

**LIBF Level 3 Certificate in Financial Studies (CeFS)
– 600 / 8537 / X**

**Unit 1: Financial Capability for the Immediate and
Short Term (FCIS) – T / 504 / 8100**

Specimen A

Answers document

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

The document consists of the following:

- **Answers** – this shows the question number, correct answer.

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

Answers and Justifications

- Q1 **B** FCIS 1.1 Purposes of money
A Stability is a feature of money rather than a function, and value fluctuates due to inflation.
B Correct. Money can be exchanged for goods and services.
C This is not a function of money.
D Money does not in itself improve a person's credit rating.
- Q2 **A** FCIS 1.1 Purposes of money
A Correct. Money needs to be accepted by banks, shops and people for it to function.
B Money does not have a fixed value. Its buying power is affected by inflation, for example.
C Money can be more than five years old, as long as it remains legal tender.
D Money needs to be recognisable for it to function successfully.
- Q3 **A** FCIS 1.2 Key features of money
A Correct. This means that they need to look and feel the same.
B Notes and coins of a certain denomination need to look and feel the same (ie homogeneity).
- Q4 **B** FCIS 1.2 Key features of money
A The promise is signed by the Chief Cashier of the Bank of England.
B Correct. The Chief Cashier's signature confirms the Bank of England's promise to pay.
C The promise is signed by the Chief Cashier of the Bank of England.
D The promise is signed by the Chief Cashier of the Bank of England.
- Q5 **D** FCIS 2.1 Key stages of the personal life cycle
A This stage of the life cycle covers ages 2-12.
B This stage of the life cycle covers ages 26-40.
C This stage of the life cycle covers ages 13-19.
D Correct. The young adult stage of the life cycle covers ages 18-25
- Q6 **B** FCIS 2.1 Key stages of the personal life cycle
A Being between age 26 and 40 is the mature adult stage of the life cycle.
B Correct. The middle age stage of the life cycle is generally described as being 41-54 years old.
- Q7 **A** FCIS 2.2 External influences on key stages of the personal life cycle
A Correct. When someone is in the middle-age to late-middle-age stage of the life cycle, they may want to retire early. This can be affected by external factors such as stock market performance and inflation.
B This is more likely to take place at an earlier stage of the life cycle.
C This is more likely to take place at an earlier stage of the life cycle.
D This is more likely to take place at an earlier stage of the life cycle.
- Q8 **A** FCIS 2.2 External influences on key stages of the personal life cycle
A Correct. This is an external factor.
B This is an example of internal decision-making.
C This is an example of internal decision-making.
D This is an example of internal decision-making.

- Q9 **A** FCIS 3.1 Financial services products for savings
A Correct. AER stands for annual equivalent rate, which enables savers to compare rates from different providers.
B APR stands for annual percentage rate which is used to quote the interest rate on certain credit products.
C EAR stands for equivalent annual rate which is used to quote the interest rate on overdrafts.
D RPI stands for retail prices index which is used as a measure of inflation.
- Q10 **A** FCIS 3.1 Financial services products for savings
A Correct. A savings bond is normally for a set period of between one and five years.
B A savings bond usually pays a higher rate of interest than an instant access account.
C A savings bond usually has a fixed rate of interest.
D There are normally penalties for early withdrawal of funds.
- Q11 **A** FCIS 3.2 Key features of basic savings accounts
A Correct. Interest paid on all ISAs is always tax free.
B The interest may be paid at any frequency, such as monthly or annually.
C There is no such guarantee offered with an ISA.
D There is a maximum annual amount that can be saved (£15,240 for the tax year 2016/17).
- Q12 **D** FCIS 3.2 Key features of basic savings accounts
A All NS&I products are 100% guaranteed by the government.
B All NS&I products are 100% guaranteed by the government.
C All NS&I products are 100% guaranteed by the government.
D Correct. All NS&I products are 100% guaranteed by the government.
- Q13 **A** FCIS 3.3 Key features of the financial services products for borrowing
A Correct. With charge cards the full amount must be repaid.
B With a MasterCard the cardholder can choose to pay a minimum payment each month rather than the full balance outstanding.
C With a personal loan, repayment of the amount outstanding is split into equal monthly amounts.
D A store card is similar to a credit card. The cardholder can choose to pay a minimum payment each month rather than the full balance outstanding.
- Q14 **A** FCIS 3.3 Key features of the financial services products for borrowing
A Correct. Personal loans are typically over a fixed period of between one and seven years.
B The amount borrowed is known as the capital.
C The interest rate on a personal loan is normally fixed for the repayment period.
D Personal loans are typically over a fixed period of between one and seven years.
- Q15 **A** FCIS 3.4 Key features of costs of borrowing
A Correct. A higher interest rate is charged than for an authorised overdraft, because the account holder is borrowing without asking in advance.
B A higher interest rate is usually charged for unauthorised rather than authorised borrowing.
- Q16 **C** FCIS 4.1 Different types of financial services providers
A Building societies are owned by their members.
B Building societies are owned by their members.
C Correct. All building societies are owned by their members (ie they are mutually owned).
D Building societies are owned by their members (they do not have shareholders).

