

NZQA Assessment Support Material

Unit standard	28088				
Title	Demonstrate understanding of credit and debt on personal finances				
Level	1	Credits	3	Version	2

Note

The following guidelines are supplied to enable assessors to carry out valid and consistent assessment using this internal assessment resource.

Assessors must manage authenticity for any assessment from a public source, because students may have access to the assessment schedule or student exemplar material. Use of this assessment resource without modification may mean that students' work is not authentic. The assessor will need to change figures, measurements or data sources or set a different context or topic.

While this resource exemplifies written assessment, there are other assessment activities and approaches that could be taken.

See Generic Resources and Guidelines at <https://www.nzqa.govt.nz/providers-partners/assessment-and-moderation-of-standards/assessment-of-standards/generic-resources/>.

Assessor guidelines

Assessors need to be very familiar with the outcome being assessed by the unit standard. The evidence requirements and the explanatory notes contain information, definitions, and requirements that are crucial when interpreting the standard and assessing learners against it.

Over the weeks prior to this assessment, students should have had sufficient teaching and learning opportunities to be familiar with the following:

- Use of credit (including good and bad debt, manageable or unmanageable).
- Types of credit.
- Types of credit providers.
- Cost of credit.
- The impact on personal finances of factors affecting credit or debt such as changes in circumstances, taxes, interest rates, penalties and credit rating.
- The impact of manageable and unmanageable debt on personal finances.

AWARD OF GRADES



- For award with **Achieved**, you must describe: credit and debt in relation to personal finances; factors affecting credit or debt in terms of impacts on personal finances.
- For award with **Merit**, you must demonstrate detailed understanding of credit and/or debt by giving examples and linking impacts to personal finances
- For award with **Excellence**, you must demonstrate comprehensive understanding of credit, and manageable and unmanageable debt by explaining the impacts on personal finances.

CONDITIONS OF ASSESSMENT



This is an **open book assessment** that will take place over a timeframe set by the assessor.

Assessment activity

The assessment activity has **one (1) task**.

This task requires the learner to:

Read the scenarios and budget information and complete the **two (2)** tables provided.

Table 1

Describe the following for each of the flatmates in the scenarios in relation to their personal finances:

- use of credit (including whether the debt is good or bad debt, manageable or unmanageable)
- types of credit
- types of credit provider
- cost of credit.

Table 2

Select **two (2)** of the flatmates in the scenario, one with manageable debt and one with unmanageable debt, and:

- Provide supporting examples and make links to the factors affecting credit or debt in terms of impact on their personal finances (evidence of four (4) factors is required).
- Explain the impacts of credit, and manageable and unmanageable debt on personal finances.

Resources

Resources that may help with this are:

- Sorted Your Independent Money Guide, <https://www.sorted.org.nz>;
- Commission for Financial Capability, <http://www.cffc.org.nz/>;
- International websites such as, ASIC www.understandingmoney.gov.au and <https://www.moneysmart.gov.au>;
- Personal Finance Education Group, www.pfeg.org.uk.

Assessment Schedule

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	Evidence/Judgements for achievement	Evidence/Judgements for achievement with merit	Evidence/Judgements for achievement with excellence
ER1.1 ER1.2 ER1.3	<p>Credit and debt are described in relation to personal finances.</p> <p>See sample answers to Task, Table 1</p> <p>Four factors affecting credit or debt are described in terms of impacts on personal finances.</p> <p>See partial sample answers to Task, Table 2.</p> <p>Note: Sample answer is provided for one factor only. Sample answers will need to be developed by the assessor for other factors.</p>	<p>Detailed understanding of credit and/or debt is shown by giving examples and linking impacts to personal finances for two flatmates.</p> <p>See partial sample answers to Task, Table 3.</p> <p>Note: Sample answer is provided for one flatmate only. Sample answers will need to be developed by the assessor for other flatmates.</p>	<p>Comprehensive understanding of credit and manageable and unmanageable debt is shown by explaining the impacts on personal finances for Hone and one other flatmate who has unmanageable debt.</p> <p>See partial sample answers to Task, Table 4.</p> <p>Note: Sample answer is provided for one flatmate only. Sample answers will need to be developed by the assessor for Hone.</p>

Final grades will be decided using professional judgement based on a holistic examination of the evidence provided against the criteria in the unit standard.



Scenario – Five teenagers share a flat

Read through the scenario information below, including the set of budget data provided.

Complete the tables that follow.

