**Unit 3:** Personal and Business Finance

Revision Booklet 1

**Learning Aim A:** Understand the importance of managing personal finance, including:

Functions and Role of Money (A1)

Different ways to pay (A2)

Current Accounts (A3)

Managing Personal Finance (A4)

**Note:**

Unit 3: Personal and Business Finance covers both personal and business finance. This revision booklet focuses only on personal finance.

**The Functions of Money – A1**

**Revision Task 1:** Match the following **functions of money** with their corresponding explanation.

Unit of Account Means of Exchange Store of Value Legal Tender

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| **Function of Money** | **Explanation** |
|  | Enables businesses to trade with other business and customers. |
|  | It allows businesses and customers to use it in the future as it keeps its value. |
|  | It allows a monetary value to be placed on goods and services. |
|  | It is a recognised method of payment. |

**Exam Style Question:**

Money is used by individuals and businesses on a daily basis. Being able to handle and control money is crucial for the success of businesses and personal finance.

**Q1. Give two functions of money.**

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| **Total for Question 1 = 2 marks** |

**Revision Task 2:** Complete the table below by matching the factors which impact on the role of money with their corresponding description.

**Culture Life Stages External Influences Interest Rates**

**Personal Attitudes Life Events**

|  |  |
| --- | --- |
| **Factor** | **Description** |
|  | The Economy can impact on an individual’s view of money. During a recession jobs are difficult to find and this can make individuals cautious whereas during periods of growth individuals can be more willing to take on debt. |
|  | The interest rates set by the Bank of England can have an impact on individuals’ attitude to money. If interest rates are high, individuals are more likely to save and less likely to buy items on credit. If interest rates are low the opposite is true. |
|  | Different cultures and religious beliefs can influence individuals attitude to money e.g. The Chinese used to have a culture of saving but this has changed recently with younger generations buying shares and purchasing items on credit. |
|  | Key events in an individual’s life can change their view of money e.g. saving for a wedding or changing financial plans after staring a family. |
|  | Individuals have different attitudes to risk and reward. Some individuals save money and avoid credit others will have little or no savings and buy numerous items on credit. |
|  | Individuals financial needs change as they move different stages of their life. Middle Aged individuals may need to obtain finance to move home whereas during old age individuals may downsize their properties to a smaller house and pass on funds to children or grandchildren. |

**Exam Style Question:**

Q2. Outline two factors which affect the role of money

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| **Total for Question 2 = 2 marks** |

**Revision Task 3:** The exam requires you to know the key features of eachLife stages (childhood, adolescence, young adult, middle age, old age) and the financial needs and implications at each stage.

Match the following financial needs and Implications with the life stages table.

|  |  |
| --- | --- |
| **Financial Needs** | **Implications** |
| May need money to support family members, saving for children to go to university, may need extra money to fund a move to a larger house due to growing family. | Mortgage may be paid off.  May need to sell property to pay for health care.  May find it difficult to obtain loans. |
| Reliant on Parents and therefore limited financial needs beyond pocket money. | May be employed or looking for part time work.  May still rely on pocket money. |
| May be looking for money to fund university course, or to pay a deposit for a flat or car. | Too young to work and therefore reliant on pocket money or receiving money as part of birthday gifts. Parents may try to encourage saving. |
| May have a part time job and therefore may be less reliant on parents. Now have a desire to be more independent from parents and seeking money for socialising with friends. | May apply for a student loan to fund university. May take out a loan for a car or a mortgage to buy a property. |
| May have assets such as a house or flat but low levels of cash. May need money to pay for health care. | May apply to set up a saving account for children’s education. May apply for a new mortgage to fund move to larger house. |

|  |  |  |
| --- | --- | --- |
| **Life Stage** | **Financial Needs** | **Implications** |
| Childhood |  |  |
| Adolescence |  |  |
| Young Adult |  |  |
| Middle Age |  |  |
| Old Age |  |  |

**Exam Style Question:**

Q3. Outline two financial implications for a Middle Age individual who owns a house with a small mortgage but still needs to support their family, with children planning to going to university and get married.

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| **Total for Question 2 = 2 marks** |

**Revision Task 4:** Planning Expenditure - Fill the gaps using the following words**:**

**debt credit rating bankrupt over spending too high solvent interest**

Individuals will consider many principles when planning their expenditure. They will be keen to avoid .............................................. as this can place them into financial difficulties. By controlling their costs individuals can avoid getting into ...................... If an individual’s expenditure is ........................................ .then they may be paying more money out than they are receiving. Entering into debt will be expensive for the individual because they will be charged .......................... on the money they owe. If these debts are not paid then it will affect the individual’s ............................................ and this will impact of their ability to borrow in the future. If the debts are not fully paid as requested then this can lead to the individual being declared .........................

