type. The usual combination is "specify modified duration".

D Correct. net return: Return after the specified fees or costs are accounted for. The usual combination is "verify the net-return basis".

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D4. Rebuild the exchange from "A six-percent return without the fee label". Grace: "Before we call the result outperformance, are the period and measurement bases aligned? The dates match, but that may not settle currency or income treatment." Omar: [missing response] Grace: "Please check whether the index includes reinvested income. A price-only series would answer a different question from a series including both price changes and distributions." Which response belongs in the gap?

C. I need to verify the selected benchmark version and calculation method. Matching dates alone does not make every return series directly comparable.

A Not here. This line belongs to turn 2, after Grace says: "The slide shows six percent for the portfolio and five percent for the benchmark. It says outperformed by one percent, but I cannot see a fee label." It addresses that point, not the missing turn in the supplied exchange.

B Not here. This line belongs to turn 8, after Grace says: "Please check whether the index includes reinvested income. A price-only series would answer a different question from a series including both price changes and distributions." It addresses that point, not the missing turn in the supplied exchange.

C Correct. This is Omar's response in turn 6. It connects Grace's preceding point with Grace's follow-up. The benchmark is the comparison reference; its specific version and measurement basis matter to a fair performance comparison.

D Not here. This line belongs to turn 14, after Grace says: "A sales colleague suggested saying the portfolio delivered higher returns with no added risk. Is the return comparison enough to support that statement?" It addresses that point, not the missing turn in the supplied exchange.

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05 / Answers and explanations / continued

E / Conversation

1. gross return

Turn 2. Gross return is before specified fees or costs; omitting the label could make readers mistake it for their after-fee result.

2. percentage point

Turn 4. A percentage point measures the arithmetic difference between quoted percentages; 6% minus 5% equals one point.

3. benchmark

Turn 6. The benchmark is the comparison reference; its specific version and measurement basis matter to a fair performance comparison.

4. total return

Turn 8. Total return includes income and price movement under its method; it differs from a price-only measure.

5. time-weighted return

Turn 10. Time-weighted return aims to reduce external cash-flow timing effects; the method must be identified rather than guessed from the percentage.

6. attribution

Turn 12. Attribution allocates performance to specified contributing factors, providing an analysis beyond a favorable headline comparison.

7. volatility

Turn 14. Volatility measures variability; a higher return alone does not establish that variability or other risks were lower.

8. coupon

Turn 16. The coupon describes bond interest terms; total investor return can also reflect price movements, fees, and other factors.

9. net return

Turn 18. Net return incorporates the specified fee or cost treatment; the unavailable figure must not be inferred to equal the gross result.

05 / Answers and explanations / continued

10. excess return

Turn 20. Excess return is relative performance against a benchmark on a consistent basis; a historical result is not a future guarantee.

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F / Accuracy and scope

F1. Which check goes beyond simply matching dates?

D. Verify currency, income treatment and calculation method

A common period does not establish compatible currency, reinvestment or return methods. Consistent formatting can improve readability but cannot make different measures comparable.

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F2. Which statement avoids a future-performance promise?

D. The result describes this historical period, not a guaranteed future outcome.

Historical observations do not establish a guaranteed future return or eliminate investment risk.

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F / Guided speaking

1. cumulative

Analyst: The 12% figure is cumulative over two years.

Turn 1. Cumulative identifies the total change across the stated two-year interval, not a one-year equivalent.

2. annualized

Editor: Do not relabel it as an annualized rate.

Turn 2. Annualization requires an appropriate calculation; changing the label alone changes the meaning incorrectly.

3. period

Analyst: The headline must keep the two-year period.

Turn 3. The interval is essential context for interpreting the magnitude of the reported return.

05 / Answers and explanations / continued

4. basis

Editor: Retain the calculation basis with the supporting report.

Turn 4. The method and assumptions must remain traceable so the headline can be checked against the reported measure.

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F / Rebuild the exchange

1. Rebuild the exchange from "A six-percent return without the fee label". Grace: "A sales colleague suggested saying the portfolio delivered higher returns with no added risk. Is the return comparison enough to support that statement?" Omar: [missing response] Grace: "The next slide shows a bond coupon. Please avoid presenting that contractual interest rate as though it were the investor's overall gain over the period." Which response belongs in the gap?

C. No. It does not establish volatility or other risk characteristics. We need the relevant risk measures and limitations before making any comparative risk claim.

A Not here. This line belongs to turn 10, after Grace says: "The account also had contributions during the period. We should know whether the performance method is intended to isolate investment results from the timing of those flows." It addresses that point, not the missing turn in the supplied exchange.

B Not here. This line belongs to turn 2, after Grace says: "The slide shows six percent for the portfolio and five percent for the benchmark. It says outperformed by one percent, but I cannot see a fee label." It addresses that point, not the missing turn in the supplied exchange.

C Correct. This is Omar's response in turn 14. It connects Grace's preceding point with Grace's follow-up. Volatility measures variability; a higher return alone does not establish that variability or other risks were lower.

D Not here. This line belongs to turn 8, after Grace says: "Please check whether the index includes reinvested income. A price-only series would answer a different question from a series including both price changes and distributions." It addresses that point, not the missing turn in the supplied exchange.

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06 / Answers and explanations

A / Read the situation

A1. Which information is missing?

B. Management accounts through 30 June and the requested debt support

The existing December statements do not replace the requested current interim information and supporting schedule.

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A2. What does Wednesday at 3 p.m. represent?

A. The requested delivery time for internal preparation

The analyst requests that time, but the borrower has not confirmed delivery and it is not a lending commitment.

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A3. What decision has been approved?

C. Neither lending approval nor an information exception

The briefing leaves both the credit decision and any exception to the information requirement unapproved.

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D / Response choices

D1. Which request is most precise for this case?

A. Send the 30 June balance sheet, six-month income statement and debt schedule.

The required pack combines a position at 30 June, performance through that date and borrowing support. The alternatives omit components or substitute a different period or measure.

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D2. Which statement accurately describes the requested timing?

A. Delivery is requested for Wednesday at 3 p.m.; the borrower has not confirmed.

It separates the internal preparation request from a borrower commitment or a credit decision.

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06 / Answers and explanations / continued

D3. A colleague needs the term for this meaning: Assessment of risk and terms before accepting an exposure. Which term fits?

C. underwriting

A Not here. security interest: A legal interest in assets securing an obligation, subject to applicable law. The usual combination is "review the security-interest documentation".

B Not here. debt schedule: A listing of borrowings and relevant terms and balances. The usual combination is "reconcile the debt schedule".

C Correct. underwriting: Assessment of risk and terms before accepting an exposure. The usual combination is "support the underwriting review".

