

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

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

Specimen paper: A
Length of examination: 60 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. Basic silent desktop calculators with + - x / % and memory functions are allowed. Scientific, programmable or calculators with any additional functions are not allowed.

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Section A

1. Gareth is in financial difficulties and is approached by a debt collection agency. If he is unable to repay, what will be the next step for the debt collection agency?

They will:

- A apply for a County Court Judgment.
- B ask for an administration order.
- C create a negative financial footprint.
- D file for bankruptcy.

2. Julie is deciding what time period to base her cash flow on. Which of the following factors would be the **most appropriate** indicator of a suitable time period?

The frequency of her:

- A discretionary savings.
- B mandatory outgoings.
- C optional expenditure.
- D regular income.

3. Jo decides to put £60 of her monthly income into a savings account. How should she record this amount in her cash flow?

As:

- A mandatory expenditure.
- B mandatory savings.
- C optional outgoings.
- D optional savings.

4. Tia is keeping a monthly cash flow to monitor her spending. How should she record the minimum payments on her credit card?

As:

- A discretionary spending.
 - B mandatory expenditure.
 - C optional outgoings.
 - D total expenditure.
5. Which of the following is usually **correct** in relation to investment products?
- A Equities are guaranteed to provide capital growth.
 - B Investing in property is risk free.
 - C National Savings and Investment products carry a high risk.
 - D Products with high returns carry the greatest risk.
6. Kyra is concerned that the State pension will not allow her to live comfortably when she retires. Which of the following is the **most likely** product for her?
- A Collective investment.
 - B Personal pension.
 - C Premium Bonds.
 - D Shares.
7. Which of the following groups contain borrowing products that all, usually, have **lower** interest rates than an overdraft?
- A Credit card, mortgage and store card.
 - B Homeowner loan, store card and credit card.
 - C Mortgage, personal loan and homeowner loan.
 - D Personal loan, store card and credit card.

Section B begins on Page 6

Section B

Case Study 1

Luke, aged 16, has just started studying at his local sixth form college. Every year, his college arranges a month-long summer trip to Europe for students who have just finished their 'A' levels. In July next year, the college intends to run a trip to Florence, Rome and Naples. Luke is studying Art, Ancient History and Italian and his tutor has explained that the trip will be beneficial to his studies so Luke is determined to go. The full cost of the trip will be payable in 18 months' time and is estimated at £1,200.

Until now, Luke has never thought much about money. He has simply spent his allowance every week without saving any of it, and has got into the habit of asking his dad to give him £5 in return for washing the family car every time he runs out of money. When he talks to his parents about saving enough money to go to Italy, they suggest that he makes a proper financial plan and, while they will help him finance his course, they say that he needs to pay for the cost of the trip himself. Luke's first weekly cash flow looks like this:

Regular Income:		Outgoings:	
Allowance from parents	£36	Going out	£12
Car washing	<u>£ 5</u>	Cinema	£ 6
Total	<u>£41</u>	CDs/DVDs	£ 6
		Art materials	£ 4
		Mobile costs	<u>£ 6</u>
		Total	<u>£34</u>

8. What does Luke's cash flow indicate?

That he:

- A has financial independence.
- B has the capacity to save money.
- C will always have a regular cash surplus.
- D will never save enough money to go to Italy.

9. Luke is concerned that his allowance will not enable him to save enough money regularly towards the cost of the trip. He decides to ask his dad to cancel his mobile phone contract, as he only uses it occasionally. However his dad advises him that this is not a cost-effect decision.

Which of the following is the most important reason why Luke's idea is not cost-effective?

If his dad cancels the contract:

- A he will not be able to enter into another mobile phone contract.
 - B he will still have to pay the monthly charges.
 - C Luke will have to use a landline to make calls.
 - D Luke will not be able to text his friends.
10. It is now five months before the payment deadline and Luke has managed to save £870 towards the cost of the trip. Luke's aunt and uncle, impressed with his efforts to save, have each promised to give him £100 for his birthday next month. Despite this good news, Luke has just learned that the cost of the trip has increased by £400 and when the payment deadline arrives, he will have a shortfall of £80.

Which of the following **should** he consider?

- A Cancel his place and pay to go on a different trip.
- B Extend the time-scale of his financial plan.
- C Invest his savings to raise the extra money.
- D Only go to the cinema once a month.

11. Luke has managed to pay for the trip and, just before he leaves, his parents give him 120 euros because he studied so hard for his 'A' levels. Luke decides to use the money to buy something in Italy. When in Rome, Luke is deciding whether to buy a digital camera or pay 110 euros for an optional excursion to Pompeii.

