

ifs Level 3: Diploma in Financial Studies (DipFS)
501/0048/8

Unit 1 – Financing the Future (FTF) D/501/8699

(Specimen Paper A)

Justification and Answer document

This document has been designed to provide teachers and students with clear information relating to specimen exam questions. The aim is to clarify the approach to answering questions, and identify why plausible distracters are incorrect.

The document consists of four columns as follows:

- **Q No.** – this shows the question number, as shown on the actual specimen question paper.
- **Topic Code** – indicates the syllabus reference that a particular question relates to.
- **Key** – tells you the ‘key’. This is the correct answer.
- **Justification** – The justifications are brief explanations of why one answer is correct and the three others are incorrect.

Note: When using this document you will need to refer to the specimen paper to which it relates and the relevant unit syllabus.

Q No.	Topic Code	Key	Justification
1	DFS101	A	A - Correct. The debt collection agency will take Gareth to court if they cannot recover the debt.
			B - Gareth would have to apply for an administration order.
			C - Gareth will create a negative financial footprint as it is he who has been unable to repay the debt.
			D - Gareth will have to file for bankruptcy, but this would follow the County Court Judgment.
2	DFS101	D	A - As her savings are discretionary the frequency may vary and not give an indication of a suitable timescale.
			B – Mandatory outgoings are an important consideration when creating the plan, but regular income is the most important factor when deciding on a suitable timescale.
			C - The frequency of her optional expenditure may vary and not give an indication of a suitable timescale. It is more appropriate to being a suitable time period with the occurrence of a regular income.
			D - Correct. The most appropriate indicator of a short-term plan's timescale should be the frequency of a regular income, eg salary.
3	DFS102	D	A - Savings refer to money not spent; therefore it is not mandatory expenditure.
			B - This refers to a form of savings which is compulsory, not optional.
			C - This refers to a form of expenditure, not savings.
			D - Correct. This is correct as it refers to savings which Jo has chosen to make.
4	DFS102	B	A - Although she may choose how much to pay off on her credit card the minimum monthly payment must be paid so it is mandatory and not discretionary.
			B - Correct. Although she may choose how much to pay off on her credit card the minimum monthly payment must be paid so it is mandatory.
			C - Although she may choose how much to pay off on her credit card the minimum monthly payment must be paid so it is mandatory and not optional.
			D - She will have other outgoings and so this is not her total expenditure.
5	DFS103	D	A - Equity market values can fall as well as rise.
			B - Property prices can fall in times of economic uncertainty.
			C - NS&I products are backed by the government so are safer than most other forms of investment.
			D - Correct. Investments with potential for high returns carry the highest risk to the investor.

6	DFS103	B	A - A collective investment carries risk and will not guarantee income.
			B - Correct. A personal pension will provide retirement income.
			C - Premium bonds pay out no interest and there is no guarantee of winning.
			D - Investing in shares carries risk and will not guarantee income.
7	DFS103	C	A - Credit cards and store cards also have high interest rates.
			B - Store cards and credit cards also have high interest rates.
			C - Correct. Mortgages, personal and homeowner loans tend to have lower interest rates than overdrafts.
			D - Store cards and credit cards also have high interest rates.
8	DU1CSA	B	A - His cash flow does not show that he is financially independent because he receives his income from his parents.
			B - Correct. Because his cash flow shows a surplus, and contains items of discretionary expenditure which he can reduce, it does demonstrate that he has the capacity to save.
			C - Although his cash flow does show a surplus this does not mean that he will always have a regular surplus.
			D - His cash flow cannot tell him whether he will actually save the money to go to Italy or not.
9	DU1CSA	A	A - Correct. An Educational Maintenance Allowance is designed to support students in low-income families. If the total annual household income is between £20,818 and £25,521 per year he is eligible for £20 per week.
			B - The number of wage earners in the family is not a criteria for awarding Luke an Educational Maintenance Allowance. Luke is eligible for £20 per week because the total household income is between £20,818 and £25,521 irrespective of the number of wage earners in the family.
			C - Although Luke needs to be enrolled at a full-time recognised college to qualify, this will not guarantee that he receives the allowance, as he will also have to prove that he is attending his courses. Luke is eligible for an EMA of £20 per week because the total household income is between £20,818 and £25,521 irrespective of the number of wage earners in the family.
			D - Luke's weekly allowance would not be a consideration in the decision to agree an Educational Maintenance Allowance. Luke is eligible for an EMA of £20 per week because the total household income is between £20,818 and £25,521.

