

Topic 1: Know the different sources of income



Feedback to activities

1a

- a) Demi is earning a salary and her pay is stated as £18,000 a year.
- b) This means that her monthly earnings can be calculated as:

$$£18,000 \div 12 = £1,500$$

Her weekly earnings can be calculated as:

$$£18,000 \div 52 = £346.15$$

1b

- a) $£20,000 \div 12 = £1,666.67$
- b) $£26,000 \div 12 = £2,166.67$
- c) $£50,000 \div 12 = £4,166.67$
- d) $£20,000 \div 52 = £384.62$ e) $£27,000 \div 52 = £519.23$
- f) $£42,000 \div 52 = £807.69$

1c

- a) John gets £48.65 a week:

$$£6.95 \times 7 = £48.65$$

- b) Ranjit gets £137.50 a week during winter:

$$£5.50 \times 25 = £137.50$$

He gets £192.50 a week during summer:

$$£5.50 \times 35 = £192.50$$



Answers to review

c) Pavlos earns £76.13 a day:

$$£7.25 \times 10.5 \text{ hours} = £76.13 \text{ This}$$

works out at £456.78 a week:

$$£76.13 \times 6 = £456.78$$

1d

- a) Connor must be paid a minimum of £3.87 an hour.
- b) Demi must be paid a minimum of £5.30 an hour.

1e There are no right or wrong answers to this activity.

1f There are no right or wrong answers to this activity.

1g

- a) Ling can get EMA because she lives and will study in Scotland.
- b) Ling will receive £30 per week (because the total household income is less than £22,403).

1h Demi will be paid £1,277.27 on 1 June 201X.

1i

- a) Jimmy will have £869.27 paid into his bank account:

$$£900 - £30.73 = £869.27$$

- b) Lizzie's net pay is £978.07:

$$£1,060 - £35.33 - £46.60 = £978.07$$



Answers to review

1. 'Earnings' are the money that you receive for doing a job.
2. The maximum number of hours that Mandeep can work in a week is 40.
3. The National Minimum Wage for a 17-year-old from 1 October 2015 is £3.87 an hour.
4. Spence was entitled to a National Minimum Wage of £5.30 an hour.
5. The government collects income tax to spend on education, health services, the armed forces, prisons, roads, police, etc.
6. The government uses National Insurance contributions to pay for pensions and other state benefits to help the sick, elderly and those out of work.
7. Everyone gets a National Insurance number on their 16th birthday.
8. Your National Insurance number is like your personal account number with the government. Using this number, the government can keep track of the taxes and NICs that you have paid, and, from this, it can calculate your entitlement to pensions and other benefits should you need to make a claim.
9. 'Net pay' is the amount of your earnings that you actually receive after you have paid tax and National Insurance.
10. 'Gross pay' is the total amount of earnings before deductions for tax and National Insurance have been made.
11.
 - a) Karl's net pay is £1,050.60.
 - b) Karl's NI number is HL123456N.
 - c) Karl's employee number is 48 – this is how Karl is identified by the payroll system.
 - d) Karl's money will be paid by credit transfer – that is, directly into his bank account.
 - e) 'Tax paid to date' is the total amount of tax paid by Karl since the beginning of the current tax year (the tax year runs from 6 April until 5 April).



Answers to review

Topic 2: Understand the different savings providers and the features of savings products



Feedback to activities

2a Your answer will probably have looked something like the following.

Type of savings account	Advantage	Disadvantage
Instant-access account	Can take money out at any time	May offer a lower interest rate than a notice or regular savers account
Notice account	Offers a better interest rate than instant access	Requires you to plan when you want your money and to give notice
Regular savers account	Encourages you to save regularly Can offer a better interest rate than instant	Interest may be lost if you take money out of the account
ISA	Offers interest tax-free	Involves rules relating to when you can take the money out of the account without losing

2b There are no right or wrong answers to this activity.

2c

- The interest on £4,000 for one year at a rate of 3% AER is £120.
- The interest on £1,200 for one year at a rate of 2% AER is £24.
- The interest on £1,200 for one month at a rate of 2% AER is £2.

2d There are no right or wrong answers to this activity.



Answers to review

1. The maximum amount guaranteed by the government for savings accounts with banks and building societies is £85,000 per person (per provider).
2. AER stands for annual equivalent rate.
3. When choosing a savings product, you might think about:
 - whether you are investing a small amount for a short term or a larger amount for a longer term, or a regular amount each month;
 - what interest rates are on offer;
 - whether there are minimum or maximum amounts that you have to save each month;
 - whether you can withdraw your money instantly or whether you have to give the bank some notice;
 - whether there are any withdrawal penalties or restrictions;
 - whether you can deal with the account online;
 - whether the account has a minimum balance below which you cannot go without closing the account; and
 - how easy it is to move money from one account to another.
4. NS&I stands for National Savings and Investments.
5. NS&I is a safe place to put your money because you are effectively lending your money to the government.
6. The Post Office offers the following products:
 - Instant Saver;
 - Premier Cash ISA;
 - Fixed-rate Cash ISA;
 - Online ISA;
 - Growth Bonds;
 - Online Saver;
 - Online Bond;
 - Reward Saver;
 - NS&I Premium Bonds; and
 - Junior ISA.



