CFA Society United Kingdom

CFA SOCIETY UNITED KINGDOM

WE GROW TALENT

CERTIFICATE IN INVESTMENT MANAGEMENT (IMC)

(CFA UK Level 4 Certificate in Investment Management)

Unit 1: The Investment Environment

MOCK EXAM ONE

VERSION 24– TESTED FROM 1 DECEMBER 2026

Key facts about the IMC Unit 1 exam

Syllabus	CFA UK Level 4 Certificate in Investment Management (IMC) Unit 1 Version 24 tested from 1 December 2026
Tax tables for this syllabus	Tax tables used for IMC Syllabus Version 24
Number of questions	85
Time allowed	1 hour 40 minutes
Types of questions used	• Standard multiple choice – Candidates select 1 option of 4. • Item set – Candidates are given a short scenario with several questions associated with it. The material given in the case study does not change with the questions. • Gap fill – Candidates must enter a value into the answer field. There are specific formatting requirements, and these formatting requirements are always given in the question.

Important information regarding what happens on the day

Calculator used	• From 1st June 2020 IMC candidates will not be permitted to use a handheld calculator during their examination. The onscreen calculator will be available for all questions during the exam. • The IMC calculator policy provides further information on the onscreen calculator.

Please click here for all Terms and Conditions pertaining to the Investment Management Certificate.

The mock exam paper should NOT be viewed as a primary source of learning. By its nature, a mock exam paper will only cover proportion of the learning outcomes. Candidates are strongly advised to develop a fundamental understanding of the curriculum in order to demonstrate the competence required to pass the examination.

QUESTION ALLOCATION:

Question allocation across the syllabus is balanced on the guidance of psychometric and industry specialists. The following question allocation for Version 24 of the IMC is provided as a broad indication of the relative 'weighting' of different parts of the syllabus in IMC examinations from 1 December 2026.

Content area	Topic	Topic name	Question allocation
Financial markets and institutions	1	Financial markets and institutions	10–20
Ethics	2	Ethics and investment professionalism	5–15
Regulation and legal concepts	3	The regulation of financial markets and institutions	25–35
	4	Legal concepts	
Clients	5	Client advice	15–25
Taxation	6	Taxation in the UK	10–20

1. Which of the following is the most likely outcome of an increase in the liquidity risk of an asset?

(a) *A lowering of transaction costs*

(b) *An increase in the order size that has a price impact*

(c) *Increased bid–offer spread*

(d) *Increasing future price certainty*

2. An additional rate taxpayer has already received dividends of £15,000 in the current 2026/27 tax year. He then receives a further dividend of £1,296. To the nearest pound, what is the investor's income from this further dividend after the payment of all tax due?

(a) £1,296

(b) £1,199

(c) £802

(d) £786

3. For how long must a firm keep records of any communicated or approved financial promotion of personal pension schemes?

(a) *3 years*

(b) *5 years*

(c) *6 years*

(d) *Indefinitely*

4. The Stewardship Code is directed towards which group of people?

(a) *Stewards*

(b) *Banks*

(c) *Institutional investors*

(d) *FCA regulated firm*

5. **Which of the following best describes a continuing obligation requirement of companies listed on the London Stock Exchange Official List?**

(a) *Companies are obliged to comply fully with the UK Corporate Governance Code*

(b) *Companies should have a consistent procedure for determining what information is price sensitive and for releasing such information*

(c) *Large shareholders should be given priority when information is being disclosed*

(d) *Price sensitive information should be immediately disseminated via a press release on the company website*

6. **The principal–agent problem arises when:**

(a) *Principals and agents are colluding*

(b) *The interests of the principals and agents are aligned*

(c) *The interests of the principals and agents diverge*

(d) *Principals exercise control over the agents*

7. **Which of the following is NOT a condition for a will to be valid?**

(a) *It must be signed and witnessed*

(b) *It must have been made when in appropriate mental capacity*

(c) *It must be in writing*

(d) *It must have been made by a person aged 16 years or over*

8. **A pension fund with a high proportion of its contributing members close to retirement is likely to have a high proportion of its funds invested in:**

