

**THE OPEN UNIVERSITY OF SRI LANKA
FACULTY OF MANAGEMENT STUDIES
BACHELOR OF MANAGEMENT STUDIES HONORS
AFU5504 PROJECT APPRAISAL
FINAL EXAMINATION – 2024 / 2025
DURATION – THREE (03) HOURS**



DATE: 23rd NOVEMBER 2025

TIME: 1.30 pm – 4.30 pm

INSTRUCTIONS:

- PART 1 is Compulsory (Both Question 1 and Question 2 are compulsory)
- Answer ALL questions in PART 1 and any 02 (TWO) questions from PART 2.
- Start each question from a new page.
- Handwriting should be legible.
- Refer to the Present Value Table provided on page 4 for necessary discounting factors.
- Show all workings and state assumptions clearly

PART 1

Question 1

EcoFresh Ltd., a mid-sized food processing company, plans to establish a new juice processing plant to meet the rising demand for organic fruit juices. The management has prepared the following financial projections for the proposed project:

- Initial Investment: Rs. 5,000,000
- Project Life: 5 years
- Expected Annual Revenues: Rs. 1,800,000
- Operating Costs (including depreciation): Rs. 1,400,000 per year
- Depreciation is computed on the straight-line method.
- Cost of Capital: 12%
- Salvage Value at End of Year 5: Rs. 1,000,000

The management seeks a comprehensive appraisal to determine whether the project should be undertaken.

Answer the following questions

- i. Calculate the Net Cash Flows each year. (04 marks)
- ii. Determine the Payback Period (PBP) for the project. (04 marks)

- iii. Compute the Net Present Value (NPV) using the given cost of capital. (04 marks)
 - iv. Estimate the Internal Rate of Return (IRR). (08 marks)
 - v. Calculate the Accounting Rate of Return (ARR) based on average investment. (07 marks)
 - vi. Compute the Net Benefit Investment Ratio for the project. (06 marks)
 - vii. Discuss the non-financial factors EcoFresh should consider before approving the project, including social, environmental, and operational aspects. (07 marks)
- (Total = 40 marks)

Question 2

- (i) Discuss the key elements of a project definition, explaining why each is important. (04 marks)
 - (ii) Describe the importance of project appraisal during the early stages of project development. (04 marks)
 - (iii) Briefly explain four key characteristics that distinguish projects from operational activities. (04 marks)
 - (iv) Outline the main phases of the project life cycle and discuss the key activities in each phase. (04 marks)
 - (v) Explain the key factors that influence project financing decisions. (04 marks)
- (Total = 20 marks)

(Total for Part 1 = 60 marks)

PART 2

Question 3

- (i) Discuss how the findings of a feasibility study influence the decision to accept, modify, or reject a project proposal. (10 marks)
- (ii) "A project may be financially viable but not economically feasible." Discuss this statement with examples. (10 marks)

Question 4

- (i) Discuss how the Weighted Average Cost of Capital (WACC) is used in evaluating project financing alternatives and investment feasibility. (10 marks)

- (ii) What are the key elements examined in a technical appraisal of a project? Explain how technology selection impacts project cost and efficiency. *(10 marks)*

Question 5

- (i) Define demand forecasting and explain its role in project appraisal. What are the major techniques used for demand estimation? *(10 marks)*
- (ii) Explain the importance of managerial appraisal in evaluating a project's feasibility. What factors are considered when assessing the competence of the management team? *(10 marks)*

Present Value Table

	2%	3%	3.75%	4%	4.25%	5%	6%	7%	8%	9%
1	0.9804	0.9709	0.9639	0.9615	0.9592	0.9524	0.9434	0.9346	0.9259	0.9174
2	0.9612	0.9426	0.9290	0.9246	0.9201	0.9070	0.8900	0.8734	0.8573	0.8417
3	0.9423	0.9151	0.8954	0.8890	0.8826	0.8638	0.8396	0.8163	0.7938	0.7722
4	0.9238	0.8885	0.8631	0.8548	0.8466	0.8227	0.7921	0.7629	0.7350	0.7084
5	0.9057	0.8626	0.8319	0.8219	0.8121	0.7835	0.7473	0.7130	0.6806	0.6499
6	0.8880	0.8375	0.8018	0.7903	0.7790	0.7462	0.7050	0.6663	0.6302	0.5963
7	0.8706	0.8131	0.7728	0.7599	0.7473	0.7107	0.6651	0.6227	0.5835	0.5470
8	0.8535	0.7894	0.7449	0.7307	0.7168	0.6768	0.6274	0.5820	0.5403	0.5019
9	0.8368	0.7664	0.7180	0.7026	0.6876	0.6446	0.5919	0.5439	0.5002	0.4604
10	0.8203	0.7441	0.6920	0.6756	0.6595	0.6139	0.5584	0.5083	0.4632	0.4224
15	0.7430	0.6419	0.5757	0.5553	0.5356	0.4810	0.4173	0.3624	0.3152	0.2745
20	0.6730	0.5537	0.4789	0.4564	0.4350	0.3769	0.3118	0.2584	0.2145	0.1784
10%	0.9091	0.9009	0.8929	0.8850	0.8772	0.8696	0.8333	0.8000	0.7692	0.7407
11%	0.8264	0.8116	0.7972	0.7831	0.7695	0.7561	0.6944	0.6400	0.5917	0.5487
12%	0.7513	0.7312	0.7118	0.6931	0.6750	0.6575	0.5787	0.5120	0.4552	0.4064
13%	0.6830	0.6587	0.6355	0.6133	0.5921	0.5718	0.4823	0.4096	0.3501	0.3011
14%	0.6209	0.5935	0.5674	0.5428	0.5194	0.4972	0.4019	0.3277	0.2693	0.2230
15%	0.5645	0.5346	0.5066	0.4803	0.4556	0.4323	0.3349	0.2621	0.2072	0.1652
16%	0.5132	0.4817	0.4523	0.4251	0.3996	0.3759	0.2791	0.2097	0.1594	0.1224
17%	0.4665	0.4339	0.4039	0.3762	0.3506	0.3269	0.2326	0.1678	0.1226	0.0906
18%	0.4241	0.3909	0.3606	0.3329	0.3075	0.2843	0.1938	0.1342	0.0943	0.0671
19%	0.3855	0.3522	0.3220	0.2946	0.2697	0.2472	0.1615	0.1074	0.0725	0.0497
20%	0.2394	0.2090	0.1827	0.1599	0.1401	0.1229	0.0649	0.0352	0.0195	0.0111
21%	0.1486	0.1240	0.1037	0.0868	0.0728	0.0611	0.0261	0.0115	0.0053	0.0025