D Not here. probability of default: Estimated likelihood of default under a specified model and horizon. The usual combination is "state the probability-of-default horizon".

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D4. Rebuild the exchange from "A credit review needs current borrower information". Morgan: "We requested Wednesday at three for preparation before Thursday's meeting. The borrower has not confirmed whether that timing is possible, so I should not promise the pack is complete." Ellis: [missing response] Morgan: "If they send a signed spreadsheet, should I describe the June numbers as audited? The finance director's signature may make the document look more formal." Which response belongs in the gap?

C. Correct. Keep the requested deadline distinct from confirmed delivery. Ask what they can provide and identify any component that will remain missing.

A Not here. This line belongs to turn 2, after Morgan says: "The borrower sent December's audited statements again. They believe that completes the request because those are the most recent documents signed by their external auditor." It addresses that point, not the missing turn in the supplied exchange.

B Not here. This line belongs to turn 8, after Morgan says: "If they send a signed spreadsheet, should I describe the June numbers as audited? The finance director's signature may make the document look more formal." It addresses that point, not the missing turn in the supplied exchange.

C Correct. This is Ellis's response in turn 6. It connects Morgan's preceding point with Morgan's follow-up. The requested deadline is an internal preparation need communicated to the borrower, not a confirmed commitment or a loan maturity.

D Not here. This line belongs to turn 10, after Morgan says: "The team wants a coverage ratio as soon as the file arrives. But the cash-flow figure covers six months and the debt payments cover a year." It addresses that point, not the missing turn in the supplied exchange.

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06 / Answers and explanations / continued

E / Conversation

1. management accounts

Turn 2. Management accounts provide internally prepared interim information; December audited statements do not replace the requested June period.

2. debt schedule

Turn 4. The debt schedule details borrowing balances and terms, supporting assessment beyond the headline statement totals.

3. requested deadline

Turn 6. The requested deadline is an internal preparation need communicated to the borrower, not a confirmed commitment or a loan maturity.

4. Audited statements

Turn 8. Audited statements have independent audit assurance; a manager's signature on internal accounts does not create that status.

5. DSCR

Turn 10. DSCR compares a defined cash-flow measure with debt service; mixing inconsistent periods can make the ratio misleading.

6. maturity profile

Turn 12. The maturity profile shows repayment timing, revealing concentrations that a single total debt balance can conceal.

7. Collateral

Turn 14. Collateral supports an obligation but does not establish the borrower's cash generation or eliminate valuation and recovery risk.

8. credit exception

Turn 16. A credit exception is a departure from a requirement requiring authorized review; it cannot be granted informally to meet a meeting date.

9. credit file

Turn 18. The credit file holds review evidence; missing information limits the assessment without itself proving default or another adverse conclusion.

06 / Answers and explanations / continued

10. completeness review

Turn 20. A completeness review checks whether the requested information is present and usable; receiving a file does not itself complete underwriting or approve credit.

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F / Accuracy and scope

F1. Which label preserves assurance status?

D. Internally prepared management accounts, audit status not established

Management accounts do not acquire independent audit assurance merely through preparation, signature, or receipt.

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F2. Which response avoids an unsupported credit conclusion?

A. The file is incomplete for the requested review; no decision is approved.

The case supports an information gap, not default, assured repayment, or elimination of risk.

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F / Guided speaking

1. approved

Manager: The guarantee is offered, but reliance is not approved.

Turn 1. The case explicitly leaves both the loan and reliance on the guarantee without approval.

2. wording

Analyst: We need the guarantor's financial information and the actual wording.

Turn 2. Capacity and the scope of the promised obligation require evidence, not merely the label guarantee.

3. risk

Manager: Do not describe the offer as eliminating credit risk.

Turn 3. An unreviewed guarantee does not establish that all default, performance, or recovery risks disappear.

06 / Answers and explanations / continued

4. review

Analyst: I will route the evidence through the authorized review.

Turn 4. The information must be assessed by the assigned process before reliance or lending decisions are made.

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F / Rebuild the exchange

1. Rebuild the exchange from "A credit review needs current borrower information".
Morgan: "One colleague says the pledged property makes the missing accounts unimportant. I can explain that security and repayment capacity are separate parts of the assessment." **Ellis:** [missing response] **Morgan:** "What happens if the June package cannot arrive before the meeting? I need a clear message that does not sound like automatic rejection or a promise to waive requirements." Which response belongs in the gap?

C. Exactly. Collateral does not replace current financial information. Its value, enforceability, and recovery assumptions also require appropriate review.

A Not here. This line belongs to turn 2, after Morgan says: "The borrower sent December's audited statements again. They believe that completes the request because those are the most recent documents signed by their external auditor." It addresses that point, not the missing turn in the supplied exchange.

B Not here. This line belongs to turn 10, after Morgan says: "The team wants a coverage ratio as soon as the file arrives. But the cash-flow figure covers six months and the debt payments cover a year." It addresses that point, not the missing turn in the supplied exchange.

C Correct. This is Ellis's response in turn 14. It connects Morgan's preceding point with Morgan's follow-up. Collateral supports an obligation but does not establish the borrower's cash generation or eliminate valuation and recovery risk.

D Not here. This line belongs to turn 6, after Morgan says: "We requested Wednesday at three for preparation before Thursday's meeting. The borrower has not confirmed whether that timing is possible, so I should not promise the pack is complete." It addresses that point, not the missing turn in the supplied exchange.

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07 / Answers and explanations

A / Read the situation

A1. What is the net of the three unmatched bank entries?

C. Zero

The \$1,200 receipt less payments of \$700 and \$500 nets to zero, but individual support is still missing.

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A2. What remains unknown?

C. The causes of the three unmatched items

The case identifies the amounts and handoff owner but leaves the individual causes unresolved.

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A3. What can Yara accurately report?

B. Three unresolved items with attached references and checks performed

Only the unresolved status and documented work are supported; conclusions and adjustments remain unapproved.

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D / Response choices

D1. Which statement accurately separates total and support?

C. The entries net to zero, but each remains unmatched.

Netting is arithmetic; it does not establish the individual transactions' validity or correct accounting.

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D2. Which phrase reports the search result without overclaiming?

B. No match was found in the ledger extract reviewed.

The bounded statement identifies the scope of the actual search instead of making unsupported universal or misconduct claims.

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07 / Answers and explanations / continued

D3. A colleague needs the term for this meaning: Records supporting that a control was performed and what it found. Which term fits?

B. control evidence

A Not here. professional skepticism: A questioning approach to evidence and possible misstatement. The usual combination is "apply professional skepticism".