(a) *Cash*

(b) *Property*

(c) *Fixed income*

(d) *Equities*

9. **Which of the following disclosures are required when a firm publishes an investment research recommendation under COBS 12.4?**

(a) *The CV, including qualifications, of the individual who prepared the recommendation*

(b) *The most recent date that the firm had a beneficial interest in securities affected by the recommendation, if applicable*

(c) *The name and job title of the individual who prepared the recommendation*

(d) *The reason the recommendation differs from those produced by rival firms, if applicable*

10. **When a financial adviser requires information on a client from a third party, what must the adviser receive from the client?**

(a) *A letter of agreement*

(b) *A letter of acceptance*

(c) *A letter of acknowledgement*

(d) *A letter of authority*

11. **Which one of the following is classed as a non-mass market investment (NMMI) by the FCA?**

(a) *A peer-to-peer agreement*

(b) *An exchange-traded fund*

(c) *A speculative mini bond*

(d) *A security listed on AIM*

12. **Which of the following statements best describes a dark pool?**

(a) *An investment firm which deals on its own account by executing customer order flow in listed securities outside a regulated market*

(b) *An electronic crossing network which provides liquidity that is not displayed on a conventional order book of an organised exchange*

(c) *An exchange for trading non-standardised contracts such as swaps*

(d) *A quote-driven market for trading stocks and bonds with market makers providing liquidity*

13. Which of the following is NOT a standard within the CFA Code of Ethics and Standards of Professional Conduct?

(a) *Investment analysis, recommendations and actions*

(b) *Integrity of capital markets*

(c) *Remuneration*

(d) *Conflicts of interest*

14. Ownership and control of capital is separated by the process of:

(a) *Disintermediation*

(b) *Securitisation*

(c) *Appointment of agents*

(d) *Appointment of principals*

15. Under which Act of Parliament may an employee in the regulated sector commit a criminal offence by failing to report knowledge or suspicion of money laundering acquired in the course of their business?

(a) *Financial Services Act 2010*

(b) *Financial Services and Markets Act 2000*

(c) *Criminal Justice Act 2003*

(d) *Proceeds of Crime Act 2002*

16. An FCA authorised firm has received money from a retail client that it holds before it is to be invested on behalf of the client. It holds these funds in a bank account. Which condition must apply to this account?

(a) *It is separate from the account(s) used to hold the firm's funds*

(b) *The account must be held with a central bank*

(c) *Other clients' money should not be held in the same account*

(d) *The account cannot be held with a bank authorised in a third country*

17. According to the majority of academic studies which one of the following is the most important factor in determining the variation in a diversified investment portfolio's returns over time?

(a) *Market timing*

(b) *Fund/stock selection*

(c) *Asset allocation*

(d) *Size of the portfolio*

18. The sponsoring employer of a defined benefit pension scheme has become insolvent, and the pension scheme is unable to pay its liabilities.

Assuming the pension scheme has entered the Pension Protection Fund, what level of compensation in terms of percentage of benefits does the Fund provide to those who have NOT yet retired?

Important! You should enter the answer *only* in numbers *strictly* using this format: 00

Do not include spaces, letters or symbols but decimal points and commas should be used if indicated.

19. A firm is obliged to keep records of financial promotions it approves for an occupational pension scheme for what length of time?

(a) *3 years*

(b) *5 years*

(c) *6 years*

(d) *Indefinitely*

20. An adviser wishes to write materials for circulation to clients. Which of the following would be permissible according to the CFA Code of Ethics and Standards of Professional Conduct?

