

THE OPEN UNIVERSITY OF SRI LANKA
BACHELOR OF MANAGEMENT STUDIES (LEVEL 5)
ASSIGNMENT TEST : MAY - 2006
PROJECT APPRAISAL – MCU 3204
DURATION : TWO (02) HOURS



This paper contains Six questions and has THREE PAGES.

Date : 28th May, 2006

Time : 10.00 a.m. – 12.00 noon

PLEASE WRITE YOUR STUDENT REGISTRATION NUMBER ON EVERY PAGE OF THE ANSWER SCRIPT.

Answer any Four (04) questions. Each question carries 25 marks.

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- (1) (i) 'Projects are different from programs'. Explain using suitable examples.
(ii) How does one get ideas on new projects? Explain with examples.
 - (2) (i) Explain the stages of a project life cycle. In what stages does one might drop the project after carrying out feasibility studies?
(ii) Explain the impact subsidies and taxes have on projects.
 - (3) (i) Explain how the use of ratio analysis will help in project appraisal.
(ii) Explain four important ratios with suitable examples in project analysis.
 - (4) (i) Explain the applications of payback period method.
(ii) Given below is the information on two projects.

	Project A (Rs. '000)	Project B (Rs. '000)
<u>Investment</u>	5000	8000
<u>Operating cost</u>		
1 - 4 years (per annum)	400	500
5 - 7 years (per annum)	600	500
<u>Benefits</u>		
1 - 3 years (per annum)	1500	2000
4 - 5 years (per annum)	1800	2500
6 - 7 years (per annum)	1200	1800

- Calculate the payback period for both projects.
- Determine the most suitable project based on the pay back period and give reasons.
- What are the limitations of using payback period method as a project appraisal technique?

- (5) The following data was extracted from the feasibility report of a certain manufacturing project. (Costs and benefits are given in Rs. Thousands)

Year	0	1	2	3	4	5
Investment	1000					
Sales		500	600	700	800	1000
Operating and other expenses		300	300	400	400	500

The cost of capital of the project is 10%.

- Calculate NPV and IRR. Comment on the results.
 - Interpret the decision making based on the above results.
- (6) Explain any two(02) of the following in relation to project appraisal.
- Market analysis of a project
 - Technical feasibility of a project
 - Performance budget and balance sheet
 - Net Benefit Investment Ratio.

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%	42%	44%	46%	48%	50%	
1	0.8000	0.7937	0.7874	0.7813	0.7692	0.7576	0.7463	0.7353	0.7246	0.7143	0.7042	0.6944	0.6849	0.6757	0.6667	
2	0.6400	0.6299	0.6200	0.6104	0.5917	0.5739	0.5569	0.5407	0.5251	0.5102	0.4959	0.4823	0.4691	0.4565	0.4444	
3	0.5120	0.4999	0.4882	0.4768	0.4552	0.4348	0.4156	0.3975	0.3805	0.3644	0.3492	0.3349	0.3213	0.3085	0.2963	
4	0.4096	0.3968	0.3844	0.3725	0.3501	0.3294	0.3102	0.2923	0.2757	0.2603	0.2459	0.2326	0.2201	0.2084	0.1975	
5	0.3277	0.3149	0.3027	0.2910	0.2693	0.2495	0.2315	0.2149	0.1998	0.1859	0.1732	0.1615	0.1507	0.1408	0.1317	
6	0.2621	0.2499	0.2383	0.2274	0.2072	0.1890	0.1727	0.1580	0.1448	0.1328	0.1220	0.1122	0.1032	0.0952	0.0878	
7	0.2097	0.1983	0.1877	0.1776	0.1594	0.1432	0.1289	0.1162	0.1049	0.0949	0.0859	0.0779	0.0707	0.0643	0.0585	
8	0.1678	0.1574	0.1478	0.1388	0.1226	0.1085	0.0962	0.0854	0.0760	0.0678	0.0605	0.0541	0.0484	0.0434	0.0390	
9	0.1342	0.1249	0.1164	0.1084	0.0943	0.0822	0.0718	0.0628	0.0551	0.0484	0.0426	0.0376	0.0332	0.0294	0.0260	
10	0.1074	0.0992	0.0916	0.0847	0.0725	0.0623	0.0536	0.0462	0.0399	0.0346	0.0300	0.0261	0.0227	0.0198	0.0173	