

**INSTITUTE OF BANKERS IN MALAWI**

**ADVANCED DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: INVESTMENTS (IOBM-AD310)**

**Date: Friday, 9th May, 2014**

**Time Allocated: 3 hours (8:00 am - 11:00 am)**

**INSTRUCTIONS TO CANDIDATES**

1 This paper consists of **TWO** Sections, A and B.

2 Section A consists of 4 questions, each question carries 15 marks.

Answer **ALL** questions.

3 Section B consists of 4 questions, each question carries 20 marks. Answer **ANY TWO** questions.

4 You will be allowed **10 minutes** to go through the paper before the start of the examination when you may write on this paper but not in the answer book.

5 Begin each answer on a new page.

6 **Please write your examination number on each answer book used. All answer books without examination answers will not be marked.**

7 All persons writing examinations without payment will risk expulsion from the Institute.

8 DO NOT open this question paper until instructed to do so.

**SECTION A (60 MARKS)**

Answer **ALL** questions from this section.

**QUESTION 1**

1. Define diversification and explain why it is important in investments? *(8 marks)*
2. Unit trusts are new to Malawi and it is only being offered by one company so far. Explain how unit trusts work?  *(7 marks)*

**(Total 15 marks)**

**QUESTION 2**

In investments, it is vital for investors to follow investment principles.

Describe **five** investment principles that must be followed when investing in hard assets?  **(Total 15 marks)**

**QUESTION 3**

1. Differentiate redeemable preference shares from convertible preference shares. *(5 marks)*

1. Describe any **five** factors that need to be considered when valuing equities?

*(10 marks)*

**(Total 15 marks)**

**QUESTION 4**

1. Calculate the costs that a buyer of a Treasury bill on the secondary market will pay if he wishes to have MK1 million in each case on 24 April 2014 at a discount rate of 25% and also at 20%. Assume settlement date is the same as contract date, 23 January 2014.  *(8 marks)*
2. Define a Negotiable Certificate of Deposit (NCD)and list any **five** components of NCD.  *( 7 marks)*

**(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer **ANY TWO** questions from this section.

**QUESTION 5**

1. Describe how lease-back works? *(4 marks)*
2. Give any **four** advantages of a lease-back :
3. to the seller. *(8 marks)*

ii to the buyer. *(8 marks)* (**Total 20 marks)**

**QUESTION 6**

1. In the economy there are many financial institutions which characterize its economic performance. Give **four** ways on how company’s values are derived.  *(8 marks)*
2. Income statement, statement of financial position and cash flow statement provide the main source of company’s financial performance. Illustrate how each one of them work in helping the investor understand the performance of the company. *(12 marks)*

**(Total 20 marks)**

**QUESTION 7**

Orama Portfolio Managers specializes in fund management. They have over four funds acquired in the past year 2013 and each fund is guided by agreed upon investment mandates from the respective client. Orama offer its own investment strategies in order to satisfy clients’ financial objectives. You have just been employed by Orama and management has entrusted you to manage three fund portfolios.

**Required:**

Discuss **two** basic investment strategies that you would implement in order to achieve client’s return.  **(Total 20 marks)**

**QUESTION 8**

1. Differentiate leveraging from capitalization ratio? *(4 marks)*
2. The following information has been extracted from the recently published accounts of Chipo Investment Ltd.

**EXTRACTS FROM THE INCOME STATEMENTS TO 30 APRIL**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **2013** | **2012** |  |  |
|  | **K'000** | **K'000** |  |  |
| Sales | 11,200 | 9,750 |  |  |
| Cost of sales | 8,460 | 6,825 |  |  |
| Net profit before tax | 465 | 320 |  |  |
| This is after charging: |  |  |  |  |
| Depreciation | 360 | 280 |  |  |
| Loan note interest | 80 | 60 |  |  |
| Interest on bank  overdraft | 15 | 9 |  |  |
| Audit fees | 12 | 10 |  |  |
|  |  |  |  |  |
| **STATEMENT OF FINANCIAL POSITION AS AT 30 APRIL** | | |  |  |
|  |  | **2013** |  | **2012** |
|  | **K'000** | **K'000** | **K'000** | **K'000** |
| **Assets** |  |  |  |  |
| Non current Assets |  | 1,850 |  | 1,430 |
| **Current assets** |  |  |  |  |
| Inventories | 640 |  | 490 |  |
| Receivables | 1,230 |  | 1,080 |  |
| Cash | 80 |  | 120 |  |
|  |  | 1,950 |  | 1,690 |
| Total Assets |  | 3,800 |  | 3,120 |
|  |  |  |  |  |
| Equity & Liability |  |  |  |  |
| Equity |  | 800 |  | 800 |
| Ordinary share capital |  | 1,310 |  | 930 |
| Retained earnings |  | 2,110 |  | 1,730 |
|  |  |  |  |  |
| Non Current Liabilities |  |  |  |  |
| 10% loan stock |  | 800 |  | 600 |
| Bank overdraft | 110 |  | 80 |  |
| Payables | 750 |  | 690 |  |
| Taxation | 30 |  | 20 |  |
|  |  | 890 |  | 790 |
|  |  | 3,800 |  | 3,120 |
|  |  |  |  |  |
| The following ratios are those calculated for Chipo Investment Ltd based on published accounts for the previous year | | | | |
|  |  |  |  |  |
|  |  |  |  | Chipo Investment Ltd |
| ROCE(Capital employed=equity and debentures) | | |  | 16.30% |
| Profit/sales |  |  |  | 3.90% |
| Asset Turnover |  |  |  | 4.19 |
| Current ratio |  |  |  | 2.14 |
| Quick ratio |  |  |  | 1.52 |
| Gross profit margin |  |  |  | 30.00% |
| Accounts receivable collection period | |  |  | 40 days |
| Accounts payable payment period | |  |  | 37 days |
|  |  |  |  |  |
|  |  |  |  |  |

**Required:**

Calculate comparable ratios (to two decimal places where appropriate) for Chipo Investment Ltd for the year ended 30 April 2013. All calculations should be shown clearly.

**HINT**: use 2012 comparative figures to help you calculate 2013 figures as the same formula applies. *(16 marks)*

**(Total** **20 marks)**

**END OF EXAMINATION PAPER**