7 **Answers to review**

- a) To receive the highest rate of interest, Mark should choose Local Building Society.
- b) To be able to withdraw his money with no notice, Mark should choose either ABC Bank Limited, Local Building Society or Country Building Society.
- c) For the best free gift, Mark should choose Big Bank Limited.

Topic 3: Basic borrowing products and providers



Feedback to activities

3a Your list will have many ideas, such as those offered below.

You want to buy	Borrowing needs	Providers
Cinema ticket	<i>Amount:</i> A few pounds (eg £5) <i>Repayment period:</i> A few weeks or months	Family or friends
Clothes	<i>Amount:</i> Tens of pounds (eg £20) <i>Repayment period:</i> A few weeks or months	Family or friends Shops Banks and building societies
Sofa or TV	<i>Amount:</i> Hundreds of pounds (eg £400) <i>Repayment period:</i> Several months or years	Shops Banks and building societies
Car	<i>Amount:</i> Thousands of pounds (eg £10,000) <i>Repayment period:</i> Several years	Banks and building societies Personal loans

3b There are no right or wrong answers to this activity.

3c There are no right or wrong answers to this activity.

3d The advantages of in-store credit include the cheap deals that are intended make the purchase attractive. These can be very good if you plan to repay quickly. The disadvantages include that they usually have high rates of APR.

3e

- a) £3,000 borrowed at 4 per cent works out at £120 interest a year, which is £10 a month.
- b) £6,000 borrowed at 6.5 per cent works out at £390 interest a year, which is £32.50 a month.

- c) £7,000 borrowed at 8.5 per cent works out at £595 interest a year, which is £49.58 a month.

3f

- a) A loan of £2,000 over 48 months will cost £53 a month.
- b) A loan of £4,000 over 72 months will cost £79 a month.
- c) A loan of £1,000 over three years will cost £33 a month.

3g

- a) You need to look at the EAR for the overdraft and the APR for the loan. The reason why an overdraft has an EAR (equivalent annual rate) is that overdrafts are not in use all of the time. A person might borrow the bank's money only towards the end of the month just before payday, or when they write a cheque before they have deposited enough money in their account to cover it. However, the law states that a bank must show the customer what the interest rate would be equivalent to if they were to use their overdraft all of the time – in other words, if their account balance were permanently at the limit of the overdraft.

A personal loan, however, is a loan of a fixed amount of money over a fixed period of time. The APR shows the customer, in percentage terms, what they are being charged in total for borrowing that money, making it easier for them to compare one loan with another to find the best deal.

- b) There are no right or wrong answers to this activity.
- c) There are no right or wrong answers to this activity.



Answers to review questions

1.

Providers		
1	Bank	C Overdraft
2	Family	D IOU (that is a written or verbal agreement to repay)
3	Clothing shop	A Store card
4	Electrical shop (selling TVs, washing machines, etc)	B Interest-free credit

2. APR stands for annual percentage rate and it shows the cost of a loan over the period of one year. The APR not only includes the interest charged on the loan, but also any other charges that the lender imposes, and it is expressed as a

percentage of the money borrowed. All loans must quote the APR, which helps borrowers to compare one loan with another.

3. Frank should ask for an overdraft because they are meant for short-term borrowing for smaller amounts of money. Loans are usually for larger amounts of money and for longer periods of time.
4. Victor wants £3,000 and he wants to borrow it over a longer period of time (five years). It would be better for him to apply for a loan. It will be cheaper and it will be easier for him to budget for the repayments, because they will be fixed.
5. An authorised overdraft is cheaper because the bank has already agreed in advance how much you can spend. An unauthorised overdraft arises when someone borrows without the bank's permission. The charges are much higher.
6. People pay interest only on the amount of the overdraft that they use, not on the full amount of their overdraft limit.
7. Yes, Gillian is borrowing when she makes a purchase on her credit card. She has to pay the money back to the credit card company at some time in the future. It may be that she repays the full amount the following month, or she may repay only a small amount and repay the full amount of borrowing over a longer period of time, which will cost her a lot more.
8. Credit cards charge interest only on the amount that is still outstanding at the end of each month.
9. Tom's repayments will be the same every month.
10. Banks and building societies offer personal loans.
11. Because Tammy wants to borrow the money for only eight days and her next credit card statement is not due for another four weeks, she will be better off borrowing from the credit card company. This is because, as long as she repays the amount borrowed when the next credit card statement arrives, she will pay no interest at all on the borrowed money, whereas she will be charged interest for every day that an overdraft is outstanding.
12. EAR stands for equivalent annual rate.
13. If you don't pay back a payday loan within the agreed term, the interest can become very high very quickly.
14. People should avoid borrowing from loan sharks because they charge very high interest rates and they are illegal.