B Correct. control evidence: Records supporting that a control was performed and what it found. The usual combination is "retain control evidence".

C Not here. bank reconciliation: Comparison of bank and ledger records with explained differences. The usual combination is "complete a bank reconciliation".

D Not here. root-cause analysis: Examination of the underlying reason a problem occurred. The usual combination is "document the root-cause analysis".

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D4. Rebuild the exchange from "Three unmatched entries that happen to net to zero". Noah: "Show me the last check you completed. I'll take this forward, but I don't want to repeat a search without knowing which records you used." Yara: [missing response] Noah: "That's useful. I'll compare the references with the next relevant records. Where have you kept the open status so it won't disappear from the handoff?" Which response belongs in the gap?

A. The attached control evidence lists the bank references, ledger extract, cutoff and searches. I found no match in those records; I haven't checked every possible later posting.

A Correct. This is Yara's response in turn 6. It connects Noah's preceding point with Noah's follow-up. Control evidence records the checks performed and their scope, allowing the reviewer to assess the work rather than rely on an assertion.

B Not here. This line belongs to turn 10, after Noah says: "A manager asked whether unexplained payments mean wrongdoing. What have you told them? I need the concern recorded without presenting suspicion as an established cause." It addresses that point, not the missing turn in the supplied exchange.

C Not here. This line belongs to turn 4, after Noah says: "Keep all three visible. Did you find a customer or supplier reference that connects them, or is the amount the only apparent link so far?" It addresses that point, not the missing turn in the supplied exchange.

D Not here. This line belongs to turn 2, after Noah says: "The summary shows zero difference. Before you leave, can I sign this reconciliation, or are the three lines underneath still waiting for support?" It addresses that point, not the missing turn in the supplied exchange.

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07 / Answers and explanations / continued

E / Conversation

1. unmatched entries

Turn 2. Unmatched entries lack identified support or counterparts; a zero combined amount does not resolve each transaction.

2. reconciling item

Turn 4. A reconciling item is an identified difference requiring explanation; offsetting differences still need separate support and treatment.

3. control evidence

Turn 6. Control evidence records the checks performed and their scope, allowing the reviewer to assess the work rather than rely on an assertion.

4. exception log

Turn 8. The exception log preserves unresolved items, evidence, and status, preventing an unsuccessful search from becoming an unsupported final conclusion.

5. fraud finding

Turn 10. A fraud finding would assert deliberate wrongdoing; unmatched entries alone establish a review issue, not that conclusion.

6. corrective action

Turn 12. Corrective action addresses an identified problem; here neither cause nor authorized correction has been established.

7. sign-off

Turn 14. Sign-off records completion of a defined review or approval; unresolved support prevents treating this reconciliation as completed.

8. segregation of duties

Turn 16. Segregation of duties separates responsibilities, here preparation and review, to reduce the risk of unchecked error or misuse.

9. audit trail

Turn 18. The audit trail connects the original exception, investigation, decision, and approval so the resolution can be traced later.

07 / Answers and explanations / continued

10. status

Turn 20. Status reports the actual stage of work and authority, not the misleading appearance of completion created by a zero total.

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F / Accuracy and scope

F1. Which action preserves the control?

B. Retain open items and independently review any supported corrections

Separate support and independent review are required for the unresolved transactions. A zero net amount or an informal note does not establish valid matching or authorize an entry.

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F2. Which classification is supported now?

D. Unmatched entries with causes unknown

The facts establish unresolved matching issues, not the cause, severity classification, or authorized correction.

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F / Guided speaking

1. amount

Preparer: The equal amount does not establish a common transaction.

Turn 1. Identical dollar values can belong to different transactions and do not prove a valid match.

2. reference

Reviewer: Check the payee and transaction reference.

Turn 2. Payee and reference information help identify the specific payment beyond a coincidental amount.

3. open

Preparer: The unsupported item remains open.

Turn 3. The missing invoice and unapproved match leave the item unresolved.

4. evidence

Reviewer: Do not clear it without sufficient evidence.

Turn 4. Clearing requires support for the actual transaction, not merely an equal value elsewhere.

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07 / Answers and explanations / continued

F / Rebuild the exchange

1. Rebuild the exchange from "Three unmatched entries that happen to net to zero".
Noah: "Then I'll acknowledge the handoff, not certify completion. The amount may balance, but we still need to establish the treatment of each transaction." **Yara:** [missing response] **Noah:** "I'll own the next checks. If I prepare a correcting entry myself, it will need a separate reviewer under our process, not my own approval."
Which response belongs in the gap?

B. Yes, sign-off remains pending. I'll leave that stated beside the zero net amount so someone reading only the headline doesn't mistake it for a completed reconciliation.

A Not here. This line belongs to turn 12, after Noah says: "Understood. Have any corrections been approved, or has anything been moved to suspense? Tell me now so I use the right starting balances." It addresses that point, not the missing turn in the supplied exchange.

B Correct. This is Yara's response in turn 14. It connects Noah's preceding point with Noah's follow-up. Sign-off records completion of a defined review or approval; unresolved support prevents treating this reconciliation as completed.

C Not here. This line belongs to turn 2, after Noah says: "The summary shows zero difference. Before you leave, can I sign this reconciliation, or are the three lines underneath still waiting for support?" It addresses that point, not the missing turn in the supplied exchange.

D Not here. This line belongs to turn 10, after Noah says: "A manager asked whether unexplained payments mean wrongdoing. What have you told them? I need the concern recorded without presenting suspicion as an established cause." It addresses that point, not the missing turn in the supplied exchange.

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08 / Answers and explanations

A / Read the situation

A1. Which input changes between the two stated scenarios?

C. Terminal growth, from 2% to 4%

The briefing holds the other model inputs constant and changes only the terminal-growth assumption.

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A2. What does the \$30 million figure represent?

B. Modeled enterprise value in the 4% terminal-growth case

The figure is a scenario output before the stated equity bridge, not a transaction or guarantee.

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A3. What is equity value in the higher case under the stated simplified bridge?

D. \$27 million

The case instructs deduction of \$3 million net debt from \$30 million enterprise value, with no other adjustments assumed.

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D / Response choices

D1. Which revision most accurately presents the valuation?

A. Show both values with their growth assumptions and the unchanged discount rate.

Both conditional outputs and their differing assumption are needed to avoid selective presentation of the higher modeled value.

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D2. Which arithmetic follows the case's simplified equity bridge?

B. \$30 million minus \$3 million equals \$27 million.

The explicitly supplied bridge deducts net debt and assumes no other adjustments; it does not add debt or ignore it.

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08 / Answers and explanations / continued

D3. A colleague needs the term for this meaning: Weighted average cost of capital, combining funding costs using defined weights. Which term fits?

