

LIBF Level 2 Award in Financial Education
(AiFE) 601 / 6360 / 4

LIBF Level 2 Certificate in Financial Education
(CeFE) 601 / 1239 / 6

**Unit 2 – Practices of Managing Money (PMM)
F / 505 / 4689**

Specimen paper: A
Length of examination: 45 minutes

Instructions to learners

1. Open this question paper when instructed to do so.
2. Answer **all** questions.
3. Use the examination answer sheets provided for your answers. Please do **not** note your answers in this booklet, as they will **not** be recorded.
4. Read the instructions on both sides of the answer sheet carefully.
5. Before you leave the examination room you **must** hand in all the examination materials including the answer sheet and question paper.

Information for learners

1. Silent non-programmable (including scientific) calculators are allowed. Programmable calculators are not allowed.

1. A sensible **minimum** amount for an emergency fund for most families would be three to six months':
 - A discretionary expenditure.
 - B disposable income.
 - C essential expenditure.
 - D gross income.

2. Collective funds are **typically** offered by:
 - A building societies.
 - B insurance companies.
 - C investment companies.
 - D mortgage brokers.

3. For a young adult, which of the following would **typically** be classed as a long-term financial plan?
Saving for:
 - A a holiday in 12 months' time.
 - B a new car.
 - C college.
 - D their retirement.

4. An example of unearned income is:
 - A bonuses.
 - B overtime.
 - C rental income.
 - D sales commission.

5. An increase in interest rates could lead to a budget deficit for an individual with which of the following financial products?
- A Fixed-rate mortgage.
 - B Fixed-rate savings.
 - C Variable-rate mortgage.
 - D Variable-rate savings.
6. If the pound weakens against the euro then:
- A exports from the UK to the eurozone become cheaper.
 - B fewer tourists will visit the UK from eurozone countries.
 - C imports from the eurozone to the UK become cheaper.
 - D interest rates in the UK will rise.
7. Increased company profits **generally** lead to:
- A higher levels of unemployment.
 - B lower government tax receipts.
 - C lower personal income.
 - D reduced government borrowing.
8. Which of the following is a way to pay regular bills that vary in amount?
- A Bacs.
 - B Direct debit.
 - C Faster Payments.
 - D Standing order.

9. Which of the following is a correct definition of 'value for money'?
- A A budget product.
 - B A low-cost brand.
 - C The cheapest product.
 - D The right product at the right price.
10. Which of the following taxes is included in the price of many of the goods we buy?
- A Capital gains tax.
 - B Corporation tax.
 - C Income tax.
 - D Value added tax.
11. Which of the following transactions is likely to incur a service charge?
- A A face-to-face train ticket purchase.
 - B An online air-ticket purchase via credit card.
 - C Children's clothes bought on the high street.
 - D Food purchased from a supermarket.
12. An impact of reduced consumer spending is **increased** levels of:
- A employment.
 - B government borrowing.
 - C personal income.
 - D taxation receipts.

13. An example of a good debt is:
- A a car loan for business use.
 - B a payday loan.
 - C borrowing for a holiday.
 - D borrowing for designer clothes.
14. Which of the following payment methods makes it harder to stick to a budget?
- A Coins.
 - B Credit card.
 - C Debit card.
 - D Notes.
15. Which of the following is a legal option that can be used by those with unmanageable debts and an income of less than £50 per month after household expenses?
- A Bankruptcy.
 - B County court judgment.
 - C Debt relief order.
 - D Individual voluntary arrangement.

Case Study 1

Joe and Natalie have been married for two years and live in a small flat. Natalie runs a mobile hairdressing business and is self-employed. Last year she earned an income of £17,000 and incurred business expenses of £2,000. Joe owns a second property, which he inherited from his aunt. He rents this property out through an agency and receives £600 a month rental income from the agency directly into his current account.

Joe is a construction worker and earns a salary of £18,000. His contract states that he must work 38 hours a week; if he works more than 38 hours a week he may claim overtime. The workers at Joe's firm also receive a quarterly bonus when jobs are completed on time. Joe's last monthly payslip included the following information:

- Tax code: 1185L
- Basic pay: £1,500
- Overtime: £500

16. Which of the following sources of income will **not** appear on Joe's payslip?
- A Bonus.
 - B Income tax.
 - C Property.
 - D Salary.
17. Because Natalie is self-employed she will pay tax based on her:
- A annual income.
 - B annual income after deductible business expenses.
 - C monthly income.
 - D monthly income after deductible business expenses.
18. What form will Joe's employer send to him after the end of each tax year to confirm his annual earnings and deductions?
- A P45.
 - B P60.
 - C Payslip.
 - D Self-assessment.

19. According to Joe's payslip, how much tax-free income is he entitled to in the current tax year?
- A £1,185.
 - B £1,500.
 - C £11,850.
 - D £15,000.

Case Study 2

Karen and Ian have decided to update their kitchen. Their dream kitchen will cost £12,000 to buy. They have £12,300 in a savings account earning interest at a rate of 3.5% per annum. They are thinking about using these savings but are considering other options as they are concerned that this course of action would use up most of their emergency fund.

