

**THE OPEN UNIVERSITY OF SRI LANKA**  
**BACHELOR OF MANAGEMENT STUDIES – LEVEL 5**  
**FINAL EXAMINATION– 2006**  
**PROJECT APPRAISAL – MCU 3204**  
**DURATION : THREE (03) HOURS**



This paper contains Six Questions and has THREE PAGES.

Date : 11<sup>th</sup> March 2006

Time : 9.30 a.m. – 12.30 p.m.

**Answer Question 1 (compulsory) and any THREE (03) from others.**

1. Following data are extracted from the feasibility report of a manufacturing project.  
 The project is perceived as a high risk due to globalisation in the market place.  
 Figures are given in Rs. Thousands.

Year	0	1	2	3	4	5	6
Outflows							
• Construction	1000						
• Machinery & installations		1000					
• Other		200					
• Working capital		100		200			
Sales		200	500	1000	1200	1200	1200
Operating expenses		100	200	300	400	400	400

Project ends in the seventh year. In the seventh year manufacturing does not take place and all working capital is realized. The resale value of the machinery in the seventh year is estimated to be Rs. 500,000/=.

Cost of capital of the project is 10%.

You are required to comment on the

- (i) As per the accounting rate of returns is this project profitable? (05 marks)  
 (ii) Since the market of the project is risky the investor wishes to recover the investment in five years time. Is the project viable? (05 marks)  
 (iii) What is the net present value of the project? (07 marks)  
 (iv) What is the internal rate of return of the project? If the investor considers using loan financing at 18%, is the project feasible? (08 marks)

- (v) What is the net benefit investment ratio for the project? Comment on the results. (06 marks)
- (vi) Comment on the overall picture using the ARR, Payback period, Net present value, Internal rate of return and Net benefit investment ratio of the above project? Give reasons. (05 marks)
- (vii) If the risk of the project is estimated to be 8%, does your opinion differ from what is given in response to Part (vi) above? (04 marks)
- (Total 40 marks)

2. (i) Distinguish between programs, projects and sub-projects with their salient features. Explain your answer with the "Education for All" programme of the Government of Sri Lanka (12 marks)
- (ii) Explain the impact of subsidies and taxes on projects. (08 marks)
- (Total 20 marks)

- 3 (i) Describe the "project life cycle" (08 marks)
- (ii) Explain using examples the sources available for identifying suitable projects in practice. (06 marks)
- (iii) "Results of certain projects can be beneficial or harmful to parties those are not directly involve in those projects." Explain with your own examples. (06 marks)
- (Total 20 marks)

4. (i) Explain the different 'sources of financing' available to finance a project? (05 marks)
- (ii) Sumith wishes to buy a bus and deploy it in passenger transport business. The bus costs Rs. 2.0 millions. He has the option of investing his own money or the option of obtaining 50% of the cost of the bus through a long term loan at 25% per annum interest. The business yields an operating profit of Rs. 100,000/- a month. Sumith expects a 15% return on his investment.
- a) What is the cost of capital for deploying a bus if he goes for 50% loan option? (04 marks)
- b) What is the more profitable project financing option for Sumith? (03 marks)
- c) If there is an income tax of 30%, is the project investment using the loan profitable? (04 marks)
- d) Explain the factors that have to be considered when deciding to go for loan capital for a project? (04 marks)
- (Total 20 marks)

5. Irenie is planning setup and operate a "Communication centre and a stationary shop" mainly aimed at providing telephone based voice, electronic(email) and image (facsimile) communications and selling selected stationary items.

(i) You are required to explain the marketing and technical feasibility of the project to Irenie. What are the factors that have to be considered under marketing and technical feasibility of this project? (12 marks)

(ii) Explain the factors that have to be considered for identifying a suitable location for Irenie's business (08 marks)

(Total 20 marks)

6. Write short notes on **any four (04)** of the followings.( 05 marks each)

(i) Ratio Analysis as a tool in analysing projects

(ii) Inflation and its impact on project viability

(iii) Independent and mutually interrelated projects

(iv) Time Preference of Money

(v) Tradable and non-tradable exportable outputs.

(Total 20 marks)

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# Table of Present Values

$$PVIF = 1/(1+i)$$

Period (n)	Discount rates																			
	8%	9%	10%	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%	22%	24%					
1	0.9259	0.9174	0.9091	0.9009	0.8929	0.8850	0.8772	0.8696	0.8621	0.8547	0.8475	0.8403	0.8333	0.8197	0.8065					
2	0.8573	0.8417	0.8264	0.8116	0.7972	0.7831	0.7695	0.7561	0.7432	0.7305	0.7182	0.7062	0.6944	0.6719	0.6504					
3	0.7938	0.7722	0.7513	0.7312	0.7118	0.6931	0.6750	0.6575	0.6407	0.6244	0.6086	0.5934	0.5787	0.5507	0.5245					
4	0.7350	0.7084	0.6830	0.6587	0.6355	0.6133	0.5921	0.5718	0.5523	0.5337	0.5158	0.4987	0.4823	0.4514	0.4230					
5	0.6806	0.6499	0.6209	0.5935	0.5674	0.5428	0.5194	0.4972	0.4761	0.4561	0.4371	0.4190	0.4019	0.3700	0.3411					
6	0.6302	0.5963	0.5645	0.5346	0.5066	0.4803	0.4556	0.4323	0.4104	0.3898	0.3704	0.3521	0.3349	0.3033	0.2751					
7	0.5835	0.5470	0.5132	0.4817	0.4523	0.4251	0.3996	0.3759	0.3538	0.3332	0.3139	0.2959	0.2791	0.2486	0.2218					
8	0.5403	0.5019	0.4665	0.4339	0.4039	0.3762	0.3506	0.3269	0.3050	0.2848	0.2660	0.2487	0.2326	0.2038	0.1789					
9	0.5002	0.4604	0.4241	0.3909	0.3606	0.3329	0.3075	0.2843	0.2630	0.2434	0.2255	0.2090	0.1938	0.1670	0.1443					
10	0.4632	0.4224	0.3855	0.3522	0.3220	0.2946	0.2697	0.2472	0.2267	0.2080	0.1911	0.1756	0.1615	0.1369	0.1164					

Period (n)	Discount rates									
	25%	26%	27%	28%	30%	32%	34%	36%	38%	40%
1	0.8000	0.7937	0.7874	0.7813	0.7692	0.7576	0.7463	0.7353	0.7246	0.7143
2	0.6400	0.6299	0.6200	0.6104	0.5917	0.5739	0.5569	0.5407	0.5251	0.5102
3	0.5120	0.4999	0.4882	0.4768	0.4552	0.4348	0.4156	0.3975	0.3805	0.3644
4	0.4096	0.3968	0.3844	0.3725	0.3501	0.3294	0.3102	0.2923	0.2767	0.2603
5	0.3277	0.3149	0.3027	0.2910	0.2693	0.2495	0.2315	0.2149	0.1998	0.1859
6	0.2621	0.2499	0.2383	0.2274	0.2072	0.1890	0.1727	0.1580	0.1448	0.1328
7	0.2097	0.1983	0.1877	0.1776	0.1594	0.1432	0.1289	0.1162	0.1049	0.0949
8	0.1678	0.1574	0.1478	0.1388	0.1226	0.1085	0.0962	0.0854	0.0760	0.0678
9	0.1342	0.1249	0.1164	0.1084	0.0943	0.0822	0.0718	0.0628	0.0551	0.0484
10	0.1074	0.0992	0.0916	0.0847	0.0725	0.0623	0.0536	0.0462	0.0399	0.0346

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