D. WACC

A Not here. sensitivity analysis: Testing how a result changes when selected inputs change. The usual combination is "present sensitivity analysis".

B Not here. enterprise value: Value attributed to the operating business before the specified financing adjustments. The usual combination is "bridge enterprise value to equity value".

C Not here. capital expenditure: Spending on assets under the applicable accounting and planning definitions. The usual combination is "forecast capital expenditure".

D Correct. WACC: Weighted average cost of capital, combining funding costs using defined weights. The usual combination is "assess the WACC input".

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D4. Rebuild the exchange from "A valuation slide showing only the higher case".

Aisha: "Then make that sensitivity explicit. A ten-million-dollar difference should not be presented as extra value we have already created or secured from a buyer."

Daniel: [missing response] Aisha: "Why four percent? Is there evidence for that continuing growth rate, or have we chosen it because we prefer the thirty-million output?" Which response belongs in the gap?

D. I will describe the sensitivity analysis and keep the input labels beside the outputs. Neither result is an offer, and neither guarantees a transaction price.

A Not here. This line belongs to turn 12, after Aisha says: "Keep the simplification visible. Actual deal adjustments may differ, and the slide must not imply that this training calculation settles every component of transaction proceeds." It addresses that point, not the missing turn in the supplied exchange.

B Not here. This line belongs to turn 2, after Aisha says: "The executive slide shows thirty million dollars. Before we discuss a bid, tell me which value that is and what assumption produces it in the model." It addresses that point, not the missing turn in the supplied exchange.

C Not here. This line belongs to turn 18, after Aisha says: "One presenter says the transaction would increase earnings per share, so it must create value. That sentence needs a more careful distinction." It addresses that point, not the missing turn in the supplied exchange.

D Correct. This is Daniel's response in turn 6. It connects Aisha's preceding point with Aisha's follow-up. Sensitivity analysis tests how outputs respond to changed inputs; it does not establish that the more favorable assumption will occur.

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08 / Answers and explanations / continued

E / Conversation

1. enterprise value

Turn 2. Enterprise value concerns the operating business before the stated financing adjustments; it is not the equity figure or an approved bid.

2. discount rate

Turn 4. The discount rate converts future cash flows to present value; holding it constant isolates the growth comparison.

3. sensitivity analysis

Turn 6. Sensitivity analysis tests how outputs respond to changed inputs; it does not establish that the more favorable assumption will occur.

4. terminal growth

Turn 8. Terminal growth is an assumed continuing-period rate; it needs support rather than selection solely to obtain a preferred valuation.

5. net debt

Turn 10. Net debt is the specified debt less included cash measure; the case deducts \$3 million when moving from enterprise to equity value.

6. equity value

Turn 12. Equity value is the amount attributable to equity holders after the specified adjustments, here under an expressly simplified bridge.

7. synergies

Turn 14. Synergies are expected combination benefits; they are not realized cash flows and require support for costs, timing, and dependencies.

8. capital allocation

Turn 16. Capital allocation compares uses of resources; a high valuation output alone does not establish that a transaction is the best use.

9. accretion

Turn 18. Accretion increases a specified per-share metric; it does not by itself establish economic value creation.

08 / Answers and explanations / continued

10. due diligence

Turn 20. Due diligence investigates transaction information; unfinished checks limit the recommendation and do not authorize a commitment.

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F / Accuracy and scope

F1. Which statement properly limits the scenario range?

A. It shows outcomes under stated assumptions, not a guaranteed pricing interval.

Model scenarios describe conditional outputs, not market commitments or quantified probabilities unless separately justified.

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F2. Which question most directly tests whether a synergy is deliverable?

D. What evidence, timing, implementation cost and dependencies support the benefit?

Deliverability requires support for the benefit and the work and costs needed to obtain it. Naming, presentation and aggregation do not establish that the benefit can be realized.

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F / Guided speaking

1. bases

Analyst: The headline rates use different calculation bases.

Turn 1. Different periods and cost inclusions prevent a reliable ranking from the headline rates alone.

2. costs

Director: Align the periods and included costs before comparing.

Turn 2. Consistent cost treatment and time scope are needed to understand the relative modeled outcomes.

3. provisional

Analyst: The ranking remains provisional until that review.

Turn 3. The underlying comparison is incomplete, so the ranking cannot be presented as a settled conclusion.

08 / Answers and explanations / continued

4. approval

Director: A model result does not itself provide investment approval.

Turn 4. Analysis informs the decision; it does not replace the authorized investment approval process.

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F / Rebuild the exchange

1. Rebuild the exchange from "A valuation slide showing only the higher case".

Aisha: "A team member wants to add synergies to the higher value without changing the cost assumptions. Have the benefits, implementation costs, and timing been assessed?" **Daniel:** [missing response] **Aisha:** "Then show the costs before adding the benefits. We also need to compare this transaction with the other uses of those funds." Which response belongs in the gap?

A. No. The proposed synergies are not verified. We should not add the benefits while omitting the costs and dependencies needed to achieve them.

A Correct. This is Daniel's response in turn 14. It connects Aisha's preceding point with Aisha's follow-up. Synergies are expected combination benefits; they are not realized cash flows and require support for costs, timing, and dependencies.

B Not here. This line belongs to turn 6, after Aisha says: "Then make that sensitivity explicit. A ten-million-dollar difference should not be presented as extra value we have already created or secured from a buyer." It addresses that point, not the missing turn in the supplied exchange.

C Not here. This line belongs to turn 4, after Aisha says: "Show both. Are any other inputs changing, or can the audience attribute the difference to growth alone within this particular comparison?" It addresses that point, not the missing turn in the supplied exchange.

D Not here. This line belongs to turn 2, after Aisha says: "The executive slide shows thirty million dollars. Before we discuss a bid, tell me which value that is and what assumption produces it in the model." It addresses that point, not the missing turn in the supplied exchange.

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Review 1 / Explanations

Cumulative review

1. A colleague needs the term for this meaning: Revenue less the operating costs included in the stated presentation. Which term fits?

B. operating profit

A Not here. operating margin: Operating profit divided by revenue on the specified basis. The usual combination is "explain operating-margin movement".

B Correct. operating profit: Revenue less the operating costs included in the stated presentation. The usual combination is "explain operating profit".

C Not here. offset: A movement that counteracts another movement. The usual combination is "quantify the cost offset".

D Not here. rate effect: The portion attributed to a change in a cost or other unit rate. The usual combination is "separate rate from volume".

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2. A colleague needs the term for this meaning: Recognition of income or expense before related cash is received or paid. Which term fits?