(a) *The copying or use of charts and graphs prepared by others without stating the source*

(b) *The inclusion of excerpts from articles or reports written by investment professionals with the source quoted*

(c) *The inclusion of short quotes from research made by economists without referring to the names of the economists*

(d) *The use of spreadsheets from external sources without the authorisation of the creator*

21. Which one of the following is NOT a characteristic of the SETS trading system on the London Stock Exchange?

(a) *There is an opening auction*

(b) *It is a quote display system*

(c) *Stocks listed in the FTSE Small-Cap can be traded through the system*

(d) *It is an electronic limit order system*

22. Where an FCA regulated firm produces an advertisement showing past performance of a fund that was created 8 years ago, the performance information should cover at least what period of time?

(a) *3 years*

(b) *5 years*

(c) *6 years*

(d) *The life of the fund, i.e., 8 years*

23. What is the administrator of a bankrupt person's financial affairs called?

(a) *Official registrar*

(b) *Official representative*

(c) *Official receiver*

(d) *Official referee*

24. Which regulatory body is responsible for the protection of members of work-based pension schemes?

(a) *The FCA*

(b) *HM Treasury*

(c) *The Pensions Regulator*

(d) *The Financial Ombudsman*

25. **Which of the following is the first step in the financial planning process for a retail client?**

(a) *Assessing the client's attitude to risk*

(b) *Considering asset allocation*

(c) *Collecting soft facts about the client*

(d) *Establishing the client's objectives*

26. **What is the maximum payout for a compensation claim against an investment firm declared in default in relation to protected investment business?**

(a) £50,000

(b) £85,000

(c) £1,000,000

(d) Unlimited

The next 5 questions are associated with the following case study. The material given in the case study will not change.

Emma is a higher rate taxpayer, and her husband Matt is a basic rate taxpayer. They are considering selling some of their investments. Their investments are:

- £60,000 nominal of Treasury 6% 2028, currently worth £72,000 against a purchase price of £61,000 paid two years ago by Emma.
- 20,000 ABC shares that Matt bought for £40,000 three years ago that are now worth £60,000.
- A painting which they bought together five years ago for £25,000 which is now worth £85,000.
- 20,000 XYZ shares that Emma bought three years ago at a cost of £18,000 that are now worth £10,000.

The annual CGT exemption for 2026/27 is £3,000. Emma and Matt have not realised any capital gains or losses for three years. Ignore costs of sale in your answers.

27. **What is the maximum number of ABC shares that Matt can sell in the current tax year without facing a capital gains tax charge?**

Important! You should enter the answer *only* in numbers *strictly* using this format: **0,000**

Do not include spaces, letters or symbols but decimal points and commas should be used if indicated.

28. **If Emma sells her XYZ shares in the current tax year and makes no other disposals, how long can she carry forward the loss?**

(a) 1 year

(b) 7 years

(c) 10 years

(d) Indefinitely

29. **If Emma and Matt sell the painting and Emma also sells her XYZ shares in the current tax year, what would be the taxable gain for Emma (in pounds)?**

Important! You should enter the answer *only* in numbers *strictly* using this format: 00,000

Do not include spaces, letters or symbols but decimal points and commas should be used if indicated.

30. **How much capital gains tax would Emma pay if both Matt and she sell the painting in the current tax year (in pounds)?**

Important! You should enter the answer *only* in numbers *strictly* using this format: 0,000

Do not include spaces, letters or symbols but decimal points and commas should be used if indicated.

31. **If Matt sells all of the ABC shares in tax year 2026/27 how much CGT would be payable on the disposal of these shares (in pounds), assuming any gain made when adding to his income is within the basic rate tax band?**

Important! You should enter the answer *only* in numbers *strictly* using this format: 0,000

Do not include spaces, letters or symbols but decimal points and commas should be used if indicated.

32. **Which of the following is the least significant factor in fund selection?**

(a) Charges

(b) Types of investments in the fund

(c) Independence of a fund's trustees

(d) Whether the fund is an OEIC or unit trust

33. Which one of the following is exempted from applying to the FCA for authorisation to carry on investment business in the UK?