Topic 6: Basic tools used to manage a personal financial budget and to make calculations



Feedback to activities

6a

- a) The statement is for account number 71290439.
- b) The branch is located at 12 The High Street, Midtown, MT4 1J7.
- c) The sort code for the branch is 91-20-07.
- d) The telephone number to call for queries is 01632 960960.
- e) The statement has only one page.
- f) 'Wdl' means withdrawal.
- g) On 18 April 201X, Teo had a balance of £170.
- h) Teo paid £12.50 to the insurance company in April.

6b

Abbreviation	Meaning
CHG	Charge
CHQ	Cheque
D/D	Direct debit
INT	Interest
O/D	Overdrawn, or overdraft
S/O	Standing order
TRF	Transfer

6c

- ^A represents Maria's monthly net pay from Peabody Limited for £600, paid into her account by direct credit.
- ^B represents a payment that Maria makes by standing order to Barnados every month for £3.

- C represents a direct debit payment that she makes to Hope Insurance Company for £12.
- D represents a payment that she made at the cinema for £14.95 using her debit card.
- E represents a payment into Maria's account, paid over the counter at her own branch (sort code 12-34-56), for £44.14.

6d

Balance on Monday	£145.00
	<hr/>
Minus mobile phone bill	-
	£35.00
	<hr/>
Minus cheque	-
	£33.00
	<hr/>
Balance	£77.00
	<hr/>

6e Pierre will look at his ATM withdrawal slips, debit card transaction slips, his chequebook and any receipts that he has for money credited to his account in order to work out how much he really has left to spend.

6f

- a) To keep track of your money, you should always keep your ATM withdrawal slips, debit card transaction slips, chequebook stubs and receipts for money paid into your account.

You should check these against your bank statement when it arrives.

In order to keep track of finances in between receiving statements, online banking will show you an up-to-date list of transactions that are accurate up to the close of business on the previous day.

If you are not able to access online banking, ATM mini-statements can show you what your balance is, and you can work out how much you really have left to spend by checking through your transaction slips and receipts.

It is a good idea to keep a spreadsheet or a little notebook in which you can record money in and money out of your account.

- b) There are no right or wrong answers to this activity.

6g

	Expense	Balance
		£67
Monday		
ATM	£10	£57
Tuesday		
New bus pass	£15	£42
ATM	£10	£32
Friday		
Cinema	£7.50	£24.50
Cash	£12	£12.50

6h

Sercan had £54 on Wednesday	£5
On Thursday, he spent £15 on a T-shirt	-£15
On Friday, he spent £20 cash	-£20
On Friday, he spent £15 on pizza	-£15
Balance to spend on Saturday	£4

6i

- Abbas has spent £590 in the first four weeks (£1,000 - £410).
- Abbas has £410 to last him for the remaining six weeks.
- If Abbas continues spending at the same rate, his money will last him for only another couple of weeks.
- To get through the next six weeks, Abbas should make a list of the most essential items for which he has to pay over the next six weeks. He has a mobile phone contract and this is £30, to which he made a payment in Week 4. The next payment will probably be in Week 8 or 9, so he will have to make an allowance for this (or cancel his contract and use a-pay-

as-you-go phone).

He has already bought his books, so the rest of the money will have to pay only for food and toiletries. He should divide what he has left into six, so that he knows how much he has each week. He should then go out or buy non-essential items only once he has paid for his essential expenses.

So that he does not get into a mess again next term, Abbas should create a budget over the whole ten-week period and work out in advance how much he has to spend each week – then stick to that budget.



Answers to review questions

1. A budget is a list of all of the income and expenses that you expect over a given period of time, enabling you to work out how much you have left.
2. There is no minimum age at which you should start budgeting. You should begin to plan your finances as soon as you start handling your own money, even pocket money.
3. You can obtain an up-to-date balance from the ATM, via online banking, or by telephone.
4. Banks use abbreviations on bank statements to save space.
5. Chequebook stubs should be completed so that you can check the information against your bank statement when the cheque is presented.
6. You should check ATM withdrawal slips, debit card slips, chequebook stubs and credit receipts against your bank statement. You are looking for any discrepancies so that you can inform the bank as soon as possible.
7. An ATM balance does not include any cheques that you may have written that are not showing on your account yet, nor does it show payments (such as direct debits and standing orders) that are due to be taken out of your account in the next few days. Also, any payments that you have made in the last day or two using your debit card will not show either.
8. 'Surplus' means money left over.
9. 'Deficit' means that you have spent more than you should.
10. A budget is useful only if the figures that it contains are accurate and up to date. Every time your income or expenses change, you should update your budget plan.
11. If you do not budget your finances properly, you could run out of money or get into debt.