Which of the following is an opportunity cost of his decision?

If he:

- A buys the digital camera he will be unable to get a refund on his return to the UK if it is faulty.
 - B buys the digital camera he will never get to see Pompeii for himself.
 - C goes to Pompeii he may have to pay additional costs during the visit.
 - D goes to Pompeii he will not be able to record his experiences personally.
12. Which of the following is **correct** in relation to Luke?
- A He was able to prove that he is financially independent.
 - B His ability to pay for the trip was dependent on the money from washing cars.
 - C His need to save changed his attitude to spending.
 - D Luke should have planned for a possible increase in the cost of the trip.
-

Case Study 2

Della, aged 22, has just returned home after completing a degree in Media Studies at university. She has always wanted to be a news reporter but, since graduating, has found it difficult to find full-time employment. Her parents are very supportive and give her a monthly allowance, which is paid directly into her bank account. Della has taken steps to control her spending and avoid adding to her existing debt; her student loan. She keeps a monthly cash flow, which last month looked like this:

Monthly income:

Allowance	<u>£120</u>
Total	<u>£120</u>

Monthly outgoings:

Cinema	£ 10
Mobile phone contract	£ 25
Socialising	<u>£ 60</u>
Total	<u>£ 95</u>

Balance: £ 25 surplus
 Balance from last month: £ 10 surplus
 Closing balance: £ 35 surplus

13. Which of the following statements **best** describes Della's cash flow?

It shows that:

- A Della will never be able to repay her student loan.
- B Della's cash flow has an even balance of mandatory and optional expenditure.
- C Della's mandatory outgoings exceed her optional expenditure.
- D Della's optional outgoings exceed her mandatory outgoings.

14. Which of the following is an aspiration for Della?

- A Becoming a reporter.
- B Controlling her monthly spending.
- C Graduating from university.
- D Repaying her student loan.

15. Della receives a letter offering her the opportunity to attend an interview, in a fortnight, for a job with a national newspaper. However, the meeting involves travelling to London, which will cost £85.

Which of the following is the **most appropriate** way for Della to pay for her ticket?

- A Apply for a credit card to pay for the train ticket.
 - B Ask her bank for a temporary overdraft facility.
 - C Borrow the money from her parents and repay it next month.
 - D Reduce her next monthly optional outgoings by £85.
16. Della was successful at her interview and now commutes to London each day. She decides that she needs to buy a laptop so that she can work at home. However, she does not have sufficient savings and so approaches her bank for a personal loan.

Which of the following terms **best** describes her situation?

- A Competitive demand.
- B Derived demand.
- C Joint demand.
- D Opportunity cost.

17. Now that Della is in full-time employment she is beginning to pay off her student loan. Her employer deducts a regular monthly amount from her gross salary. Her monthly cash flow now looks like this:

Monthly income:		Monthly outgoings:	
Salary	<u>£1,095</u>	Monthly rail season ticket	£ 425
Total	<u>£1,095</u>	Parents (household expenses)	£ 200
		Cinema	£ 70
		Clothes	£ 80
		Socialising	£ 130
		Savings	<u>£ 140</u>
		Total	<u>£1,045</u>

Balance:	£ 50 surplus
Balance from last month:	£ 10 surplus
Closing balance:	£ 60 surplus

She decides that she would like to repay the student loan as soon as possible, whilst continuing to build up her savings. Which of the following actions should she take **first** to help her in order to achieve her goal?

She should:

- A monitor her monthly cash flow and put any surpluses towards paying off her loan.
- B redirect her optional savings to make additional payments to her loan.
- C use the money she spends on clothes and socialising to make additional payments to her loan.
- D write several medium-term plans, based on different levels of additional monthly payments to her loan.

Case Study 3

Brian, aged 20, works as an apprentice plumber for a nationwide home maintenance company. He is currently living at home but wants to be more independent. He has decided to move out as soon as possible, but is aware that this will mean that he will have to take a more responsible attitude to his finances. Over the past few years Brian has found it difficult to maintain a cash surplus and, last year, his parents had to help him when he ran up a credit card debt of £700.