10	DU1CSA	D	A - Luke is determined to go on the trip because it relates to his 'A' level studies.
			B - He would not be able to extend the time-scale of his financial plan as the trip is due to take place in five months' time.
			C - Investing his savings is not appropriate as investments are a long-term financial solution and, if there was a fall in value over the next five months, Luke might lose money.
			D - Correct. Luke is able to reduce his outgoings and increase his savings by reducing the number of trips to the cinema from weekly to monthly, gaining £18 per month.
11	DU1CSA	C	A - This may be true but it is not an opportunity cost of buying the camera. Opportunity cost is the cost of making a decision to buy one product in terms of the product they decided not to buy. So an opportunity cost of buying the camera would concern the merits of the visit to Pompeii.
			B - This could be a potential opportunity cost of buying the camera but he has the ability to visit Pompeii in the future.
			C - Correct. Opportunity cost is the cost of making a decision to buy one product in terms of the product they decided not to buy. So an opportunity cost of visiting Pompeii is that he has not chosen the digital camera and will not be able to record his experiences personally.
			D - This may be true but it is not an opportunity cost of choosing to visit Pompeii. Opportunity cost is the cost of making a decision to buy one product in terms of the product they decided not to buy. So an opportunity cost of choosing to visit Pompeii would concern what he would miss out on by not purchasing the camera.
12	DU1CSA	D	A - Luke was not able to prove that he is financially independent as all of his income came from his family.
			B - Without the Educational Maintenance Allowance he would have a weekly income of £41. As he did not have any mandatory outgoings he could have saved up £1,600 over 18 months by increasing his weekly cash surplus to £23.
			C - There is no evidence to indicate that his need to save changed his attitude to saving.
			D - Correct. Luke should have planned for a possible increase in the cost of the trip as he was aware that the amount stated was only an estimate.

13	DU1CSB	D	A - Correct. She will not have to repay the student loan until she has permanent employment with an annual salary over £15,000
			B - The majority of her spending is optional outgoings, ie cinema and socialising.
			C - The majority of her spending is optional outgoings, ie cinema and socialising.
			D – Correct. The only outgoing that could be considered a mandatory expense would concern the mobile phone which is £25 whereas her optional outgoings total £70.
14	DU1CSB	A	A - Correct. This is her aspiration because it is what she wants to achieve in the future.
			B - She needs to control her spending as she is currently reliant on her parents but her aspiration is to become a news reporter.
			C - This is not an aspiration but the means to achieve her aspiration to be a reporter.
			D - This may be something that she needs to do but it is not her aspiration.
15	DU1CSB	C	A - Using credit card will incur interest as she is unlikely to repay the amount within a month. Also, having a credit card may be a temptation to build up additional debts.
			B - Although she has the capacity to repay the money over several months this will incur interest.
			C - Correct. Because she receives a monthly allowance of £120 she has the capacity to repay the money without incurring interest charges.
			D - This will be too late as the interview is in two weeks' time.
16	DU1CSB	B	A - Competitive demand involves making a choice between financial products but Della has decided to use a single product.
			B - Correct. This is the term that describes the situation where the decision to purchase a product results in the need for a financial product.
			C - Joint demand describes a situation where the purchase of a financial product entails purchasing related financial products, eg mortgage and house insurance.
			D - Opportunity cost is the cost of making a decision to buy one product in terms of the product they decided not to buy, but Della only has one product in mind.