When planning expenditure an individual aims to remain ..................................... which means they can meet their day to day expenditure and repay their loans.

**Common Principles of Financial Planning**

**Revision Tip:**

The BTEC Specification lists 9 common principles of Financial Planning

1. to avoid getting into debt
2. to control costs
3. avoid legal action and/or repossession
4. remain solvent
5. maintain a good credit rating
6. avoid bankruptcy
7. to manage money to fund purchases
8. generate income and savings
9. set financial targets and goals
10. provide insurance against loss or illness
11. counter the effects of inflation

However it is probably easier to group these into 3 principles

|  |  |
| --- | --- |
| **Principle** | **Explanation** |
| **Ensure Income is greater than Expenditure** | This principle will ensure that the individual:   * Avoids getting into debt. * Avoids legal action / repossession of belongings * Remains Solvent / individual has enough income to pay all expenditure * Avoids bankruptcy |
| **Plan for the future** | This principle may lead to the individual:   * Making investments to counter the effects of inflation e.g. buy shares which are paying returns greater than rate of inflation. * Saving for future large expenditure items e.g. deposit for a home or a car. * Take out a loan to cover future costs e.g. student loan to cover university fees. * Contribute to a pension scheme * Put money into long term investments e.g. banks will pay higher interest on savings if the individual commits to keep the savings untouched for a certain period e.g. 12 months or more. During this time the individual cannot make withdrawals. |
| **Plan for unforeseen events** | This principle may lead to the individual taking out:   * insurance to cover mortgage payments if they lose their job * life insurance – this policy pays out money on the death of an individual which can be used to cover funeral costs, mortgage costs or clear the individuals debts so their dependents (children) do not have to pay them. * Medical Insurance to pay for unexpected health costs. |

**REVISION PROGRESS CHECK**

You have now completed the tasks related to the **Functions and Role of Money** – complete the table below to identify content you are confident about and areas you want to revisit. Once you are happy, move on to the next section which will focus on **Different ways to pay.**

|  |  |  |
| --- | --- | --- |
| **A Understand the importance of managing personal finance** | | |
| **A1 Functions and role of money** | | |
| **Checklist** | **Yes** | **No - must revise** |
| I understand that the Functions of money include   * a unit of account. * a means of exchange * a store of value * legal tender |  |  |
| I understand the role of money is affected and influenced by a number of factors including:   * personal attitudes towards risk and reward, borrowing, spending and saving. * life stages (childhood, adolescence, young adult, middle age, old age). * culture, including religious and ethical beliefs. * life events which vary the personal life cycle from individual to individual. * external influences / trends and the financial related effects. * interest rates, cost of borrowing versus reward of saving. |  |  |
| I understand the common principles to be considered in planning personal finances include:   * to avoid getting into debt * to control costs * avoid legal action and/or repossession * remain solvent * maintain a good credit rating * avoid bankruptcy * to manage money to fund purchases * generate income and savings * set financial targets and goals * provide insurance against loss or illness * counter the effects of inflation |  |  |

**Different Ways to Pay – A2**

One key function of money is its ability to be used as a means of exchange enabling individuals to use it to buy things. There are however many different methods of payment.

**Revision Task 5:** Match the following method of payment with its corresponding definition.

Cash Debit Card Credit Card Cheque Electronic Transfer Direct Debit Standing Order

Pre-Paid Card Contactless Card Charge Card Store Card

Mobile Banking BACS CHAPS

|  |  |
| --- | --- |
| **Method of Payment** | **Definition** |
|  | Includes notes and coins of different amounts (denominations). |
|  | An agreement by the owner of the bank account and their bank to allow a third party to withdraw a fixed sum of money from their account on a certain. |
|  | A written document instructing the bank to make a payment from one person’s bank account to another. |
|  | The ability to complete banking transactions on mobile devices and internet connected computers. |
|  | Similar to a credit card but can only be used in certain stores. The owner can use the card to buy items from that store on credit. |
|  | A card issued by banks to be used to purchase goods and services with payment taken directly from the users current accounts. |
|  | When financial payments are electronically transferred from one bank account to another. |
|  | A system which enables transfers from one bank account to another, known as BACS. |
|  | An agreement by the owner of the bank account and their bank to allow a third party to withdraw money from their account on a certain. |
|  | A card which contains technology to enable it to be touched on a contactless terminal and for funds to be withdrawn. |
|  | Issued by financial institutions allowing goods and services to be purchased with payment delayed. |
|  | A system which enables transfers from one bank account to another, known as CHAPS. |
|  | Issued by financial institutions to enable customers to delay payment for a certain period. The balance has to be paid in full once the statement has been received. |
|  | A card with money already transferred onto it, payments can be made until all the money has been used. |

