

**INSTITUTE OF BANKERS IN MALAWI**

**ADVANCED DIPLOMA IN BANKING EXAMINATION**

**SUBJECT: INVESTMENTS (AD-310)**

**Date: Friday, 16th November 2018**

**Time Allocated: 3 hours (08:00 – 11:00 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**

1. Advise why it is significant to always consider time value of money when making investment decisions. *(5 marks)*
2. The following has been extracted from financial statement of XYZ company for period ending 31 December 2017.

|  |  |  |  |
| --- | --- | --- | --- |
|  | | **K'000** | |
|  | | 15 600 | |
| Tax | | 4 680 | |
| Profit after tax | | 10 920 | |
| Dividend to preferential share holder | | 420 | |
| Net income attributable to ordinary share holder | | 10 500 | |
| Dividend to ordinary share holder | | 5 450 | |
| Addition to returned earnings | | 5 470 | |

|  |  |
| --- | --- |
| Per share price | =3 |
| Number of shares | = 21, 590, 000 |

**Required**

1. Calculate the P/E ratio of this company’s share. *(5 marks)*
2. Calculate the value of the share if next year the dividend rate will be 12% higher.

Given risk free rate of 6% and market rate of 14%. *(5 marks)*

**(Total 15 marks)**

**QUESTION 2**

1. Dalitso worked for a banking institution registered on Malawi Stock Exchange for over 18 years as a back-office manager and will be retiring in the next 6 months. He is now considering on whether to invest part of his package in buying shares of listed companies or to set up his own business.

**Required**

Enlighten Dalitso on **two** advantages and **two** disadvantages that he is likely to encounter in business investment. *(8 marks)*

1. Mention any **three** types of hard assets which can offer as an alternative investment to Dalitso. *(3 marks)*

1. Give any **two** reasons why hard asset investments are not popular. *(4 marks)*

**(Total 15 marks)**

**QUESTION 3**

1. Calculate the value of an ordinary share of AB Ltd registered on Malawi Stock Exchange given the following information of the company; (*5 marks)*

* The firm has just declared a dividend (Do) of K15 per share.
* The annual growth rate (g) of the dividends of the past six years has been 10%
* Management is of the opinion that this growth rate will be maintained in the future. The firms cost of ordinary shares is 30%

1. A share is expected to pay a dividend (D1) of K5 per share next year given risk fee rate of interest of 5%, market return of 10% and dividend growth of 10%. Calculate its value. *(3 marks)*
2. ABC Corporation Ltd announced and invited the public to subscribe to its 2 years bond at an interest of 16% which it expects to raise 3 billion kwacha. Interest is to be paid quarterly. Riverside Group of Companies decides to invest K25 million in the bond and that will invest interest receivables at the same rate of 16% throughout the term of the bond. Calculate the extra amount of money that the group will make from this decision of reinvesting the interest. *(7 marks)*

**(Total 15 marks)**

**QUESTION 4**

Discuss **five** elements of a balanced investment portfolio and advise potential investors their importance in considering when making an investment decision.

**(Total15 marks)**

**SECTION B (40 MARKS)**

Answer ANY **TWO** questions from this section

**QUESTION 5**

Discuss a debenture. Your answer should encompass a detailed definition, the various categories of debentures, advantages and disadvantages of this investment.

**(Total 20 marks)**

**QUESTION 6**

1. The following information is given to you on 31 December 2017, the end of financial year of ABC Limited.

|  |  |
| --- | --- |
| Net income available to common stockholders | 113 500.00 |
| Revenue/Sales for the year | 3 000 000.00 |
| Total Assets | 2 000 000.00 |
| Industry average on profit margin | 5.00% |
| Industry average on Return on total assets | 9.00% |

**Required**

Calculate the following and compare your answers with the industry averages:

1. Profit margin on sales (5 marks)
2. Return on total assets (5 marks)
3. ABC Ltd has current liabilities equal to K2 000 000.00. The Company’s current ratio is 1.5, and its quick ratio is 1.0. What is the firm’s level of;
4. Current Assets *(5 marks)*
5. Inventories *(5 marks)*

**(Total 20 marks)**

**QUESTION 7**

Give a detailed Discussion on the functions and objectives of the Malawi Stock Exchange (MSE).

**(Total 20 marks)**

**QUESTION 8**

1. Within the context of the gilts market explain the following terms which must always be considered by investors when making investment decisions.
2. Yield to maturity *(5 marks)*
3. Required or Market yield *(5 marks)*
4. The futures market is concerned with going short and going long on investment decisions. Discuss these **two** terms by differentiating them. *(10 marks)* **(Total 20 marks)**

**END OF EXAMINATION PAPER**