17	DU1CSB	D	<p>A - Although her monthly cash flow is currently showing a surplus there is no guarantee that this will always be the case and therefore any additional payments on her student loan may be infrequent.</p> <p>B - As she wants to build up her savings she will not want to use this money to make additional payments on her loan.</p> <p>C - This is not the first step that she should take as it is likely that she will still want to need clothes and see her friends during the period that the loan is being paid off.</p> <p>D - Correct. The first step should be to produce medium-term plans based on different amounts of additional repayments. This will enable her to decide how much she can realistically afford to pay off each month.</p>
18	DU1CSC	C	<p>A - The credit card payment is a mandatory outgoing because he has to pay the minimum balance each month. Even so, it is his optional outgoings that demonstrate his potential to save because he can reduce them, creating a surplus balance which can be directed into savings.</p> <p>B - Although he does not pay rent this does demonstrate that he has the potential to save because he has to pay housekeeping and currently has a deficit balance. It is his optional outgoings that demonstrate his potential to save because he can reduce them, creating a surplus balance which can be directed into savings.</p> <p>C - Correct. It is his optional expenditure that demonstrate his potential to save because he can reduce them, creating a surplus balance which can be directed into savings.</p> <p>D - His regular monthly income does not demonstrate his potential to save because, at present, he is spending more than he is earning. It is his optional outgoings that demonstrate his potential to save because he can reduce them, creating a surplus balance which can be directed into savings.</p>
19	DU1CSC	D	<p>A - He needs to know how much he will have to pay as a deposit first, so that he can calculate whether his current level of saving is sufficient to achieve his goal in the next three months.</p> <p>B - He should not consider moving into a flat until he has sufficient funds for the deposit. He needs to research the cost of renting so that he ensures that he can afford the deposit for a flat.</p> <p>C - He needs to know how much he will have to pay as a deposit first, so that he can calculate by how much he needs to boost his savings in order to achieve his goal in the next three months.</p> <p>D - Correct. He should research the cost of renting in the area first so that he knows how much he will have to pay for a deposit. This will enable him to calculate how long it will take him to save up enough money.</p>

20	DU1CSC	D	A - This is not the most cost-effective way to raise the money as he will be charged interest on the outstanding amount until it is cleared.
			B - The landlord is very unlikely to agree to this; if he is unable to raise the money for the deposit he may also struggle to pay the rent. A landlord will expect their tenants to pay on time.
			C - Although he would not incur interest charges, asking his flatmate to lend him the money for the deposit would suggest that he is not able to maintain the monthly rent payments.
			D - Correct. The most cost-effective way to raise the necessary funds would be to increase his monthly cash surplus to £180, which he is able to do because he has more than £180 in regular monthly outgoings. This would generate £360 which, with his current savings would be enough to pay the £760.
21	DU1CSC	A	A - Correct. This will be the most important consideration as this is his attitude to payments that are contractually and legally required, eg the monthly rent. If he has a lax attitude to paying rent this will be a concern for his flat mate as it will directly affect them.
			B - Brian's discretionary spending should not be of concern to his flat mate so long as he has a positive attitude to mandatory expenses, ie paying the rent on time.
			C - Brian's monthly cash flow should not be of concern to his flat mate so long as he has a positive attitude to mandatory expenses, ie paying the rent on time.
			D - Brian's regular monthly income should not be of concern to his flat mate so long as he has a positive attitude to mandatory expenses, ie paying the rent on time.
22	DU1CSC	A	A - Correct. When he began working as an apprentice plumber he was earning his own income and was therefore not reliant on his parents for an income.
			B - He was already financially independent when he moved out because when he began working as an apprentice plumber he was earning his own income and was therefore not reliant on his parents for an income.
			C - He was already financially independent when he moved into the flat because when he began working as an apprentice plumber he was earning his own income and was therefore not reliant on his parents for an income.
			D - He was already financially independent when he opened his internet savings account because when he began working as an apprentice plumber he was earning his own income and was therefore not reliant on his parents for an income.