A. accrual

A Correct. accrual: Recognition of income or expense before related cash is received or paid. The usual combination is "review the expense accrual".

B Not here. journal entry: A recorded set of debits and credits. The usual combination is "approve a journal entry".

C Not here. income statement: A report of income and expenses over a stated period. The usual combination is "review the income statement".

D Not here. supporting schedule: A detailed record explaining a reported balance. The usual combination is "maintain the supporting schedule".

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Review 1 / Explanations / continued

3. Rebuild the exchange from "Revenue is ahead, but profit is behind". Amir: "A colleague wants both increases labeled one-off because a supplier problem occurred this month. Does that event establish that the full amounts will disappear next month?" Lena: [missing response] Amir: "Then don't call it temporary yet. What carries into next month's forecast, and what are you still asking Operations to confirm?" Which response belongs in the gap?

C. No. The one-off description needs support. We must identify which costs relate to the event and whether the conditions causing them will continue.

A Not here. This line belongs to turn 2, after Amir says: "The opening slide says revenue is five percent ahead, yet operating profit is two percent behind. Give me the connection before we list every account in the ledger." It addresses that point, not the missing turn in the supplied exchange.

B Not here. This line belongs to turn 6, after Amir says: "Which accounts explain the extra fifty-four thousand? Start with what you've verified, then tell me which causes still need checking." It addresses that point, not the missing turn in the supplied exchange.

C Correct. This is Lena's response in turn 10. It connects Amir's preceding point with Amir's follow-up. One-off claims nonrecurrence; one unusual event does not establish that all costs in the categories will disappear.

D Not here. This line belongs to turn 16, after Amir says: "In a short update, would you say the problem is immaterial because the profit shortfall is only two percent? I do not want a casual label to close the discussion." It addresses that point, not the missing turn in the supplied exchange.

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Review 1 / Explanations / continued

4. Rebuild the exchange from "December service, January invoice, January payment". Sofia: "I'll link the invoice, completion record when received, posting reference and any reversal. You'll be able to follow the sequence from the original estimate onward." Chen: [missing response] Sofia: "So my update is: December service, January payment, completion evidence awaited and prior accrual still being traced. I'll bring back the supported treatment for your review." Which response belongs in the gap?

A. Include the payment reference in that audit trail too. It supports settlement in January, while the service and posting records support our separate expense-period review.

A Correct. This is Chen's response in turn 18. It connects Sofia's preceding point with Sofia's follow-up. An audit trail connects the transaction, evidence, entries, and approvals so another reviewer can trace the decision.

B Not here. This line belongs to turn 10, after Sofia says: "If I find it, do you want the January history too? An automatic reversal could explain why the current balance looks different from December's closing schedule." It addresses that point, not the missing turn in the supplied exchange.

C Not here. This line belongs to turn 12, after Sofia says: "I can already confirm the bank payment on January twentieth. I'll keep that on the cash schedule even while the December expense review remains open." It addresses that point, not the missing turn in the supplied exchange.

D Not here. This line belongs to turn 8, after Sofia says: "The spreadsheet has a prepared date and an approver column. Neither gives me a journal number. I'll search by supplier and document reference next." It addresses that point, not the missing turn in the supplied exchange.

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Review 2 / Explanations

Cumulative review

1. A colleague needs the term for this meaning: An updated estimate of expected performance using stated assumptions. Which term fits?

A. forecast

A Correct. forecast: An updated estimate of expected performance using stated assumptions. The usual combination is "refresh the full-year forecast".

B Not here. plug: A balancing amount calculated to make a model reconcile; it needs an explicit basis and label. The usual combination is "avoid an unsupported plug".

C Not here. rolling forecast: A forecast extended regularly over a moving future horizon. The usual combination is "maintain a rolling forecast".

D Not here. timing variance: A difference caused by an item occurring in a different period. The usual combination is "isolate a timing variance".

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2. A colleague needs the term for this meaning: A gap between available cash and the cash needed. Which term fits?

A. cash shortfall

A Correct. cash shortfall: A gap between available cash and the cash needed. The usual combination is "quantify the cash shortfall".

B Not here. DSO: Days sales outstanding, a measure relating receivables to credit sales. The usual combination is "monitor DSO trends".

C Not here. treasury: Management of cash, funding, and related financial risks. The usual combination is "prepare a treasury update".

D Not here. covenant: A requirement in a financing agreement. The usual combination is "test covenant compliance".

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Review 2 / Explanations / continued

3. Rebuild the exchange from "December service, January invoice, January payment".

Sofia: "If I find it, do you want the January history too? An automatic reversal could explain why the current balance looks different from December's closing schedule."

Chen: [missing response] **Sofia:** "I can already confirm the bank payment on January twentieth. I'll keep that on the cash schedule even while the December expense review remains open." **Which response belongs in the gap?**

A. Yes, trace any reversing entry and its posting period. Don't assume it ran just because that is the usual setup; we need this transaction's history.

A Correct. This is Chen's response in turn 10. It connects Sofia's preceding point with Sofia's follow-up. A reversing entry offsets an earlier entry; its timing affects how the later invoice should be reconciled.

B Not here. This line belongs to turn 8, after Sofia says: "The spreadsheet has a prepared date and an approver column. Neither gives me a journal number. I'll search by supplier and document reference next." It addresses that point, not the missing turn in the supplied exchange.

C Not here. This line belongs to turn 12, after Sofia says: "I can already confirm the bank payment on January twentieth. I'll keep that on the cash schedule even while the December expense review remains open." It addresses that point, not the missing turn in the supplied exchange.

D Not here. This line belongs to turn 16, after Sofia says: "The draft balances, but I'll leave it unposted. Its status will say service confirmation and prior-posting check pending, with no new entry approved." It addresses that point, not the missing turn in the supplied exchange.

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Review 2 / Explanations / continued

4. Rebuild the exchange from "Friday cash depends on an unconfirmed receipt".

Paul: "Once the facility terms are checked, include the relevant limit calculation. A quoted borrowing ceiling alone may hide conditions affecting how much we can use."

Inez: [missing response] **Paul:** "Then the update should lead with the conditional balance and the delayed-receipt gap, followed by the receipt check and the funding decision still required." Which response belongs in the gap?

A. I will state the applicable headroom and its definition, with any unverified conditions visible. We should not invent a covenant result to complete the funding table.

A Correct. This is Inez's response in turn 18. It connects Paul's preceding point with Paul's follow-up. Headroom measures remaining capacity against a defined limit; its calculation must follow the actual agreement rather than a guessed ceiling.

B Not here. This line belongs to turn 10, after Paul says: "Please check any notice period too. Even an amount we may borrow could be too late for the particular payment schedule we are trying to cover." It addresses that point, not the missing turn in the supplied exchange.