(a) *A trustee of a collective investment scheme*

(b) *A company offering investment advice*

(c) *An appointed representative of an authorised firm*

(d) *A company offering custodian services*

34. For how long must an investment firm keep records of client categorisations in relation to MiFID business?

(a) *1 year*

(b) *2 years*

(c) *3 years*

(d) *Length of the business relationship*

35. What is the takeover panel levy per trade in UK company securities (where the total consideration of the trade is greater than £10,000)?

(a) *25 pence*

(b) *50 pence*

(c) *100 pence*

(d) *150 pence*

36. Leigh makes a gift of her second home in York to her daughter Rebecca and retains no financial interest in the home. How much longer does Leigh need to live before the gifted home is no longer counted as part of Leigh's estate and subject to an inheritance tax liability?

(a) *3 years*

(b) *5 years*

(c) *6 years*

(d) *7 years*

37. A higher rate taxpayer receives total dividend income of £6,000 in the 2026/27 tax year. How much additional tax will they have to pay on their dividend income (rounded up to the nearest £)?

Important! You should enter the answer *only* in numbers *strictly* using this format: 0,000

Do not include spaces, letters or symbols, but decimal points and commas should be used if indicated.

38. Under which one of the following circumstances is a UK investment firm normally required to undertake enhanced due diligence before undertaking investment business with a client?

(a) *Where the client is new to the firm*

(b) *Where the client is based outside the UK*

(c) *Where the client is a politician in a country that is not the UK*

(d) *Where the client has been referred to the firm by an overseas investment firm*

39. How often must a statement of investment principles drawn up in relation to an occupational pension scheme be reviewed?

(a) *Every 6 months*

(b) *Every 1 year*

(c) *Every 3 years*

(d) *Every 5 years*

40. Dwayne buys shares in Orton Plc for £7,000 in a stocks and shares ISA. He sells them in the same tax year for £20,000. The capital gains tax (CGT) allowance is £3,000 and CGT is levied at 18%. How much tax is payable?

(a) *£3,600*

(b) *£2,340*

(c) *£234*

(d) *£0*

41. When executing a client's transactions, a firm's staff must:

(a) *Only be alert to the possibility of money laundering*

(b) *Be alert to the possibility of money laundering and report any suspicions to the firm's Money Laundering Reporting Officer*

(c) *Report any suspicions to the client as well as the firm's Money Laundering Reporting Officer*

(d) *Inform the client if the transaction is believed to be suspicious*

42. **Which one of the following services is NOT classed as an ancillary service under the UK Markets in Financial Instruments Directive (UK MiFID)?**

(a) *Services relating to underwriting*

(b) *Advice to firms on mergers and acquisitions*

(c) *Investment research relating to financial transactions*

(d) *Execution of orders on behalf of clients*

43. **An investor has the objective of building a large fund to pay for a holiday home in 10 years' time but is concerned about capital risk and therefore decides to invest most of their wealth in fixed interest deposits. Which of the following risks is this strategy likely to increase?**

(a) *Inflation risk only*

(b) *Inflation and shortfall risk only*

(c) *Shortfall and operational risk only*

(d) *Inflation, shortfall and operational risk*

44. **A limited company structure has been used to purchase a residential property in London for £3,000,000. The property is to be occupied by the company's sole shareholder. How much Stamp Duty Land Tax is payable on this transaction? (expressed in pounds)**

Important! You should enter the answer *only* in numbers *strictly* using this format: 000,000

Do not include spaces, letters or symbols, but decimal points and commas should be used if indicated.

The next 6 questions are associated with the following case study. The material given in the case study will not change.

Six months ago, Hannah had a full financial review, which included a review of her life insurance. At the time of the review, she agreed with her adviser that her existing cover was adequate.

She is now meeting her adviser to review her investment portfolio. As part of her portfolio, she holds £95,000 in gilts. Hannah purchased the gilts for £87,000 and they provide £1,750 gross income every six months. Hannah's main financial objective is to ensure she has sufficient income when she retires in 25 years.