- Q17 **C** FCIS 4.1 Different types of financial services providers
A It is the other way around - building societies becoming banks.
B It refers to building societies becoming banks.
C Correct. Demutualisation changes the status of a building society from being owned by its members to being a bank owned by shareholders.
D It refers to building societies becoming banks.
- Q18 **C** FCIS 4.3 Role of financial services regulatory bodies
A £15,240 is the annual ISA allowance.
B The maximum is £75,000 in the UK.
C Correct. The maximum is £75,000 in the UK. In exceptional circumstances this can rise to £1m for a limited period of six months.
D The maximum is £75,000 in the UK.
- Q19 **A** FCIS 4.3 Role of financial services regulatory bodies
A Correct. The PRA is a subsidiary of the Bank of England.
B The PRA is a subsidiary of the Bank of England.
C The PRA is a subsidiary of the Bank of England.
D The PRA is a subsidiary of the Bank of England.
- Q20 **A** FCIS 4.3 Role of financial services regulatory bodies
A Correct. This is a key role of the FCA.
B The FPC is a Bank of England committee that meets monthly to discuss and set interest rates.
C The FSCS protects consumers when financial services providers go out of business.
D The PRA is concerned with the financial health of firms rather than business conduct.
- Q21 **C** FCIS 5.1 Key features of different types of bank account
A A packaged account may or may not have an interest rate equal to the inflation rate.
B A packaged account does not have to have an interest rate that exceeds inflation.
C Correct. The account 'packages' a number of insurance and non-insurance benefits with the normal current account services. Account holders pay a single monthly fee for the package.
D A fee is charged for the additional benefits offered with the account.
- Q22 **D** FCIS 5.1 Key features of different types of bank account
A Accounts can be opened by citizens of other countries.
B Applicants do not have to be aged 21 or over.
C It is perfectly acceptable for people to have more than one account.
D Correct. It is a requirement of money laundering regulations.
- Q23 **C** FCIS 5.2 Different types of card payment
A The maximum is £30.
B The maximum is £30. This was the maximum up until September 2015.
C Correct. The maximum is £30.
D The maximum is £30.
- Q24 **B** FCIS 5.2 Different types of card payment
A They are available through both the MasterCard and Visa brands.
B Correct. A card can be loaded with a specific currency or there are cards which are loaded in sterling for use in multiple countries.
C If the card is lost or stolen, it can be blocked and the remaining balance refunded.
D They can be used in any country that accepts MasterCard or Visa.