C Not here. This line belongs to turn 8, after Paul says: "Could we simply include the credit facility in available cash? The agreement is on file, and the facility was used earlier in the year." It addresses that point, not the missing turn in the supplied exchange.

D Not here. This line belongs to turn 4, after Paul says: "Walk me through the cash arithmetic and the alternative. I need to understand the dependency before the team relies on the closing balance." It addresses that point, not the missing turn in the supplied exchange.

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Review 3 / Explanations

Cumulative review

1. A colleague needs the term for this meaning: Return before the specified fees or costs are deducted. Which term fits?

B. gross return

A Not here. cumulative return: The total return over the stated multi-period interval. The usual combination is "report cumulative return".

B Correct. gross return: Return before the specified fees or costs are deducted. The usual combination is "label gross return".

C Not here. drawdown: A decline from a previous peak in the specified value series. The usual combination is "assess maximum drawdown".

D Not here. maturity: The contractual date when a debt's principal is due, subject to its terms. The usual combination is "identify the maturity date".

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2. A colleague needs the term for this meaning: A reporting interval shorter than a full financial year. Which term fits?

C. interim period

A Not here. LTV: Loan-to-value ratio, comparing the loan with defined collateral value. The usual combination is "assess the LTV ratio".

B Not here. borrower: A party receiving or seeking funds with repayment obligations. The usual combination is "assess the borrower's position".

C Correct. interim period: A reporting interval shorter than a full financial year. The usual combination is "identify the interim reporting period".

D Not here. counterparty risk: Risk of loss from another contracting party's failure to perform. The usual combination is "monitor counterparty risk".

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Review 3 / Explanations / continued

3. Rebuild the exchange from "Friday cash depends on an unconfirmed receipt".

Paul: "Please check any notice period too. Even an amount we may borrow could be too late for the particular payment schedule we are trying to cover." **Inez:** [missing response] **Paul:** "And do not silently move supplier payments to make the forecast positive. Any deferral could affect contractual commitments and operating relationships." **Which response belongs in the gap?**

A. I will assess the proposed drawdown timing and authorization with the responsible team. No borrowing action is approved merely because we have identified a possible gap.

A Correct. This is Inez's response in turn 10. It connects Paul's preceding point with Paul's follow-up. A drawdown is borrowing under a facility; its amount, conditions, timing, and approval must support the proposed funding use.

B Not here. This line belongs to turn 8, after Paul says: "Could we simply include the credit facility in available cash? The agreement is on file, and the facility was used earlier in the year." It addresses that point, not the missing turn in the supplied exchange.

C Not here. This line belongs to turn 18, after Paul says: "Once the facility terms are checked, include the relevant limit calculation. A quoted borrowing ceiling alone may hide conditions affecting how much we can use." It addresses that point, not the missing turn in the supplied exchange.

D Not here. This line belongs to turn 4, after Paul says: "Walk me through the cash arithmetic and the alternative. I need to understand the dependency before the team relies on the closing balance." It addresses that point, not the missing turn in the supplied exchange.

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Review 3 / Explanations / continued

4. Rebuild the exchange from "A credit review needs current borrower information". Morgan: "I will avoid saying the borrower is in default just because a document is missing. Any contractual reporting issue would need its own assessment against the agreement." Ellis: [missing response] Morgan: "I'll request all three components with the June date and Wednesday timing. If they can't deliver, I'll tell you what is missing before Thursday's review." Which response belongs in the gap?

D. Correct. This update concerns an incomplete credit file, not an approved default determination. Separate the known information gap from legal or credit conclusions still requiring review.

A Not here. This line belongs to turn 2, after Morgan says: "The borrower sent December's audited statements again. They believe that completes the request because those are the most recent documents signed by their external auditor." It addresses that point, not the missing turn in the supplied exchange.

B Not here. This line belongs to turn 16, after Morgan says: "What happens if the June package cannot arrive before the meeting? I need a clear message that does not sound like automatic rejection or a promise to waive requirements." It addresses that point, not the missing turn in the supplied exchange.

C Not here. This line belongs to turn 8, after Morgan says: "If they send a signed spreadsheet, should I describe the June numbers as audited? The finance director's signature may make the document look more formal." It addresses that point, not the missing turn in the supplied exchange.

D Correct. This is Ellis's response in turn 18. It connects Morgan's preceding point with Morgan's follow-up. The credit file holds review evidence; missing information limits the assessment without itself proving default or another adverse conclusion.

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Review 4 / Explanations

Cumulative review

1. A colleague needs the term for this meaning: The person accountable for the assigned control's operation. Which term fits?

A. control owner

A Correct. control owner: The person accountable for the assigned control's operation. The usual combination is "confirm the control owner".

B Not here. fraud indicator: A sign warranting assessment of possible deliberate wrongdoing. The usual combination is "escalate a fraud indicator".

C Not here. exception log: A record of deviations or unresolved items and their status. The usual combination is "update the exception log".

D Not here. maker-checker: A process separating preparation from an independent check. The usual combination is "follow the maker-checker procedure".

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2. A colleague needs the term for this meaning: A cash-flow measure after defined operating and investment needs. Which term fits?

B. free cash flow

A Not here. valuation: An estimate of value using specified methods and assumptions. The usual combination is "explain the valuation basis".

B Correct. free cash flow: A cash-flow measure after defined operating and investment needs. The usual combination is "define the free-cash-flow measure".

C Not here. hurdle rate: A specified minimum return criterion for a decision. The usual combination is "confirm the hurdle rate".

D Not here. comparable companies: Businesses selected as relevant valuation references. The usual combination is "screen comparable companies".

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Review 4 / Explanations / continued

3. Rebuild the exchange from "A credit review needs current borrower information".
Morgan: "The team wants a coverage ratio as soon as the file arrives. But the cash-flow figure covers six months and the debt payments cover a year." **Ellis:** [missing response] **Morgan:** "We should also see which loans come due soon. A reasonable total debt balance may still hide several repayments concentrated in a short period." Which response belongs in the gap?

A. Specify the DSCR definition and period before quoting it. A ratio can look precise while comparing mismatched amounts or omitting required adjustments.

A Correct. This is Ellis's response in turn 10. It connects Morgan's preceding point with Morgan's follow-up. DSCR compares a defined cash-flow measure with debt service; mixing inconsistent periods can make the ratio misleading.

B Not here. This line belongs to turn 6, after Morgan says: "We requested Wednesday at three for preparation before Thursday's meeting. The borrower has not confirmed whether that timing is possible, so I should not promise the pack is complete." It addresses that point, not the missing turn in the supplied exchange.