Hannah is married, with three children, and her elderly father also lives with the family. She is a higher rate taxpayer, and her monthly expenditure is currently equal to her income.

Hannah also has a savings account that pays interest of £500 per annum, fully utilising her personal savings allowance as a higher-rate taxpayer.

For the purposes of this question assume that she is a higher rate taxpayer and has used all available capital gains tax allowances during the current tax year.

45. What would be the annual income tax saving if she held her entire gilt portfolio in an ISA?

(a) *£700*

(b) *£1,400*

(c) *There would be no income tax saving as gilts are free of income tax*

(d) *There would be no income tax saving as Hannah would still be unable to reclaim the tax credit*

46. With reference to income tax liability only, which of the following investments would be considered least tax efficient for Hannah?

(a) *Investment grade bonds, held within an ISA*

(b) *Non-investment grade bonds, held outside of an ISA*

(c) *Non-dividend paying equities, held outside of an ISA*

(d) *Dividend paying equities, held within an ISA*

47. What would be the capital gains liability if Hannah sold her gilts portfolio during the current tax year?

(a) *£1,440*

(b) *£1,920*

(c) *£3,200*

(d) *There would be no capital gains liability*

48. Under FCA regulations, which document is Hannah's financial adviser required to use to record any new information she provides?

(a) *A client agreement*

(b) *A fact find*

(c) *A Key Facts document*

(d) *There is no requirement to use a specific document*

49. Based on the information provided, what is Hannah's adviser most likely to consider the first priority?

(a) *Increasing her life insurance cover*

(b) *Providing funds for her children's school fees*

(c) *Reviewing her pension arrangements*

(d) *Arranging long-term care funding for her father*

50. Based on the information given, which factor is most likely to increase Hannah's tolerance for investment risk with regard to her primary financial objective?

(a) *Her time horizon*

(b) *Her monthly income position*

(c) *Her tax status*

(d) *Her family situation*

51. *Which of the following quantitative criteria would contribute to a firm being able to treat a client as an elective professional client?*

(a) *They have worked in the financial sector in a professional position requiring knowledge of security investment for seven months and have a security portfolio worth €2.5 million*

(b) *They have a security portfolio worth €0.25 million and have carried out thirty significant transactions on securities markets for each of the last ten quarters*

(c) *They have total wealth exceeding €25 million*

(d) They have carried out twenty transactions of significant size on the relevant market in each of the previous four quarters and have worked for two years in a financial-sector position requiring knowledge of the relevant investments.

52. What is the Debt Management Office's primary method for issuing gilts?

(a) *Auction*

(b) *Tender*

(c) *Syndicated offering*

(d) *Tap*

53. Sebastian works for a private client wealth management firm as a dealer. He is asked to purchase a number of shares across a variety of accounts. The orders are only partially filled, though. According to the CFA Code of Ethics and Standards of Professional Conduct, he should:

(a) *Give priority to those paying most commission*

(b) *Allocate the shares pro rata according to the order size*

(c) *Allocate the shares randomly*

(d) *Allocate the shares to the best performing accounts first*

54. A firm providing investment advice to retail clients can use dealing commission to purchase:

(a) *Connectivity services*

(b) *Provision of original research*

(c) *Order and execution management systems*

(d) *Nothing as this would be classed as an inducement*

55. Which legal document is required when one person wishes to give another person full power to make all decisions regarding their financial affairs?

(a) *Discretionary authority*

(b) *Letter of authority*

(c) *Letter of probate*

(d) *Power of attorney*

56. One of the criteria for determining whether the Competition and Markets Authority investigates a merger is called the 'turnover test'. What is the minimum level of UK turnover necessary for the 'turnover test' to qualify a transaction for investigation (in £m)?

Important! You should enter the answer *only* in numbers *strictly* using this format: 000

Do not include spaces, letters or symbols, but decimal points and commas should be used if indicated.