He decides that he should begin keeping a monthly cash flow, to monitor his spending and begin to develop a regular cash surplus, so that he can save enough money for the deposit on a rented flat in the area. His first monthly cash flow looks like this:

Monthly net income:	Monthly outgoings:
Salary <u>£650</u>	Food £ 60
Total <u>£650</u>	Housekeeping £240
	Cinema £ 60
	Clothes £ 50
	Mobile phone £ 24
	Socialising £190
	Credit card payment <u>£ 40</u>
	Total <u>£664</u>

Balance: £14 deficit

18. Which of the following shows that Brian has the **potential** to save?

He:

- A does not currently have to pay rent.
- B does not have any mandatory outgoings.
- C has a large amount of optional expenditure.
- D has a regular monthly income.

19. Six months later, Brian has begun to build up his savings. He has a regular cash surplus of around £70, which he transfers online from his current account to an Internet savings account, which currently has a balance of £400. He is hoping to move out of the family home within the next three months.

Which of the following should he do **first**, to ensure that he is successful?

He should:

- A continue saving at his current level.
 - B find a suitable flat and move in.
 - C make a financial plan to boost his savings.
 - D research the cost of renting in the area.
20. Brian's friend is currently renting a shared flat and tells him that her flatmate is moving out in two months' time. The monthly rent is £380, including utility bills, which he will have to pay immediately and he would be expected to pay an additional month's rent as a deposit.

Which of the following is the **most appropriate** and **cost-effective** way for Brian to raise the £760 he needs to move into the flat?

He should:

- A apply to his bank for an overdraft facility of £800 and plan to clear it over six months.
- B ask the landlord to defer payment of the deposit until he has sufficient savings.
- C borrow the money from his flatmate and pay it back once he has moved in.
- D increase his monthly cash surplus by £180 and use his savings to pay the landlord.

21. Two months later Brian is preparing to move into the flat. Which of the following should be his flatmate's **most important** consideration in relation to Brian moving in?

His:

- A attitude to mandatory expenses.
- B discretionary spending habits.
- C monthly cash flow.
- D regular monthly income.

22. At which point did Brian demonstrate that he was financially independent?

When he:

- A began work as an apprentice plumber.
 - B decided to move out of his parents' home.
 - C moved into the shared flat.
 - D opened his Internet savings account.
-

Case Study 4 begins on Page 16

Case Study 4

Stefan and Kim, both aged 26, have been living in their top-floor flat for the last three years. Stefan works as a car mechanic and Kim works four hours a day in a small local shop. They have a combined monthly net income of £1,650. Kim attended art classes at a local college for a number of years and has always continued her hobby. She has a talent for painting and her work is shown regularly at local exhibitions. This has led to the sale of several of her paintings and she has also received a commission to paint a series of local scenes for the council offices.

Kim is keen to use her hobby to supplement their income and, given her recent success, Stefan is willing to support her aim of opening a small art gallery where she can display her portfolio of work. They estimate that they need to save at least £7,000 and, having reviewed their financial situation, calculate that it will take three years to accumulate this amount.

23. Which of the following is the **main** factor in the timescale of Stefan's and Kim's cash flow?

Their:

- A borrowing requirements.
- B budget constraints.
- C income frequency.
- D mandatory spending.

24. Which of the following should Stefan and Kim do to help them achieve their long-term goal?

Produce a forecast based on:

- A a fixed monthly savings figure.
- B a variety of regular savings amounts.
- C future sales of Kim's paintings.
- D regular overtime worked by Stefan.

25. Eighteen months later, Stefan's and Kim's cash flow looks like this:

Monthly income:		Monthly outgoings:	
Stefan	£1,230	Mortgage	£ 550
Kim	<u>£ 420</u>	Household bills	£ 240
Total	<u>£1,650</u>	Food	£ 320
		Savings a/c	£ 300
		Entertainment	<u>£ 200</u>
		Total	<u>£1,610</u>

Balance: £40 surplus

Balance from last month: £56 deficit

Closing balance: £16 deficit

Balance of savings account: £2,300

Which of the following statements is **true** in relation to Stefan's and Kim's long-term plan?

Stefan and Kim will:

- A achieve their target within 18 months at their current level of saving.
- B have difficulty in sustaining their current level of saving.
- C need to postpone their plans until the situation improves.
- D not achieve their plan because they have a cash deficit.

26. Kim has taken the offer of working full-time at the shop, increasing her monthly income by £620. She has also received a commission to illustrate a children's book, for which she will be paid £2,500. However, Kim finds it difficult to work at home and Stefan suggests converting the loft into a studio, which will cost about £4,500. Kim is eager to have the loft converted as soon as possible, to make completion of the commission easier.

Bearing in mind their long-term plan, which of the following would be the **most** cost-effective method for funding the conversion?