C Not here. This line belongs to turn 8, after Morgan says: "If they send a signed spreadsheet, should I describe the June numbers as audited? The finance director's signature may make the document look more formal." It addresses that point, not the missing turn in the supplied exchange.

D Not here. This line belongs to turn 2, after Morgan says: "The borrower sent December's audited statements again. They believe that completes the request because those are the most recent documents signed by their external auditor." It addresses that point, not the missing turn in the supplied exchange.

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Review 4 / Explanations / continued

4. Rebuild the exchange from "A valuation slide showing only the higher case".

Aisha: "One presenter says the transaction would increase earnings per share, so it must create value. That sentence needs a more careful distinction." **Daniel:** [missing response] **Aisha:** "Revise the slide with both scenarios, the debt bridge, and the assumptions requiring review. No bid or financing commitment should be implied by the presentation." Which response belongs in the gap?

A. I will separate accretion in the stated accounting metric from value creation. The financing structure, price, risk, and cash-flow assumptions still matter to the investment assessment.

A Correct. This is Daniel's response in turn 18. It connects Aisha's preceding point with Aisha's follow-up. Accretion increases a specified per-share metric; it does not by itself establish economic value creation.

B Not here. This line belongs to turn 8, after Aisha says: "Why four percent? Is there evidence for that continuing growth rate, or have we chosen it because we prefer the thirty-million output?" It addresses that point, not the missing turn in the supplied exchange.

C Not here. This line belongs to turn 6, after Aisha says: "Then make that sensitivity explicit. A ten-million-dollar difference should not be presented as extra value we have already created or secured from a buyer." It addresses that point, not the missing turn in the supplied exchange.

D Not here. This line belongs to turn 2, after Aisha says: "The executive slide shows thirty million dollars. Before we discuss a bid, tell me which value that is and what assumption produces it in the model." It addresses that point, not the missing turn in the supplied exchange.

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Additional case 1 / Explanations

Extended conversation

1. currency exposure

Turn 2. Currency exposure means the domestic-currency cost can change when the exchange rate changes.

2. sensitivity

Turn 6. Sensitivity shows how a modeled result changes when an input changes, not a prediction that it will occur.

3. budget rate

Turn 10. Budget rate is an assumption for planning, not evidence that a foreign-exchange transaction was executed.

4. natural hedge

Turn 12. Natural hedge means offsetting business cash flows reduce exposure without necessarily using a derivative.

5. hedging policy

Turn 16. Hedging policy defines the organization's permitted objectives, instruments, limits, and approval process.

6. confirmation

Turn 20. Confirmation is the record of an executed transaction's terms, unlike an unexecuted proposal or indicative rate.

[Return to the conversation, page 107](#)

Transfer exchange

1. locked in

Manager: Is this the rate we've locked in for payment?

Turn 1. Locked in implies a binding arrangement, which the scenario has not established.

Additional case 1 / Explanations / continued

2. indicative

Analyst: No. It's an indicative rate used for this estimate.

Turn 2. Indicative describes an illustrative or nonbinding quotation rather than an executed transaction.

3. assumption

Manager: Then retain the foreign-currency amount and the rate assumption beside it.

Turn 3. Assumption identifies the input used to translate the amount for planning.

4. execution

Analyst: I will update it when Treasury confirms the actual execution status.

Turn 4. Execution status distinguishes a proposed trade from one that has actually been completed.

[Return to the conversation, page 109](#)

Additional case 2 / Explanations

Extended conversation

1. cash-flow

Turn 2. Cash-flow identifies cash movements, which must include relevant outflows as well as expected savings.

2. simple payback

Turn 6. Simple payback measures time to recover the initial outlay without discounting and may omit later cash flows.

3. ramp-up

Turn 10. Ramp-up is the period during which activity or output builds toward its expected operating level.

4. discount rate

Turn 14. Discount rate converts future cash flows to present values under the chosen investment-appraisal assumptions.

5. double counting

Turn 18. Double counting includes the same economic benefit or cost more than once in the analysis.

6. investment appraisal

Turn 20. Investment appraisal evaluates the proposal using relevant costs, benefits, risks, and comparison criteria.

[Return to the conversation, page 111](#)

Transfer exchange

1. saving

Sponsor: Can I call the ten hours a payroll saving?

Turn 1. Saving would imply a reduction in payroll cash cost, which is not established here.

Additional case 2 / Explanations / continued

2. capacity

Analyst: We have freed capacity, not a confirmed reduction in pay.

Turn 2. Capacity is time available for other work even when payroll remains unchanged.

3. effect

Sponsor: I'll show the operational benefit and identify the cash-flow effect separately.

Turn 3. Effect identifies the actual change in cash, which needs its own supported basis.

4. business

Analyst: Good. Don't count the same benefit twice in the business case.

Turn 4. Business case combines the proposal's evidence and assumptions for a decision.

[Return to the conversation, page 113](#)

Additional case 3 / Explanations

Extended conversation

1. counterparty

Turn 3. Counterparty identifies the other entity in the transaction, which must match in both sides of the reconciliation.

2. cutoff

Turn 7. Cutoff concerns assigning transactions to the appropriate reporting period, not merely the date a document arrived.

3. reconciling difference

Turn 9. Reconciling difference is the unresolved mismatch between records that should agree under the defined basis.

4. consolidated

Turn 13. Consolidated statements present the included group as one economic entity rather than simply adding all internal transactions.

5. reconciliation

Turn 16. Reconciliation compares corresponding records and explains or resolves the differences between them.

6. elimination

Turn 19. Elimination is a consolidation adjustment removing intragroup balances or transactions under the applicable accounting rules.

[Return to the conversation, page 115](#)

Transfer exchange

1. ledger

Controller: Does the group adjustment change our local ledger automatically?

Turn 1. Ledger is the entity's own accounting record, separate from the consolidation file.

Additional case 3 / Explanations / continued

2. consolidation

Group accountant: No. This entry belongs to the consolidation process.

Turn 2. Consolidation combines the included entities into the group reporting view.

3. approval

Controller: Any local correction still needs its own support and approval.

Turn 3. Approval authorizes the local correction; a group-level entry does not supply it automatically.

4. distinct

Group accountant: Exactly. Keep the two records distinct and traceable.

Turn 4. Distinct means separately identified so each entry's purpose and authority remain clear.

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Find a phrase by purpose

Finance Communication: Drivers, Assumptions, Materiality, Risk

Lead with the contrast: Revenue is above budget, but operating profit is below it.

Name the offset: The \$54,000 cost increase more than offsets the \$50,000 revenue increase.

State the basis: These figures cover the same month, currency, and reporting scope.

