

**INSTITUTE OF BANKERS IN MALAWI**

**DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: PRINCIPLES OF INVESTMENTS (IOBM D208)**

**Date: Sunday, 22nd November 2020**

**Time Allocated: 3 hours (13:30 – 16:30 Hours)**

**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, 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. Answer books without examination numbers will not be marked.**

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

8 If you are caught cheating, you will be automatically disqualified in all subjects seated this semester.

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

**SECTION A (60 MARKS)**

Answer ALL questions from this section

**QUESTION 1**

Briefly explain the following terms.

1. Investors
2. Required rate of return
3. Capital Asset Pricing Model (CAPM)
4. Setting the Investment Objective
5. The primary markets **(Total 15 marks)**

**QUESTION 2**

Explain the following concepts that are considered when doing a macroeconomic analysis:

1. National output: GDP
2. Unemployment rate
3. [Inflation](http://www.investopedia.com/terms/i/inflation.asp) **(Total 15 marks)**

**QUESTION 3**

(a) K10 000.00 is deposited on January 1, 2019 and will remain in the account until December 31, 2019. The account will earn interest at 8% per year but the interest is *compounded quarterly*. Calculate the future value. *(5 marks)*

(b) What is the present value of receiving a single amount of K5 000 at the end of three years, if the time value of money is 8% per year, compounded quarterly. *(5 marks)*

(c) List **five** interest – bearing securities. *(5 marks)*

**(Total 15 marks)**

**QUESTION 4**

a) Distinguish expected rate of return from required rate of return and describe how would an investor be guided by these rates. *(6 marks)*

b) Given that an investment of K1, 525,000 is worthy K1, 850,000 at the end of its 2-year term, calculate the annual Holding Period Yield*. (4 marks)*

c) Mention **two** example of systematic risk. *(2 marks)*

d) Why do investors calculate HPY and Expected rate of return? (*3 marks)*

**(Total 15 marks)**

**SECTION B (40 MARKS)**

Answer **ANY TWO** questions from this section

**QUESTION 5**

The profitability ratios obtained from financial statement of Rex Ltd are shown below;

**Year 2013 2012 2011 2010**

Gross Profit 15.80% 16.20% 14.95% 13.65 %

Return on Equity 15.60% 17.50% 15.15% 14.89%

Return on Capital Employed 15.40 17.15% 15.00% 14.25 %

**Required**

a) Explain **five** factors that possibly contributed to gross profit trend between year 2012 and 2013.  *(10 marks)*

b) Independent Auditors verified all computations for return on capital employed ratio and were satisfied with the figures. What **five** precautionary actions did management take into account in arriving at these ratios? *(10 marks)*

**(Total 20 marks)**

**QUESTION 6**

The following figures are extracted from financial statements of AB holdings ltd

|  |  |
| --- | --- |
|  | MK |
| Credit sales | 245,000 |
| Returns Inwards | 20,000 |
| Debtors | 35,000 |
| Paid up Share Capital | 120,000 |
| Capital Reserves | 55,000 |
| Returned Profit | 115,000 |
| Long-term loans | 150,000 |
| Creditors | 28,000 |
| Others payables | 42,000 |

**Required**

a) From the above information, calculate

i) Average collection period ratio. *(2 marks)*

ii) Debtors Turnover ratio. *(2 marks)*

iii) Debt equity ratio. *(3 marks)*

b) Give a detailed interpretation of debt to equity ratio; include in your interpretation perspectives of shareholders and creditors. *(10 marks)*

c) Mention **three** ratios that highlight undercapitalization of a company. *(3 marks)* **(Total 20 marks)**

**QUESTION 7**

1. Briefly explain annuities and their basic types.  *(5 marks)*
2. Natasha makes a single deposit today of K200 000.00. The deposit will be invested for 3 years at an interest rate of 10% per year compounded semiannually. What will be the future value of Natasha’s account at the end of 3 years? *(10 marks)*
3. What influence would a restrictive monetary policy have on the economy? *(5 marks)*

**(Total 20 marks)**

**QUESTION 8**

1. List any **five** profitability ratios that are used to measure the results of business operations or overall performance and effectiveness of the firm.  *(5 marks)*
2. Differentiate between Horizontal analysis and vertical analysis as tools and techniques of financial statement analysis. *(10 marks)*
3. Activity ratios are calculated to measure the efficiency with which the resources of a firm have been employed. These ratios are also called turnover ratios because they indicate the speed with which assets are being turned over into sales.

List any **five** of these ratios.  *(5 marks)*

**(Total 20 marks)**

**END OF THE EXAMINATION PAPER**