They should:

- A apply to their bank for a loan to fund the conversion of the loft.
 - B increase their monthly savings and aim to convert the loft in three months' time.
 - C pay for the conversion using their credit card and repay the amount over six months.
 - D use the money for Kim's commission and their savings to pay for the conversion.
27. A year later Stefan and Kim are on target to achieve their planned level of savings, but are concerned that it will not be sufficient to achieve Kim's aspiration.

Which of the following should Stefan and Kim have done on a regular basis to ensure that they will have built up sufficient savings to achieve Kim's aspiration?

They should have:

- A recorded the balance of their savings to keep track of their progress.
 - B researched the cost of suitable premises for the gallery.
 - C reviewed their monthly cash flow to maximise their level of savings.
 - D revised their savings target based on their ability to save.
-

Case Study 5 begins on Page 20

Case Study 5

Rufus and Gail have been married for three years and live in rented accommodation. It has been eight years since they graduated from university and they have both found jobs in their respective professions: Rufus is an architect and Gail works for an online travel agency. After they married, they decided to make plans for their future together.

Short-term: Save money towards the deposit on their first house.
 Maintain payments towards student loans.
 Clear outstanding credit card balances.

Medium-term: Pay off student loans.
 Obtain mortgage for house.
 Maximise savings.
 Take out personal protection cover.

Long-term: Start a family.
 Plan financial provision for children.

Rufus and Gail have recently finished paying off their credit cards and calculated that, based on their current income, they will be able to repay their student loans within the next eight months. They have £11,000 in savings and have decided to apply for a mortgage to buy a property in their area.

28. Rufus' and Gail's decision to take out a mortgage to buy their first house is an example of which type of product mix?
- A Approved demand.
 - B Financial demand.
 - C Joint demand.
 - D Warranted demand.

29. Bearing in mind their medium and long-term goals, which of the following mortgages involves the **most** risk for Rufus and Gail?

- A Deferred interest.
- B Discounted rate.
- C Fixed rate.
- D Repayment.

30. Rufus and Gail have chosen their mortgage. Considering their long-term goals, which of the following is the **most important** additional product for them to purchase?

- A Contents insurance.
- B Home improvement loan.
- C Medical insurance.
- D Term assurance.

31. Five years after moving into their house, Rufus and Gail have two children, Esme and Leo. Rufus changed jobs two years ago and now works in local government while Gail has just returned to work after taking her second maternity leave.

Rufus is concerned that, because he has joined his current employer's pension scheme late in his career, it will not provide a sufficient income when he retires. Which of the following steps should Rufus take **first**?

- A Consult an independent financial adviser.
- B Invest a percentage of his savings in a share portfolio.
- C Take out a whole-of-life insurance policy.
- D Transfer savings annually into a cash ISA.

32. Rufus and Gail now have ten years remaining on their mortgage. They are currently repaying £680 per month, which includes payments to a separate policy that will be used to pay off the capital that they initially borrowed.

They receive a letter from their provider predicting that on maturity this policy will be worth significantly less than the amount that they borrowed. Which of the following is the **first** action for Rufus and Gail to take?

They should:

- A arrange a meeting with their mortgage provider to discuss the situation.
- B cash in their policy as soon as possible and convert to a repayment mortgage.
- C demand compensation through the Financial Ombudsman Service.
- D make a complaint to the Financial Services Authority about the policy.

Case Study 6 begins on Page 24

Case Study 6

Angela, aged 39, lives with her two children, 16 year old Niall and 17 year old Sean, in a suburb of a large town. She divorced last year and, since then, has been considering her financial security. She works for a local printing firm, earning £1,100 a month, and has £5,000 of savings in a cash ISA. Since the divorce, Angela has become responsible for making the mortgage payments, currently £345. Recent monthly cash flows have shown that she usually has a surplus of £90, making it difficult to boost her savings significantly.

Angela has made a long-term plan to ensure that she can support her boys until they have their own income. However, Niall would like to stay on at school and is hoping to study travel and tourism at university. Angela has planned to save £3,000 over the next two years to support his aspiration.

33. Angela is concerned that, as the only wage earner in the family, she is solely responsible for maintaining the mortgage repayments and would be in serious financial difficulties if she was unable to work.

Which of the following would be the **most appropriate** means of addressing her concerns?

She should:

- A apply to her bank for an overdraft facility on her current account.
- B consult a financial adviser on a suitable protection product.
- C invest the money in her cash ISA in a share portfolio.
- D reduce her monthly outgoings and boost her savings.

34. Angela decides to open a fixed-interest notice deposit account to accumulate £3,000 of savings over the next two years, to help support Niall at university.