T a s i

Tasi has a plumbing apprenticeship. He has been in the flat for a couple of years and has one of the larger rooms (\$140 a week).

He works full time and attends plumbing courses as required. He is a keen sportsman and goes to the gym every week.

He is well into his apprenticeship and he finds he needs to carry tools and equipment with him. He believes a van or ute is becoming a necessity as he intends to start his own business when he completes his apprenticeship.

He will have to borrow the money to buy the \$6000 vehicle of his choice. Vehicle financing costs will be \$74 a week.

He will also have vehicle-related costs (registration, warrant of fitness, petrol, maintenance and insurance) of \$70 a week.

L a u r a

Laura is in her last year of a health science course at the local Polytechnic. Currently she is working at a nearby restaurant to supplement her income.

She spends much of her spare time at the Polytechnic gym and is not keen on extending her working hours.

Because she is in her last year, she wants to buy more sports equipment. She thinks that, when she is working full time, she can afford to go on more skiing and climbing trips. She prefers new rather than second hand gear and is considering borrowing money for this now so that she will be all set to go at the end of this year.

Her repayments will be \$100 a week.

Jacqui

Jacqui has just moved into the flat this year. She is Laura's younger sister and they have decided to share the largest room (\$75 a week each).

She is a business studies student at University. To supplement her income she has been able to get a job at a local supermarket.

As she is new to University life, she also wants to socialize, so she does not want to work too many hours. However, she is concerned that she has to borrow from her parents to make ends meet every week.

Jacqui believes that she needs her own computer for her studies. Her parents are not willing to fund this and she must make her own borrowing arrangements.

If she gets the \$800 laptop she wants on hire purchase, it will cost her \$20 a week.

Hone

Hone is a first year law student. He has a scholarship to help support his studies.

He is keen to work as many hours as possible at the local petrol station as his studies permit.

He misses access to his parents' computer to use for his studies, and has decided that a computer is a must. He is interested in the same laptop as Jacqui.

Tariq

Tariq is a third year physics student. He works three shifts at the nearest fast food chain. He wants to go overseas to undertake postgraduate studies when he has graduated and is saving money for that.

His sister, who is still at high school, is a spender. She is certain that he should be happy to lend her money to go on an overseas trip to see their grandparents before she starts her Polytechnic course next year.

Tariq is concerned that his sister will not pay him back quickly and he will not have the money he needs for his post-grad studies.

Their current budgets are as follows:					
The Flat					
Flatmates	Tasi	Laura	Jacqui	Hone	Tariq
Money Received Weekly (Income)					
Student allowance		150	150	170	160
Work (tax paid)	600	160	140	160	225
Loan/Bursary		30	30	100	40
Supplements e.g accommodation		40	40	35	40
Total	600	380	360	465	465
Money paid out Weekly (Expenditure)					
Rent	140	75	75	120	90
Energy	60	60	60	60	60
Food	70	70	70	70	70
Transport costs		20	20	15	20
Borrowing/Hire purchase -vehicle					
Borrowing/Hire purchase -sports equipment					
Borrowing/Hire purchase -computer related					
Clothes	50	30	40	30	30
Study related		40	30	30	30
Internet/phone	50	30	30	30	30
Personal	100	40	40	60	50
Total	470	365	365	415	380

If each flatmate borrows as outlined in the scenario, their budgets will change as follows:					
The Flat					
Flatmates	Tasi	Laura	Jacqui	Hone	Tariq
Money Received Weekly (Income)					
Student allowance		150	150	170	160
Work (tax paid)	600	160	140	160	225
Loan/Bursary		30	30	100	40
Supplements e.g accommodation		40	40	35	40
Total	600	380	360	465	465
Money paid out Weekly (Expenditure)					
Rent	140	75	75	120	90
Energy	60	60	60	60	60
Food	70	70	70	70	70
Transport costs	70	20	20	15	20
Borrowing/Hire purchase -vehicle	74				
Borrowing/Hire purchase -sports equipment		100			
Borrowing/Hire purchase -computer related			20	20	
Clothes	50	30	40	30	30
Study related		40	30	30	30
Internet/phone	50	30	30	30	30
Personal	100	40	40	60	50
Total	614	465	385	435	380



Task

Table 1 (For achieved grade)

Using the information from the scenario, complete the questions in the table below.