57. A client requires money in two years' time for the purchase of a property. Which type of investment may be the most appropriate?

(a) *Mid-cap equities*

(b) *Commodity futures*

(c) *Commercial property*

(d) *Fixed interest deposit*

58. In order to prevent mis-selling of financial products, the Financial Conduct Authority will NOT do which of the following?

(a) *Provide official approval for new products*

(b) *Place a temporary ban on unsuitable products*

(c) *Ban misleading financial promotions*

(d) *Prosecute those firms or people making misleading statements about a financial product*

59. An investment firm is permitted to engage in the activity of dealing in securities as an agent. If the firm wishes to extend its activities to include safeguarding assets it must:

(a) *Advise the FCA before going ahead with the new activity*

(b) *Apply to the FCA for variation of permission*

(c) *Re-apply to the FCA for a new Part 4A permission*

(d) *Set up a separate subsidiary which must seek a Part 4A permission for this activity*

60. Which one of the following statements about client categorisation is NOT correct?

(a) *A firm is permitted to treat a retail client as a professional client*

(b) *A firm is permitted to treat a professional client as an eligible counterparty*

(c) *The only requirement for treating a retail client as a professional client is that the client passes a "quantitative" test*

(d) *A firm may treat a professional client as a retail client if the client requests this*

61. Up to what age is an individual entitled to tax relief on contributions to a registered pension scheme?

(a) *60 years*

(b) *65 years*

(c) *70 years*

(d) *75 years*

62. A retail client has the right to cancel the purchase of a life policy in what period (in days) after the purchase?

Important! You should enter the answer *only* in numbers *strictly* using this format: 00

Do not include spaces, letters or symbols, but decimal points and commas should be used if indicated.

63. Which of the following investment services will normally incur VAT at the standard rate?

(a) *Arranging the sale of a retail investment product only*
(b) *Arranging the sale of a retail investment product and dealing in investments as agent*
(c) *Investment advice only*
(d) *Arranging the sale of a retail investment product, nominee services and investment advice*

64. Under the Consumer Composite Investments (CCI) regime, where a firm manufactures an OEIC aimed at retail investors, which one of the following documents must provide?

(a) *A product summary*

(b) *A key risks document*

(c) *An appropriateness report*

(d) *A client objectives report*

65. Which one of the following is least likely to affect a client's attitude to risk?

(a) *The timescale of the investment*

(b) *Recent volatility in the stock market*

(c) *Whether the client is married*

(d) *The asset allocation of the client's existing investments*

66. A company authorised in Germany to carry out investment management wishes to establish a branch in the UK. The firm will be able to carry out investment management in the UK by:

(a) *Applying to the FCA for Part 4A permission*

(b) *Applying to the FCA for exemption from authorisation*

(c) *Applying to the European Commission for an investment services passport*

(d) *Passporting through the UK Markets in Financial Instruments Directive*

67. Which of the following Acts of Parliament introduces the offence of failure to prevent tax evasion?

(a) *The Criminal Justice Act, 1993*

(b) *The UK Bribery Act, 2010*

(c) *The Criminal Finances Act, 2017*

(d) *The Economic Crime and Corporate Transparency Act, 2023*

68. Under which of the following circumstances would a UK investment firm be *least likely* required to undertake enhanced due diligence before undertaking investment business?

(a) *The client is a credit institution that is dual regulated by the FCA and PRA*