- Q25 **D** FCIS 6.1 Cash flow forecast for short-term financing
A This is discretionary expenditure - the individual can decide whether or not to go to the cinema.
B This is discretionary expenditure - the individual can decide whether or not to buy a magazine.
C This is discretionary expenditure - the individual can decide whether or not to go out for a meal.
D Correct. Council tax has to be paid or there are consequences for the individual.
- Q26 **A** FCIS 6.1 Cash flow forecast for short-term financing
A Correct. $\pounds 1,500$ less $\pounds 1,020$ ($240 + 460 + 320$) = $\pounds 480$.
B This is $\pounds 1,500$ less the mandatory and essential expenses only $\pounds 1,500 - \pounds 700$ ($240 + 460$) = $\pounds 800$.
C This is $\pounds 1,500$ less the essential expenses only $\pounds 1,500 - \pounds 460 = \pounds 1,040$.
D This is $\pounds 1,500$ less the mandatory expenses only $\pounds 1,500 - \pounds 240 = \pounds 1,260$.
- Q27 **B** FCIS 6.3 Potential consequences for an individual of living beyond their means
A Citizens Advice does not charge consumers for its services.
B Correct. All services offered by Citizens Advice are free of charge for consumers.
- Q28 **A** FCIS 6.3 Potential consequences for an individual of living beyond their means
A Correct. The maximum amount of debt that can be subject to an administration order is $\pounds 5,000$.
B The maximum amount of debt that can be subject to an administration order is $\pounds 5,000$.
C The maximum amount of debt that can be subject to an administration order is $\pounds 5,000$.
D The maximum amount of debt that can be subject to an administration order is $\pounds 5,000$.
- Q29 **B** FCIS 6.3 Potential consequences for an individual of living beyond their means
A Under a debt relief order, debts can be written off after a period of 12 months.
B Correct. Debts can be written off after a period of 12 months.
C Under a debt relief order, debts can be written off after a period of 12 months.
D Under a debt relief order, debts can be written off after a period of 12 months.
- Q30 **C** FCIS 7.1 Legislative, regulatory and organisational requirements and procedures relevant to earnings
A This is the hourly rate for people aged under 18.
B This is the hourly rate for people aged 18 to 20.
C Correct.
D This is the national living wage for people aged 25 and over.
- Q31 **C** FCIS 7.1 Legislative, regulatory and organisational requirements and procedures relevant to earnings
A The maximum is 48 hours per week averaged over 17 weeks.
B The maximum is 48 hours per week averaged over 17 weeks.
C Correct.
D The maximum is 48 hours per week averaged over 17 weeks.
- Q32 **B** FCIS 7.2 Key features of income tax and National Insurance
A This assumes that tax is paid at 10% ($\pounds 21,500 - \pounds 11,000 = \pounds 10,500 \times 10\%$).
B Correct. The calculation is $\pounds 21,500 - \pounds 11,000 = \pounds 10,500 \times 20\% = \pounds 2,100$.
C This is the full amount of income taxed at 20% ($\pounds 21,500 \times 20\%$).
D This is the income plus the personal allowance taxed at 20% ($\pounds 21,500 + \pounds 11,000 = \pounds 32,500 \times 20\%$).

- Q33 **B** FCIS 7.2 Key features of income tax and National Insurance
- A This answer is the NI that is due at 12% only (on earnings between £155 and £827 per week) - it ignores the 2% due on the earnings over £827 per week.
- B Correct. $827 - 155 = 672 \times 52 = £34,944 \times 12\% = £4,193.28$ plus $1000 - 827 = 173 \times 52 = £8,996 \times 2\% = £179.92 + £4,193.28 = £4,373.20$
- C This answer assumes that NICs are paid at 12% on all earnings above £155 per week.
- D This answer assumes that NICs are paid at 12% on all earnings up to £827 per week and 2% on the remainder.
- Q34 **C** FCIS 8.1 Financial planning through the various life stages
- A The state pension age for both men and women will be 66 in 2020.
- B The state pension age for both men and women will be 66 in 2020.
- C Correct.
- D The state pension age for both men and women will be 66 in 2020.
- Q35 **A** FCIS 8.1 Financial planning through the various life stages
- A Correct. It is 83 for females and 79 for males.
- B It is 83 for females born in 2010.
-