**Revision Task 6:** The specification requires you to understand the advantages and disadvantages of the different payment methods. Complete the table belowby including one advantage and one disadvantage for each payment method.

|  |  |  |
| --- | --- | --- |
| **Method of Payment** | **Advantage** | **Disadvantage** |
| Cash |  |  |
| Debit Card |  |  |
| Credit Card |  |  |
| Cheque |  |  |
| Electronic Transfer |  |  |
| Direct Debit |  |  |
| Standing Order |  |  |
| Pre-Paid Card |  |  |
| Contactless Card |  |  |
| Charge Card |  |  |
| Store Card |  |  |
| Mobile Banking |  |  |
| BACS |  |  |
| CHAPS |  |  |

**Exam Style Question:**

Q4. Outline two advantages of using a store card as a means of payment.

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| **Total for Question 2 = 2 marks** |

**Exam Style Question:**

Q5. Outline two disadvantages of using cash as a means of payment.

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| **Total for Question 2 = 2 marks** |

**REVISION PROGRESS CHECK**

You have now completed the tasks related to the **Different ways to pay.** Complete the table below to identify content you are confident about and areas you want to revisit. Once you are happy, move on to the next section which will focus on **Current Accounts.**

|  |  |  |
| --- | --- | --- |
| **A Understand the importance of managing personal finance** | | |
| **A2 Different ways to Pay** | | |
| **Checklist** | **Yes** | **No - must revise** |
| I can describe **cash** and the advantages and disadvantages of this payment method. |  |  |
| I can describe **debit cards** and the advantages and disadvantages of this payment method. |  |  |
| I can describe **credit cards** and the advantages and disadvantages of this payment method. |  |  |
| I can describe **cheques** and the advantages and disadvantages of this payment method. |  |  |
| I can describe **electronic transfer** and the advantages and disadvantages of this payment method. |  |  |
| I can describe **direct debit** and the advantages and disadvantages of this payment method. |  |  |
| I can describe **standing order** and the advantages and disadvantages of this payment method. |  |  |
| I can describe **pre-paid cards** and the advantages and disadvantages of this payment method. |  |  |
| I can describe **contactless cards** and the advantages and disadvantages of this payment method. |  |  |
| I can describe **charge cards** and the advantages and disadvantages of this payment method. |  |  |
| I can describe **store cards** and the advantages and disadvantages of this payment method. |  |  |
| I can describe **mobile banking** and the advantages and disadvantages of this payment method. |  |  |
| I can describe **BACS (Banker’s Automated Clearing Services)** and the advantages and disadvantages of this payment method. |  |  |
| I can describe **CHAPS (Clearing House Automated Payment System)** and the advantages and disadvantages of this payment method. |  |  |

**Current Accounts – A3**

**Revision Task 7:** The specification requires you to know the different types of current accounts, their **features**, **advantages**, **disadvantages** and the **different services offered**.

Your task is to complete the three column table below, writing the definition of the account in column one and the advantages and disadvantages in the other columns.

|  |  |  |
| --- | --- | --- |
| **Features of Account** | **Advantages of Account** | **Disadvantages of Account** |
| Standard |  |  |
| Packaged Premium |  |  |
| Basic |  |  |
| Student |  |  |

**Exam Style Question:**

Maria has asked for advice on opening a current account.

Maria has obtained a place at university for the coming September. She has been working for a family friend as a Junior Accountant during her school holidays and has managed to save £3,000. Currently Maria does not have any debts and she is very frugal and avoids spending money on lots of clothes and DVDs.

Maria is risk adverse and doesn’t like borrowing money. Despite this, Maria has applied for a student loan which will cover her tuition fees and cost of textbooks. Her university is within a short train or bus journey from her parents’ home and she intends to live there rent free during her course.