23	DU1CSD	C	A - Stefan and Kim are not planning on borrowing money to fund the gallery.
			B - Budget constraints are not a major factor in terms of the timescale of their cash flow.
			C – Correct. The frequency of income is the main factor in the timescale of their cash flow; Stefan receives a regular income and although Kim works for four hours a day, her plan to sell paintings to supplement their income will create a more irregular pattern of income.
			D - Mandatory spending is not a major factor in terms of the timescale of their cash flow.
24	DU1CSD	B	A - Including a fixed amount of savings in their forecast would not be appropriate because their income would vary depending on whether Kim sold any paintings every month.
			B – Correct. They should produce a forecast based on a variety of regular savings accounts; this flexibility would reflect the irregularity of income.
			C - It would be difficult to produce a forecast based on the future sales of Kim's paintings as it would not be possible to accurately predict how many of the paintings would be sold.
			D - It would be difficult to produce a forecast based on the regular overtime worked by Stefan because the scope to work overtime would vary.
25	DU1CSD	A	A – Correct. This statement is true in relation to their long-term plan: if they continue to save £300 per month for 18 months they will have accumulated savings of more than £7,000.
			B - They will not necessarily have difficulty in sustaining their level of saving as they have already accumulated £2,300 and their recent deficit was small.
			C - If they continue to save £300 per month for 18 months they will accumulate sufficient savings and not need to postpone their plan.
			D - It is true that they had a cash deficit last month but it was small and this does not necessarily mean that they will not achieve their plan.
26	DU1CSD	C	A - This would not be the cheapest method because a loan for 10 years would mean that they would be paying interest on this loan for a relatively long period of time.
			B - Again, obtaining a second mortgage and extending the term to meet the repayments would not be the cheapest method because they would be paying interest on this loan for a relatively long period of time.
			C – Correct. This would be the cheapest method, as they will not incur any fees that they would have to pay if they were to take out a loan, use their overdraft facility and credit card or extend their mortgage term.
			D – This would not be the cheapest method because the interest payable on the overdraft and credit card would be relatively higher.

27	DU1CSD	B	A - Although this would have tracked their progress they were not aware of the cost of the premises for their gallery and therefore may not have achieved the amount necessary to achieve Kim's aspiration.
			B - Correct. If Stefan and Kim had regularly researched the cost of suitable premises they would have been aware of whether their savings target was sufficient and made adjustments to their plan to ensure that their savings would enable Kim to achieve her aspiration.
			C - Although this would have maximised their savings over five years they were not aware of the cost of the premises for their gallery and therefore may not have achieved the amount necessary to achieve Kim's aspiration.
			D - Although this would have maximised their savings over five years they were not aware of the cost of the premises for their gallery and therefore may not have achieved the amount necessary to achieve Kim's aspiration.
28	DU1CSE	C	A - It is an example of a joint demand product mix because taking out a mortgage will involve the necessary purchase of other financial products.
			B - It is an example of a joint demand product mix because taking out a mortgage will involve the necessary purchase of other financial products.
			C – Correct. Joint demand product mix is the correct term as taking out a mortgage will involve the necessary purchase of other financial products.
			D - It is an example of a joint demand product mix because taking out a mortgage will involve the necessary purchase of other financial products.
29	DU1CSE	A	A – Correct. A deferred interest mortgage involves the most risk because, when they begin to pay off the interest this may result in significantly higher payments, affecting their ability to prepare financially for starting a family.
			B – A discounted rate does not involve the most risk as they will be paying a lower rate initially, which will help them pay off their student loans and maximise their savings in preparation for starting a family.
			C – A fixed rate does not involve the most risk as the interest rate will not rise for a set period of time, which will help them pay off their student loans and maximise their savings in preparation for starting a family.
			D - Although a repayment mortgage can be subject to interest rate rises, this does not involve the most risk as they will be paying off the interest as well as the amount borrowed.