They are worried that, in the event of a further recession, one or both of them might lose their jobs. If they did use their existing savings, they would want to immediately start putting money aside each month to build them back up again. The other options are:

- using their joint credit card with a variable interest rate of 18.9%, making the minimum repayments each month and then whatever extra they can afford.
- taking up the store credit offer of paying nothing for 12 months and then paying off the kitchen over 4 years at a fixed rate of 9.9%.
- taking out a personal loan at a fixed rate of 8.9% for 5 years.

20. Which of the following would be the cheapest way for Karen and Ian to buy their new kitchen?
- A A personal loan.
 - B The store loan.
 - C Their credit card.
 - D Their existing savings.
21. Which of the available options would have the **least** impact on Karen and Ian's financial budget in the short term?
- A Credit card.
 - B Existing savings.
 - C Personal loan.
 - D Store loan.
22. Which of the available options would cause the **most** damage to Karen and Ian's budget in the event of interest rate rises?
- A Credit card.
 - B Existing savings.
 - C Personal loan.
 - D Store loan.

23. Although they are right to be concerned about a future recession, Karen and Ian might be interested to learn that consumer spending tends to:
- A decrease employment levels.
 - B increase employment levels.
 - C lead to a weakening of the economy.
 - D lead to an economic slump.

Case Study 3

Shona has a full-time job earning £25,000 a year. She currently lives with her mum and dad and pays them £200 a month in rent. She has calculated that if she lived in a flat of her own, she would spend £12,000 a year on mortgage payments and other bills, leaving her with plenty of disposable income. Her mum has checked over her figures but is concerned that Shona's finances would become stretched if interest rates were to rise.

Shona has a one-year loan for £1,000 with an annual interest rate of 8%. Shona's mum has suggested that Shona meet with a financial adviser to talk about what would happen if she became ill and was not able to meet her mortgage payments.

24. How much interest is Shona paying on her personal loan each month?
- A £6.67.
 - B £8.00.
 - C £66.70.
 - D £80.00.
25. Whose legal responsibility is it to check that Shona will be able to continue to afford her monthly mortgage repayments if interest rates rise?
- A Shona herself.
 - B Shona's financial adviser.
 - C Shona's mortgage lender.
 - D Shona's mum and dad.
26. If interest rates were to rise before she took out the mortgage, what impact would this have on Shona's ability to borrow?
- A It would be easier for Shona to borrow the amount she wants.
 - B It would be harder for Shona to borrow the amount she wants.
 - C It would have no impact on Shona's ability to borrow.
 - D It would prevent Shona from taking out a mortgage.

27. If Shona started to miss payments on her personal loan, which of the following would be the **first** legal step taken by her loan provider? To apply for:
- A a county court judgment.
 - B a debt relief order.
 - C an individual voluntary arrangement.
 - D her bankruptcy.

Case Study 4

Sue and Deepak have just retired and both receive a full state pension. Deepak also receives a pension from his previous employer. However, due to Sue's state of health they are mostly housebound. Their daughter has left home and she has a son aged two.

Sue and Deepak want to make sure that their grandson is well provided for; they have set aside £100 a month for this financial goal. They have been speaking to a financial adviser from their local building society who, because of Sue's mobility issues, came to visit them in their own home. He explained that he would only be able to recommend a product from the building society's own product range, but was sure that he would have a suitable savings account for their grandson.

28. What type of financial adviser do Sue and Deepak have?
- A A multi-tied adviser.
 - B A restricted adviser.
 - C A whole-of-market adviser.
 - D An independent financial adviser.
29. Given their stage in the life cycle, which of the following is likely to be a priority for Sue and Deepak?
- A Inheritance tax.
 - B Protecting their income from accidents.
 - C Protecting their income from illness.
 - D Saving for their child.
30. Given their circumstances, what type of banking is **least** suitable for Sue and Deepak?
- A Branch.
 - B Mobile.
 - C Online.
 - D Telephone.

31. Which of the following would be the most appropriate way to transfer £100 each month into their grandson's savings account?
- A Credit card.
 - B Debit card.
 - C Faster Payments.
 - D Standing order.

Case Study 5

Priscilla and John are both self-employed. John struggles to pay his bills even though he typically earns £30,000 per year. He earns enough to meet his financial needs, but his earnings are irregular, which causes a cash-flow problem. Therefore, he sometimes uses the overdraft facility on his current account.

Priscilla also earns around £30,000 but her income is more regular. She is in her 50s and is thinking about working less. She is financially secure, her mortgage is paid off, and she has money left over each month. She is thinking about going to see a financial adviser to discuss what her financial priorities should now be.

32. Which of the following personal circumstances makes it harder for John to make financial plans than Priscilla?
- A Amount of debt held.
 - B Amount of savings.
 - C Life events.
 - D Pattern of income.
33. Given her stage in the life cycle, which of the following is likely to be Priscilla's **main** priority?
- A Buying a home.
 - B Protecting her mortgage.
 - C Saving for retirement.
 - D Supplementing her income.
34. Which of the following is a way in which Priscilla could make best use of her monthly financial surplus?
- A Increase her discretionary spending.
 - B Reduce the cost of her borrowings.
 - C Save extra each month into a savings account.
 - D Shop around for the best prices.

35. Which financial tool could help John by enabling him to predict how much cash will be in his bank account at any given point in time?
- A Cash-flow forecasting.
 - B Envelope budgeting.
 - C Online banking.
 - D Zero-based budgeting.
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