

**THE OPEN UNIVERSITY OF SRI LANKA
FACULTY OF MANAGEMENT STUDIES
BMSHONS IN ACCOUNTING AND FINANCE
AFU5404 PROJECT APPRAISAL
FINAL EXAMINATION – 2024 / 2025
DURATION – THREE (03) HOURS**



DATE: 23rd NOVEMBER 2025

TIME: 1.30 pm – 4.30 pm

INSTRUCTIONS:

- Question 1 is Compulsory
- Answer Question 1 and any 03 (THREE) questions.
- 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

Question 1

GreenTech Manufacturing Ltd., a medium-sized company producing industrial equipment, is considering installing a solar power system to reduce electricity costs and enhance sustainability. The initial investment required for the project is Rs. 10 million. The project is expected to have a life of 5 years, with no residual value.

Projected net cash inflows are as follows:

Year	Net Cash Inflow (Rs.)
1	1,200,000
2	1,600,000
3	2,000,000
4	2,200,000
5	2,000,000

The company's required rate of return (cost of capital) is 10%. Ignore taxes.

In addition, the project is expected to save company's energy costs, helping the company meet its sustainability targets and enhance its reputation as an environmentally responsible manufacturer.

Answer the following questions.

- (i) Calculate the Payback Period (PBP). *(5 marks)*
- (ii) Determine the Net Present Value (NPV) of the project. *(8 marks)*
- (iii) Compute the Internal Rate of Return (IRR). *(8 marks)*
- (iv) Find the Net Benefit investment ratio of the project. *(6 marks)*
- (v) Calculate the Accounting Rate of Return (ARR) based on average investment. *(6 marks)*
- (vi) Discuss the non-financial factors GreenTech should consider before approving this project. *(7 marks)*

(Total 40 marks)

Question 2

- (i) Explain what distinguishes a project from routine operational activities. In your answer, discuss how characteristics such as uniqueness, temporariness, and risk contribute to defining a project. *(10 marks)*
- (ii) Describe the major stages of the project appraisal process and explain how each stage contributes to assessing a project's feasibility and viability. *(10 marks)*

Question 3

- (i) Explain the key phases of the project lifecycle and discuss how effective management at each stage contributes to overall project success. *(10 marks)*
- (ii) Using a suitable example, analyze how poor monitoring and control can affect project outcomes in terms of cost, time, and quality. *(10 marks)*

Question 4

- (i) Explain the purpose and importance of conducting a feasibility study in the project appraisal process. *(10 marks)*
- (ii) Discuss the key dimensions a feasibility study typically assesses and explain how each dimension supports effective decision making in project planning. *(10 marks)*

Question 5

- (i) Discuss the major factors that influence project financing decisions, providing relevant examples to support your discussion. *(10 marks)*
- (ii) You are the finance manager of a manufacturing firm evaluating a new project. The company plans to finance it using Rs. 6,000,000 in debt at an interest rate of 8%, and Rs. 9,000,000 in equity, with an expected return of 14%. The corporate tax rate is 30%.
- (a) Calculate the Weighted Average Cost of Capital (WACC) for this project. *(05 marks)*
- (b) Based on your result, discuss how WACC can be used in making investment and financing decisions. *(05 marks)*

Present Value Table

Number of Periods	Interest Rate													
	2%	3%	3.75%	4%	4.25%	5%	6%	7%	8%	9%	10%	11%	12%	13%
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				
1	0.9091	0.9009	0.8929	0.8850	0.8772	0.8696	0.8333	0.8000	0.7692	0.7407				
2	0.8264	0.8116	0.7972	0.7831	0.7695	0.7561	0.6944	0.6400	0.5917	0.5487				
3	0.7513	0.7312	0.7118	0.6931	0.6750	0.6575	0.5787	0.5120	0.4552	0.4064				
4	0.6830	0.6587	0.6355	0.6133	0.5921	0.5718	0.4823	0.4096	0.3501	0.3011				
5	0.6209	0.5935	0.5674	0.5428	0.5194	0.4972	0.4019	0.3277	0.2693	0.2230				
6	0.5645	0.5346	0.5066	0.4803	0.4556	0.4323	0.3349	0.2621	0.2072	0.1652				
7	0.5132	0.4817	0.4523	0.4251	0.3996	0.3759	0.2791	0.2097	0.1594	0.1224				
8	0.4665	0.4339	0.4039	0.3762	0.3506	0.3269	0.2326	0.1678	0.1226	0.0906				
9	0.4241	0.3909	0.3606	0.3329	0.3075	0.2843	0.1938	0.1342	0.0943	0.0671				
10	0.3855	0.3522	0.3220	0.2946	0.2697	0.2472	0.1615	0.1074	0.0725	0.0497				
15	0.2394	0.2090	0.1827	0.1599	0.1401	0.1229	0.0649	0.0352	0.0195	0.0111				
20	0.1486	0.1240	0.1037	0.0868	0.0728	0.0611	0.0261	0.0115	0.0053	0.0025				