30	DU1CSE	D	A - Contents insurance will protect them in the event of theft and damage but does not provide provision for their children.
			B - A home improvement loan does not provide financial provision in the event of Rufus' or Gail's death.
			C - Medical insurance will pay for hospital bills if Rufus and Gail are ill or suffer injury, but will not cover the mortgage while they are unable to earn an income.
			D – Correct. Term assurance is the most important mortgage related product as it provides financial protection in the event of Rufus' or Gail's death.
31	DU1CSE	A	A – Correct. Consulting an IFA is the correct step for Rufus as he will receive professional advice on his situation and which pension product best suits his needs.
			B - Investing in a share portfolio carries the risk that Rufus' investment may decrease in value and not provide sufficient additional income.
			C - Taking out a whole of life insurance policy is not the correct step as it will only pay out in the event of Rufus' death.
			D - Transferring savings to their cash ISA annually is a means of generating tax-free savings for Rufus' retirement but he can only place £3,600 or £7,200 a year in an ISA depending on type and if interest rates fall he might not get sufficient return on his money.
32	DU1CSE	A	A – Correct. The first action for Rufus and Gail to take should be to talk to the mortgage provider regarding their situation.
			B - Cashing in their policy and transferring to a repayment mortgage would not be their first action because this can be very expensive, they will lose valuable life cover, and the mortgage provider might help them to find a solution.
			C - Demanding compensation through the FOS is not their first step because the FOS will only deal with a complaint if it cannot be resolved by the policy provider.
			D - This is not the first step because the FOS deals with complaints, not the FSA itself, and only when it cannot be resolved by the policy provider.

33	DU1CSF	B	<p>A - This is not the most appropriate means of addressing her concerns as it will create further debt if she was unable to work and had to use the facility to maintain the mortgage payments.</p> <p>B - Correct. Consulting her bank's financial adviser would be the most appropriate means of addressing her concerns as they would be able to recommend a suitable insurance policy which would protect her mortgage payments if she was unable to work.</p> <p>C - This would not be the most appropriate means of address her concerns as it could result in her losing her savings, rather than boosting her savings, leaving her with no available funds to cover her mortgage payments if she was unable to work.</p> <p>D - Although this action may boost her savings, it is unlikely that she will be able to generate enough savings to maintain the mortgage payments indefinitely, if she was unable to work.</p>
34	DU1CSF	B	<p>A - As her regular cash surplus is about £90, and can fluctuate, this will only generate around £2,000.</p> <p>B - Correct. By reviewing her monthly cash flow and deciding how to reduce her optional outgoings she will be able to create a regular amount of money which can be paid into the savings account. If she usually has a cash surplus of £90, she will only have to increase this amount by £35 a month to generate enough money to save a total of £3,000 over two years.</p> <p>C - If she sets up a monthly standing order, without first deciding whether she can afford it, this may lead to financial difficulties. Also she only needs to save £125 a month to generate £3,000 of savings over two years.</p> <p>D - Although this will boost the amount in the savings account to £3,000 immediately, she will reduce her own savings, which may result in her having to use some of the money in the savings account if she gets into financial difficulties over the next two years.</p>

35	DU1CSF	D	<p>A - This would not be the most cost effective way to pay for the holiday because she will have to interest on the money she borrowed and have to make monthly repayments, reducing her ability to save.</p> <p>B - Apart from the fact that Sean will have to wait for his birthday present, this will mean that she will be unlikely to be able to save up for the holiday and continue to pay money into Niall's savings account.</p> <p>C - Purchasing the holiday using her credit card is not the most cost effective means of paying for the holiday because she will be unable to clear the balance within the month and will incur interest charges on the amount until it is paid off completely.</p> <p>D - Correct. Although she will lose the interest payable on the money she has in savings, she still has £4,000 in the ISA. Using the money will not incur interest charges, avoid having to postpone the holiday.</p>
36	DU1CSF	D	<p>A - At her current level of saving she will achieve her target of £3,000 so this would not be the main reason for revising her plan.</p> <p>B - Although this may be beneficial in terms of the money she has in her ISA, and she may decide to revise her plan to take account of the extra interest it will earn, the savings account has a fixed rate and so this will not affect the amount.</p> <p>C - As Sean has his own income it should not affect her situation and would therefore not be a reason to revise her plan.</p> <p>D - Correct. As Sean is now earning a regular wage this will mean that she will not have to support him as much. He will also be expected to contribute to the family's monthly expenditure. Angela will need to revise her plan to take account of these changes in the family's financial situation.</p>
37	DU1CSF	B	<p>A - Although putting money into a cash ISA will generate an income it is unlikely that the amount will be sufficient to support her in retirement, as the timescale of her retirement is not known.</p> <p>B - Correct. Paying into a private pension plan will give her a regular income on retirement.</p> <p>C - A share portfolio will may give her a guaranteed regular income on retirement because the value of shares may fall.</p> <p>D - A whole-of-life policy will pay a guaranteed amount of money to her next of kin on her death and will, therefore, not support her in retirement.</p>