Which of the following should she do **first** to ensure that her plan is successful?

She should:

- A pay her regular monthly cash surplus into the deposit account.
 - B review her monthly cash flows and decide how to reduce her optional outgoings.
 - C set up a monthly standing order from her current account of £200.
 - D transfer £3,000 from her cash ISA into the notice deposit account.
35. It is Sean's eighteenth birthday next month and Angela has decided to take the family to Paris for a week to celebrate. The trip will cost around £1,000 including travel insurance.

Which of the following would be the **most** cost-effective means of paying for the holiday?

She should:

- A apply to her bank for a personal loan to pay for the trip.
 - B ask her bank to increase her mortgage to cover the cost of the holiday.
 - C purchase the holiday and travel insurance using her credit card.
 - D use £1,000 of the money in her cash ISA to fund the holiday.
36. A year later, Niall is still eager to go to university. Sean has just started work as an apprentice mechanic at a local garage. Angela has managed to accumulate £1,600 in a deposit account to help to support Niall when he goes to university. Angela has decided to revise her financial plan.

Which of the following would be the **main** reason for this?

- A Angela learns that interest rates on savings account will rise over the following year.
- B Angela will not be able to build £3,000 of savings in the deposit account within a year.
- C Sean is now earning a regular monthly income.
- D Sean will have to spend money on tools for his job.

37. Two years later, Niall is at university. Sean has now qualified as a mechanic and is working in a car repair centre. Angela decides to think about her own future, as she does not want to rely on her children in later life.

Which of the following financial products will provide a guaranteed income when Angela retires?

- A A cash ISA.
- B A private pension plan.
- C A share portfolio.
- D A whole-of-life policy.

Case Study 7 begins on Page 28

Case Study 7

Joanna, aged 24, is a secondary school teacher who lives in a rented house on the outskirts of a large city. Since becoming financially independent, she has found it difficult to manage her money. She cannot resist a bargain and, over the past two years, has built up debts of £3,800 and only pays off the minimum monthly payment. Six months ago she purchased a computer and home entertainment centre from an electrical retailer, using their repayment plan of 18 monthly payments of £250. She has already defaulted on the repayments several times and is concerned that they will take action if she does not clear these outstanding amounts soon.

Joanna has made a financial plan to clear her debts over the next two years, and has begun keeping a monthly cash flow. She has calculated that, by reducing her discretionary spending significantly, she can maintain the repayment plan and create a regular cash surplus of £340, which she can use to begin reducing her credit card debt.

38. Which of the following will be the **most** serious consequence if Joanna does not pay off her outstanding payments to the electrical retailer?

The electrical retailer will:

- A approach a debt collection agency who may repossess the items purchased
- B charge her additional interest on the outstanding repayments.
- C refuse to offer her credit to purchase items in the future.
- D set up a direct debit to take the repayments from her account.

39. Which of the following would be the **most** appropriate action for Joanna to take **first** to ensure that the electrical retailer is fully aware of her willingness to reduce the debt?

She should:

- A apply to her bank for a personal loan to pay off the outstanding amount in full.
 - B ask the retailer to extend the period of repayment to 24 months.
 - C send a copy of her financial plan and monthly cash flows to the electrical retailer.
 - D use her credit card to clear the outstanding payments to the electrical retailer.
40. Which of the following events will have the **most negative** effect on Joanna's plan to clear her debts?
- A A general trend of rising interest rates.
 - B A reduction in the cost of electricity.
 - C A rise in annual council tax of £40.
 - D An increase of £10 in her monthly rent.

41. A year later and Joanna's financial situation has improved. She has completed the electrical retailer's repayment plan, which has enabled her to reduce her credit card debt, currently £1,500, by £400 a month. However, her friend is booking a two-week touring holiday in Spain and has asked Joanna to go with her. She is eager to go, but the holiday will cost £780, including flights and insurance, and the full amount must be paid in three months' time.

Which of the following would be the **most** cost-effective means of paying for the holiday?

She should:

- A apply to her bank for a personal loan of £1,000 to pay for the holiday and some summer clothes.
 - B pay the minimum balance on her credit card for three months and use the money to pay for the holiday.
 - C reduce the cost of the holiday by not buying the travel insurance policy offered by the travel company.
 - D use her credit card to pay for the holiday in full and plan to repay the debt over the following two months.
42. If Joanna decides to borrow money in the future, which of the following will the lender consider **most** carefully before agreeing to offer her credit?

Her:

- A attitude to repaying debts.
- B financial footprints.
- C level of equity.
- D monthly salary.