Questions		Tasi	Laura	Jacqui	Hone	Tariq
(a)	Is the use of credit “good” or “bad”? Why?	Good, as it is for an asset related to his job. (van for carrying his tools)	Bad, consumption debt and these are “luxury” goods. (brand new sports equipment for personal use)	Good, as it is an asset that is related to her investment in her education. (computer for her studies)	Good, as it is an asset that is related to his investment in his education. (computer for his studies)	Not applicable
(b)	Is the debt manageable or unmanageable? Why?	Unmanageable. Payments now greater than receipts	Unmanageable Payments now greater than receipts	Unmanageable Payments greater than receipts, even more than before the loan	Manageable Payments still less than total receipts	Not applicable. No borrowing anticipated. He is being pressured by his sister to be a lender.
(c)	Identify two potential types (sources) of credit.	Personal loan Car finance company	Credit card Personal Loan	Credit card Hire purchase	Store card Personal loan from family/ whanau	Not applicable

Questions		Tasi	Laura	Jacqui	Hone	Tariq
(d)	Identify at least two types of credit providers for each of the flatmates who wish to borrow.	His bank Finance through the company he buys the van from.	Her credit card provider Her bank.	Her credit card provider Hire purchase from shop she buys the computer from.	Family/whanau Store he buys the computer from.	Not applicable.
(e)	What credit costs does the flatmate need to think about before taking on debt?	Interest rates can differ significantly on personal loan and car finance offers. Although it states payments as \$74 a week it doesn't say for how long, so we cannot calculate the total cost of the loan. Tasi may lose his job if he is unable to take his tools to work, but if Tasi defaults on the loan there will be extra costs in the	Payments of \$100 a week, but no time frame is mentioned. Interest rate on credit card, particularly if Laura decides to pay only the minimum balance due. Non-repayment of instalments affecting credit rating/history Resulting in possible repossession and paying higher interest on future borrowing.	Payments of \$20 a week, but no time frame is mentioned. Interest rate on credit card and on hire purchase agreement Non-repayment of instalments affecting credit rating/history Resulting in possible repossession and paying higher interest on future borrowing	Payments of \$20 a week, but no time frame is mentioned. Loan terms from family as there is no set agreement, the family could ask for immediate payment of the loan at any time. If Hone defaults on his payments this could cause bad feeling and resentment within the family.	Not applicable

		<p>form of penalties for late or non-payment.</p> <p>Resulting in even higher rates of interest when borrowing in the future.</p>			<p>Store card fees and charges. Hone needs to make sure that he understands the terms and conditions and does not incur any extra hidden costs, such as set up fees.</p>	
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Table 2 (For achieved grade)

Using one (or more) of the flatmates in the scenario describe the impacts **four (4)** of the following factors can have on their personal finances.

Factors: changes in circumstances, taxes, interest rates, penalties, credit rating

Factor 1: Penalties
Tasi's budget is in deficit so there is likelihood of him missing repayments in which case there will be extra financial costs he has to wear (non-payment fees or administration charges). In the event of defaulting on his loan the vehicle could be repossessed, putting him in the same position regarding carrying his tools to work and leaving him with no asset.
Factor 2:

Factor 3:

Factor 4:

Table 3 (For merit grade)

Select **two (2)** of the flatmates in the scenario and describe the credit and/or debt by giving examples and linking impacts to personal finances.

Flatmate 1: **Hone**

Hone has maintained a surplus in his budget even with the borrowing so he will be able to save (and possibly earn a little interest).

He will also have funds available should his circumstances change (increased/unexpected bills, decrease in wages, student loan and bursary not available over the length of his loan).

If he meets all of his repayments he will get a good credit rating which will make it easier for him to get credit in the future.

Flatmate 2: [name]

Table 4 (For excellence grade)

For Hone, and one (1) other flatmate who has unmanageable debt in the scenario, explain the impacts of the manageable or unmanageable debt on their personal finances.

Flatmate 1:[Hone]

Flatmate 2:Tasi

Tasi's revised budget is \$14 in deficit and a budget which goes into deficit when money is borrowed is unmanageable as he is spending more than he is earning. If he has unexpected bills or he earns less he will have to borrow money from elsewhere. There is no emergency fund allowed for. This could add up to a considerable amount of debt, which he will find difficult to repay. He will always be borrowing (at a cost) from one to pay another and have the risk of losing the van (which he needs to earn income) if he can't make repayments.

He needs to consider options to make the proposed borrowing repayments manageable such as buying a cheaper van, or taking on more work.