38	DU1CSG	A	A - Correct. They will use a debt collection agency to recoup the money, which may involve the repossession of the items that she purchased.
			B - The electrical retailer will not charge additional interest on the outstanding amount. They will use a debt collection agency to recoup the money, which may involve the repossession of the items that she purchased.
			C - Although this is a likely outcome it is not the most serious consequence of defaulting on her repayments.
			D - The electrical retailer cannot set up a direct debit without Joanne's consent.
39	DU1CSG	D	A - Although this will ensure that the credit card company are aware of her ability to clear the debt this will just replace one debt with another, which she will still have to clear. It is also unlikely that her bank will agree to lend her money to pay off a long-term debt as she is struggling to repay the credit card debt and loan.
			B - This will not demonstrate her ability to repay the loan. Additionally this will not make her credit card company aware of her ability to repay her debt.
			C - This will increase the debt and not reduce it and so will not demonstrate her ability to repay the existing debt. Also it does not address her need to ensure that the loan company are aware that she is now able to maintain her monthly payments.
			D - Correct. By sending the loan company and the credit card company a copy of her financial plan to reduce her debt she will clearly demonstrate her ability to repay the debt.
40	DU1CSG	A	A - Correct. This will have the greatest negative effect on her plan because she will be charged more interest on her outstanding balance, increasing the amount of her debt.
			B - A reduction of the cost of electricity will have a positive effect on her plan because it reduces her mandatory outgoings.
			C - Although a rise in annual council tax will have a negative effect on her plan it will only increase her mandatory outgoings for the year by £40, which will have little effect on her monthly outgoings.
			D - An increase of £10 in her monthly rent will reduce the amount that she is able to pay to the credit card company, but a trend of rising interest rates will have the greatest negative effect because it will lead to the interest charged on her outstanding debt rising which means her debt will grow.

41	DU1CSG	B	<p>A - This is not the most cost effective means of paying for the holiday because she is borrowing more than she needs to and will be charged interest on the debt. This will also add to her outstanding debts, which she is trying to clear.</p> <p>B - Correct. By paying the minimum monthly payments on her credit card for the next three months she will have enough cash surplus over three months to pay for the holiday without incurring more debt.</p> <p>C - Although this will reduce the cost of the holiday, if she does not have protection against theft, illness or injury she will have to cover the cost of such an event herself, which may prove significantly more expensive than the cost of the insurance product.</p> <p>D - This is not the most cost effective means of paying for the holiday as she will increase her debt and incur more interest charges.</p>
42	DU1CSG	B	<p>A - Lenders will not consider her attitude to repaying debts. Lenders will first consider most carefully her financial footprints, ie her credit history as this will demonstrate her ability to repay debt.</p> <p>B - Correct. Any lender will look at Joanne's credit history most carefully as her financial footprints will demonstrate her ability to repay debts.</p> <p>C - Although some loans require equity, lenders will first consider her financial footprints most carefully, ie her credit history as this will demonstrate her ability to repay debt.</p> <p>D - Although lenders will be interested in her monthly salary, lenders will first consider her financial footprints most carefully, ie her credit history as this will demonstrate her ability to repay debt.</p>