[Full phrase bank, page 7](#)

Financial Statements, Close, and Accounting Judgments

Clarify the schedule: Are we showing expense recognition or the cash payment date?

State the sequence: Service was in December; invoicing and payment occurred in January.

Apply the case policy: The stated policy expenses this service when received.

[Full phrase bank, page 18](#)

FP&A, Budgeting, Forecasting, and Variance Analysis

Lead with the outlook: Full-year spending is forecast at \$120,000 against a \$100,000 budget.

Quantify the bridge: The \$20,000 increase includes a verified \$15,000 supplier fee.

Name the residual: The remaining \$5,000 has not yet been attributed.

[Full phrase bank, page 32](#)

Treasury, Cash, Liquidity, Working Capital, and FX

Attach the condition: Closing cash is forecast at \$30,000 if the customer pays Friday.

Name the alternative: Without that receipt, the model shows a \$20,000 shortfall.

Separate evidence: The expected receipt is in the model, but payment is not confirmed.

[Full phrase bank, page 43](#)

Find a phrase by purpose / continued

Markets, Investments, Performance, and Client Communication

Label the result: The portfolio returned 6% before fees over the stated twelve months.

Correct the unit: The arithmetic difference is one percentage point, not simply "1% higher."

State the gap: The net-of-fees figure has not been supplied.

[Full phrase bank, page 55](#)

Banking, Credit, Lending, and Counterparty Risk

Specify the request: Please obtain management accounts through 30 June.

Name the components: We need the balance sheet, income statement, and supporting debt schedule.

Explain the purpose: These records support Thursday's credit review.

[Full phrase bank, page 66](#)

Controls, Audit, Compliance, Fraud, and Ethics

State the open work: Three entries remain unmatched despite a zero net difference.

Give the amounts: The receipt is \$1,200; the payments are \$700 and \$500.

Separate arithmetic: The amounts offset, but the individual causes remain unknown.

[Full phrase bank, page 82](#)

Valuation, M&A, Capital Allocation, and Executive Finance

Present both cases: The model gives \$20 million at 2% terminal growth and \$30 million at 4%.

Name the constant: The discount rate remains 9% in both scenarios.

State the sensitivity: The output is sensitive to the continuing-growth assumption.

[Full phrase bank, page 94](#)

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account reconciliation[Lesson 02, p. 17](#)**accounting policy**[Lesson 02, p. 17](#)**accretion and dilution**[Lesson 08, p. 93](#)**accrued liability**[Lesson 02, p. 16](#)**aging**[Lesson 07, p. 80](#)**asset allocation**[Lesson 05, p. 54](#)**attribution**[Lesson 05, p. 53](#)**audited statements**[Lesson 06, p. 64](#)**balance sheet**[Lesson 02, p. 16](#)**base-case valuation**[Lesson 08, p. 92](#)**basis point**[Lesson 01, p. 6](#)**borrower**[Lesson 06, p. 64](#)**budget**[Lesson 03, p. 30](#)**capital allocation**[Lesson 08, p. 92](#)**capitalization**[Lesson 02, p. 17](#)**cash conversion cycle**[Lesson 04, p. 42](#)**cash forecast**[Lesson 04, p. 41](#)**cash outflow**[Lesson 04, p. 41](#)**cash-flow**[Case 2, p. 110](#)**commitment**[Lesson 03, p. 31](#)**concentration risk**[Lesson 06, p. 65](#)**consolidated**[Case 3, p. 114](#)**accounting estimate**[Lesson 02, p. 17](#)**accounts payable**[Lesson 02, p. 16](#)**accrual**[Lesson 02, p. 16](#)**actuals**[Lesson 03, p. 30](#)**annualized return**[Lesson 05, p. 53](#)**assumption**[Lesson 01, p. 6](#)**audit trail**[Lesson 02, p. 17](#)**available cash**[Lesson 04, p. 41](#)**bank reconciliation**[Lesson 07, p. 79](#)**baseline**[Lesson 03, p. 30](#)**benchmark**[Lesson 05, p. 53](#)**bridge**[Lesson 03, p. 30](#)**budget rate**[Case 1, p. 106](#)**capital expenditure**[Lesson 08, p. 92](#)**cash buffer**[Lesson 04, p. 41](#)**cash flow statement**[Lesson 02, p. 16](#)**cash inflow**[Lesson 04, p. 41](#)**cash shortfall**[Lesson 04, p. 41](#)**collateral**[Lesson 06, p. 65](#)**comparable companies**[Lesson 08, p. 92](#)**confirmation**[Case 1, p. 106](#)**contingency**[Lesson 03, p. 31](#)

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All cases, organizations, figures, and conversations are fictional teaching material, not transcripts. Communication practice does not replace qualified advice or current workplace procedures.

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<https://pcaobus.org/oversight/standards/auditing-standards/details/AS2201>

[4] IFRS Foundation. IFRS 10 Consolidated Financial Statements.

Background for presenting a consolidation group as one economic entity. Actual group boundaries, eliminations, and local entries require the applicable accounting framework and review. Source checked 10 October 2026.

<https://www.ifrs.org/issued-standards/list-of-standards/ifrs-10-consolidated-financial-statements/>

Companion course

The website offers the eight-lesson course and related practice. This book can be used independently. No audio access or external account is needed for its exercises.

<https://englishladder.com/efsp-finance.html>

Explain the numbers. Preserve the assumptions. Make the next step clear.

Move from a headline number to its basis, drivers, uncertainty, and decision.

Finance Communication: Drivers, Assumptions, Materiality, Risk

Revenue is 5% above budget: \$50,000 divided by \$1,000,000. Operating profit is 2% below budget: a \$4,000 decline from \$200,000 to \$196,000. The percentages use different denominators and must not be subtracted to explain profit.

FP&A, Budgeting, Forecasting, and Variance Analysis

The bridge is \$100,000 budget plus \$15,000 identified supplier fee plus \$5,000 unexplained increase, giving \$120,000 forecast. The last amount is a residual, not a verified operational driver. Label it openly instead of inventing a cause.

Financial Statements, Close, and Accounting Judgments

Under the expressly stated case policy, December service receipt is relevant to the expense period. January payment belongs to January cash reporting. The invoice date alone does not answer both questions, and an existing accrual must be checked before another expense is posted.

Treasury, Cash, Liquidity, Working Capital, and FX

The \$30,000 closing balance is conditional on receiving \$50,000 that day. Without it, the stated arithmetic shows a \$20,000 funding gap. A customer promise, a payment instruction, a settlement notice, and available funds are different evidence states.

Explain the numbers. Preserve the assumptions. Make the next step clear. / continued

Phil Stilwell

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