Maria’s best friend from college is moving away to city located 3 hours away to start an apprenticeship. Maria hopes to visit her quite regularly at the weekends.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Summary of current accounts for students** | | | | | |
| **Provider** | **Credit**  **Interest** | **Interest free**  **Overdraft** | **Additional**  **Overdraft** | **Unauthorised**  **Overdraft** | **Incentives** |
| Santander | 1% for £100  2% for £200+  3% for £300+ | £1,500 | N/A | £5 daily charge | 16-25 railcard |
| Nationwide | 1% | £3,000 | N/A | N/A (you won't be able to use it until you get the balance back under your limit) | None |
| Lloyds | 0% | £1,500 | £6 monthly fee and 8.21% EAR. | Daily fees:  Up to £10 - no charge.  Up to £25 - £5.  Over £25 - £10 | Free 3 Year NUS Extra Card,  15% cash back on selected retailers |
| Co-operative | 0% | £2,000 | 9.9% EAR | Daily fee £5  Fixed penalty of £25 | £60 Amazon voucher + 1 year Prime |

**Q6. Evaluate which student current account would be most suitable for Maria.**

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| **Total for Question 6 = 12 marks** |

**REVISION PROGRESS CHECK**

You have now completed the tasks related to **Current Accounts** – complete the table below to identify content you are confident about and areas you want to revisit. Once you are happy, move on to the next section which will focus on **Managing Personal Finance.**

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| --- | --- | --- |
| **A Understand the importance of managing personal finance** | | |
| **A3 Current Accounts** | | |
| **Checklist** | **Yes** | **No - must revise** |
| I can describe the features of a **standard** current account. |  |  |
| I can describe the advantages and disadvantages of a **standard** current account. |  |  |
| I can describe the features of a **packaged, premium** current account. |  |  |
| I can describe the advantages and disadvantages of a **packaged, premium** current account. |  |  |
| I can describe the features of a **basic** current account. |  |  |
| I can describe the advantages and disadvantages of a **basic** current account. |  |  |
| I can describe the features of a **student** current account. |  |  |
| I can describe the advantages and disadvantages of a **student** current account. |  |  |

**Revision Task 8:** The exam board require you to know the different types of borrowing, their **features**, **advantages** and **disadvantages**.

Your task is therefore to complete the following two tables. The first table requires you to add the definition for each type of borrowing. The second table requires you to describe one advantage and disadvantage for each type of borrowing.

|  |  |
| --- | --- |
| **Type of Borrowing** | **Definition** |
| Overdraft |  |
| Personal Loan |  |
| Hire Purchase |  |
| Mortgage |  |
| Credit Card |  |
| Payday Loan |  |

|  |  |  |
| --- | --- | --- |
| **Type of Borrowing** | **Advantage** | **Disadvantage** |
| Overdraft |  |  |
| Personal Loan |  |  |
| Hire Purchase |  |  |
| Mortgage |  |  |
| Credit Card |  |  |
| Payday Loan |  |  |

**Exam Style Question**

Over the last five years wages have not increased in line with inflation and this has caused more people to rely on borrowing.

Q7. Assess the use of pay day loans as a method of borrowing.

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| **Total for Question 7 = 10 marks** |

**Revision Task 9:** The exam board require you to understand the different types of saving and investment, their **features, advantages** and **disadvantages**.

Your task is therefore to complete the following two tables. The first table requires you to add the definition for each type of saving and investment. The second table requires you to describe one advantage and disadvantage for each type of saving and investment.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Type of Borrowing** | | **Definition** | | |
| Individual Saving Accounts (ISAs) | |  | | |
| Deposit and savings accounts | |  | | |
| Premium bonds | |  | | |
| Bonds and gilts | |  | | |
| Shares | |  | | |
| Pensions | |  | | |
| **Type of Borrowing** | **Advantage** | | **Disadvantage** |
| Individual Saving Accounts (ISAs) |  | |  |
| Deposit and savings accounts |  | |  |
| Premium bonds |  | |  |
| Bonds and gilts |  | |  |
| Shares |  | |  |
| Pensions |  | |  |

**Exam Style Question**

Over the last five years interest rates have been at a record low level causing savings to look at alternative methods of saving.

**Q8**. Assess the use of Shares as a method of saving.

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| **Total for Question 8 = 10 marks** |

**Risk and Rewards of saving versus investment**

**Revision Task 10:** Fill the gaps using the following words:

**Speculative Inflation shares Saving Investment low risk Saving high risk**

**..........................................** and **.....................................** requires the individual to forego current spending in the hope of obtaining greater wealth in the future. .............................. involves transferring money into a secure account where it will increase in value as a result of interest payments. Savings are ..................... .................. as the money is guaranteed to be available in the future. ............................ can reduce the future spending power of savings. Individuals often save for a specific future expenditure e.g. a car or children’s college fees.