(b) *Business is conducted on a non-face to face basis*

(c) *In respect to correspondent banking relationships*

(d) *The client is a politically exposed person*

69. In the event of the death of an individual, who is normally responsible for the process of probate?

(a) *The Official Receiver*

(b) *The beneficiaries of the will*

(c) *The executors of the will*

(d) *The solicitor that holds the will*

70. To which body must a dual-regulated firm apply to vary its Part 4A permission?

(a) *The Bank of England*

(b) *The Financial Conduct Authority*

(c) *HM Treasury*

(d) *The Prudential Regulation Authority*

71. Which of the following assets is likely to be most at risk of underperforming inflation over the long term?

(a) *Gilts*

(b) *UK equities*

(c) *Overseas equities*

(d) *Cash deposits*

72. What is the amount of Stamp Duty Reserve Tax (SDRT) payable on a purchase of shares equal to £20,000?

(a) *£0*

(b) *£100*

(c) *£500*

(d) *£1,000*

73. Under which of the following circumstances may the Financial Ombudsman dismiss a complaint referred to it?

(a) *It is just over one year since the event which lead to the complaint took place*

(b) *The complainant has not suffered, or is unlikely to suffer, financial loss, material inconvenience or material distress*

(c) *The firm has made an offer of redress*

(d) *It is just over two years of the complainant knowing of the problem and within four months of the firm's response*

74. Harry is an investment manager whose clients tend to be very high net worth individuals. At a recent charity function, Harry suggests that the organisation sends a letter to some of his clients asking for donations. Later, Harry provides the charity with the names and contact details of a number of his clients. According to the CFA Code of Ethics and Standards of Professional Conduct which of the following is true of Harry's actions?

(a) *Harry can disclose client contact details, but not information on their investment portfolios*

(b) *Harry should not have disclosed the identity and contact details as it does not benefit his employer*

(c) *Harry should not have disclosed the identity and contact details of his clients without their prior approval*

(d) *Harry can disclose the identity and contact details as it is for a worthy cause*

75. What is the settlement period for gilts made through CREST?

(a) *T+1*

(b) *T+2*

(c) *T+3*

(d) *T+5*

76. What type of proxy is appointed by a member who wishes that proxy to vote as they see fit at a company meeting as their representative?

(a) *Agent proxy*

(b) *General proxy*

(c) *Special proxy*

(d) *Two-way proxy*

77. Which of the following are CFA Institute Standards of Professional Conduct?

(a) *Professionalism; Integrity of Capital Markets; Duty of Independence*

(b) *Professionalism; Regulatory and Legal Obligations; Duty to Employer*

(c) *Professionalism; Duties to Clients; Responsibilities as a CFA Institute Member or CFA Candidate*

(d) *Conflicts of Interest; Duty of Care; Responsibilities as a CFA Institute Member or CFA Candidate*

78. Why is capital allocation thought to be more efficient when markets have high liquidity and price transparency?

(a) *Because transaction prices tend to change more quickly*

(b) *Because transaction prices tend to change more smoothly*

(c) *Because the cost of capital is more stable*

(d) *Because the cost of capital is lower*

79. An employee of an FCA regulated firm becomes suspicious of the actions of her client who has recently been involved in the rapid turnover of bearer securities with an unknown counterparty. To whom should she report her suspicions?

(a) *The police*

(b) *The FCA*

(c) *The firm's money laundering reporting officer*

(d) *The client*

80. How many years does an investment in enterprise investment scheme (EIS) shares have to be held before a disposal is NOT subject to capital gains tax?

(a) *3 years*

(b) *4 years*

(c) *5 years*

(d) *6 years*

81. Persons discharging managerial responsibilities must notify the listed company of a personal transaction in that company's shares within:

(a) *One business day of the transaction*

(b) *Three business days of the transaction*

(c) *Four business days of the transaction*

(d) *Five business days of the transaction*

82. A portfolio manager acting in a non-discretionary role recommends a retail client to purchase a new product which the client subsequently buys. For which one of the following products is the portfolio manager NOT required to provide a suitability report to the client?

(a) *Units in an authorised unit trust*

(b) *A life policy*

(c) *A personal pension scheme*

(d) *A UK government bond*

83. A firm provides a client agreement to a retail client in relation to investment management services that excludes pension related advice. After one year, the client no longer undertakes business with the firm. How many more years, after the firm has ceased to do business with the client, must the firm keep a record of the client agreement?

