



THE OPEN UNIVERSITY OF SRI LANKA
FACULTY OF MANAGEMENT STUDIES
DEPARTMENT OF ACCOUNTING AND FINANCE
BACHELOR OF MANAGEMENT STUDIES HONOURS DEGREE (BMSH) - LEVEL 5
ASSIGNMENT TEST – 2024 FEBRUARY

PROJECT APPRAISAL - AFU 5504

DURATION: TWO (02) HOURS

DATE : 03.02.2024

TIME : 1.30 pm – 3.30 pm

Instructions: Answer ALL questions.

1. (i) What are the distinct characteristics of a project? Explain your answer by citing at least five characteristics common to projects. (15 marks)
- (ii) Discuss the difference between social and commercial projects. Take real world examples to strengthen your answer. (18 marks)
2. (i) What are the main concerns in the technical analysis of a project? How does each of these elements/aspects help in achieving project objectives? Explain with examples. (15 marks)
- (ii) Analyzing the political and economic stability of a country is utmost important in project planning stage irrespective of whether it is social or commercial project. Do you agree with this statement? Justify with suitable examples. (18 marks)
3. (i) Project financing is an important decision in project appraisal. What reasons make this project financing so important? Explain your answer with appropriate examples. (10 marks)
- (ii) ABC Company is considering alternatives to finance their new project, the cost of which is Rs. 250 million. The company expects to finance 40% of the project's capital requirements by using their earned funds, and for that, they expect a 15% return on investment. The balance capital requirement is planned to be filled using one of the following alternatives:
Alternative 1: 40% is financed with 15% debentures and the balance with 22% bank loan.
Alternative 2: 30% is financed with 15% debentures and the balance with 20% bank loan.
 - a. Calculate the weighted average cost of capital for the two alternatives above. (14 marks)
 - b. Explain what factors should be considered deciding on the capital structure of a project in general. (10 marks)