Investment is a ................................... commitment to a business venture in the hope that it will result in high financial rewards in the long term future. Investments can be ................. ......................... and there is no guarantee they will provide a financial return. An example of an investment is purchasing .................................

**Different types of insurance products**

This unit requires you understand different types of insurance products, their features, advantages and disadvantages.

**Revision Task 11:** Complete the table below to provide a summary of the different insurance products, their features, advantages and disadvantages. The first one is done for you.

|  |  |  |
| --- | --- | --- |
| **Type of Insurance** | **Advantages** | **Disadvantages** |
| **Car –** Is a legal requirement and covers theft and accidents.  Protects driver, passenger and other road users. | legal requirement | Premiums vary depending on level of risk e.g. young drivers pay more.  Excess must be paid before claim payments are received. |
| **Home and Contents** |  |  |
| **Life Assurance and Insurance** |  |  |
| **Travel** |  |  |
| **Pet** |  |  |
| **Health** |  |  |

**Exam Style Question –**

**Case Study for question 9.**

Dylan is a 19 year old student. He has just inherited £5,000 and wants to go on a skiing holiday to Switzerland. The holiday is booked for January. Whilst he is excited about the holiday, he is worried that he may have to cancel at short notice as his mum is due to undergo an operation which may be during the weeks he is away.

Dylan doesn’t have any pets and lives at home with his mum who is responsible for ensuring the mortgage is paid. His mum has told Dylan that now he is an adult he should be responsible and consider taking out relevant insurance policies.

Dylan has started to take driving lessons, and before his first lesson he went for an eye exam and was told he has a deformed eye lens which will cause his eye sight to deteriorate at a slow but constant rate each year, requiring him to have regular eye tests and potentially new prescriptions for glasses and contacts.

During a meeting with a financial advisor Dylan was informed that he can take out the following types of insurance:

* Car
* Home and contents
* Life Assurance and Insurance
* Travel
* Pet
* Health

**Q9.** Evaluate which type of insurance would be appropriate for Dylan now and in the near future.

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| **Total for Question 6 = 12 marks** |

**REVISION PROGRESS CHECK**

You have now completed the tasks related to **Managing Personal Finance**– complete the table below to identify content you are confident about and areas you want to revisit. This is the end of Learning Aim A**.**

|  |  |  |
| --- | --- | --- |
| **A Understand the importance of managing personal finance** | | |
| **A4 Managing Personal Finance** | | |
| **Checklist** | **Yes** | **No - must revise** |
| I can describe the features of an **overdraft** and describe the relevant advantages and disadvantages for this type of borrowing. |  |  |
| I can describe the features of an **personal loan** and describe the relevant advantages and disadvantages for this type of borrowing. |  |  |
| I can describe the features of **hire purchase** and describe the relevant advantages and disadvantages for this type of borrowing. |  |  |
| I can describe the features of a **mortgage** and describe the relevant advantages and disadvantages for this type of borrowing. |  |  |
| I can describe the features of **credit cards** and describe the relevant advantages and disadvantages for this type of borrowing. |  |  |
| I can describe the features of **payday loans** and describe the relevant advantages and disadvantages for this type of borrowing. |  |  |
| I can describe the features of **ISAs** and describe the relevant advantages and disadvantages for this type of saving. |  |  |
| I can describe the features of **deposit and savings accounts** and describe the relevant advantages and disadvantages for this type of saving. |  |  |
| I can describe the features of **Premium Bonds** and describe the relevant advantages and disadvantages for this type of saving. |  |  |
| I can describe the features of **Bonds and Gilts** and describe the relevant advantages and disadvantages for this type of saving. |  |  |
| I can describe the features of **Shares** and describe the relevant advantages and disadvantages for this type of saving. |  |  |
| I can describe the features of **Pensions** and describe the relevant advantages and disadvantages for this type of saving. |  |  |
| I can describe the difference between **risk** and **rewards** in relation to **savings and investment**. |  |  |
| I can describe the features of **car insurance** and describe the relevant advantages and disadvantages for this type of insurance. |  |  |
| I can describe the features of **home and contents insurance** and describe the relevant advantages and disadvantages. |  |  |
| I can describe the features of **life assurance and insurance** and describe the relevant advantages and disadvantages. |  |  |
| I can describe the features of **travel** and describe the relevant advantages and disadvantages for this type of insurance. |  |  |
| I can describe the features of **pet** and describe the relevant advantages and disadvantages for this type of insurance. |  |  |
| I can describe the features of **health** and describe the relevant advantages and disadvantages for this type of insurance. |  |  |