Important! You should enter the answer *only* in numbers *strictly* using this format: 0

Do not include spaces, letters or symbols, but decimal points and commas should be used if indicated.

84. Annual reports of UK listed companies are required to declare holdings of shares by owners other than directors when they exceed a specified percentage of any class of voting capital.

What is the percentage?

(a) *1%*

(b) *2%*

(c) *3%*

(d) *6%*

85. In relation to the Client Money rules a designated bank account has which of the following characteristics:

(a) *It can only hold the money of one client*

(b) *When the bank fails the money is not to be pooled with other clients accounts*

(c) *On the failure of the investment firm, money in the designated client bank account is generally not pooled with money held in other client bank accounts*

(d) *It can only hold the money for a maximum of six months*

Answers – Unit 1 mock 1

1	c	2	d	3	c	4	c	5	b
6	c	7	d	8	c	9	c	10	d
11	c	12	b	13	c	14	c	15	d
16	a	17	c	18	90	19	c	20	b
21	b	22	b	23	c	24	c	25	d
26	b	27	3,000	28	d	29	19,000	30	6,480
31	3,060	32	d	33	c	34	d	35	d
36	d	37	2132,	38	c	39	c	40	d
41	b	42	d	43	b	44	510,000	45	b
46	b	47	d	48	d	49	c	50	a
51	d	52	a	53	b	54	d	55	d
56	100	57	d	58	a	59	b	60	c
61	d	62	30	63	c	64	a	65	c
66	a	67	c	68	a	69	c	70	d
71	d	72	b	73	b	74	c	75	a
76	b	77	c	78	d	79	c	80	a
81	b	82	d	83	5	84	c	85	c

*Further breakdown of calculations below

Mock exam 1 – worked calculations

2. The dividend allowance of £500 has already been used against the £15,000 of dividends already received. So, the additional rate taxpayer will pay tax at the rate of 39.35% on the additional dividend of £1,296 = £1,296 *0.3935 = £509.98. Hence net dividend = £1,296 - £509.98 = £786.02. Rounded to the nearest £ gives £786 (answer (d))

27. The shares cost £2 each when bought (£40,000/20,000) and are now worth £3 each (£60,000/20,000). So, each share sold generates a capital gain of £1. Matt has an exempt amount of capital gains equal to £3,000 therefore the maximum number of shares he can sell before the exempt amount is used up is 3,000.

29. Sale of the painting generates a capital gain = £60,000 (£85,000 - £25,000). The gain for Emma is thus £30,000.
Sale of the XYZ shares generates a capital loss of £8,000 (£10,000 - £18,000). Therefore,
net capital gain = £30,000 - £8,000 = £22,000
Taxable gain (after deducting exempt amount) = £22,000 – £3,000 = £19,000

30. Sale of the painting generates a capital gain = £60,000 (£85,000 - £25,000). The gain for Emma is thus £30,000.
Taxable gain = £30,000 - £3,000 = £27,000
As Emma is a higher-rate taxpayer, the rate of CGT paid = 24% Therefore,
Emma will pay CGT = £27,000* 0.24 = £6,480

31. If Matt sells his XYZ shares he will generate a capital gain = £20,000
Taxable gain = £20,000 - £3,000 = £17,000
As Matt is a basic rate taxpayer his CGT rate is 18%.
Therefore, CGT paid = £17,000* 0.18 = £3,060

37. Of the dividend income of £6,000 the first £500 falls within the dividend allowance and so is not taxed. As the investor is a higher rate taxpayer the remaining £5,500 is taxed at 38.75%. Tax paid is therefore £5,500 * 0.3875 = £2131.25 (rounded up to £2,132)

44. An anti-avoidance rate of 17% is charged on the entire purchase price where companies buy residential properties with a value over £500,000. Therefore, tax paid = £3,000,000 * 0.17 = £510,000

72. SDRT is charged at 0.5% on the value of the purchased shares. In this case, £20,000 * 0.005 = £100