THE OPEN UNIVERSITY OF SRI LANKA
BACHELOR OF MANAGEMENT STUDIES – LEVEL 5
ASSIGNMENT TEST- 2007
PROJECT APPRAISAL – MCU 3204
DURATION: TWO (02) HOURS

This paper contains ***Five Questions.***.

Date : 26th August 2007	Time : 10.00 a.m. – 12.00 noon

Answer any FOUR questions.
All questions carry equal marks.

1. The poverty alleviation program of the Government of Sri Lanka consists of many projects.
   a) Distinguish between projects and programmes using a project under this program and explain their key features.
   b) What measures would be useful for evaluating the effectiveness of this project?

2. a) What are the sources for new project ideas?
   b) A new project idea has to go through several stages in its life. Explain these stages using suitable examples.

3. Explain marketing and technical feasibility of a project. What are the factors that have to be looked into under these considerations?

4. a) What are the different internal and external sources of financing that are available for projects? Explain.
   b) Explain the factors you would consider in selecting sources of funding.
   c) A project is planned to finance with ordinary shares, and two types of debts. You are required to compute the cost of capital for the project.
   Financing plan: 250,000 Rs. 10/- ordinary shares. (Ordinary shares are paid 16% dividends.) Two loans, Rs. 1.5 million at 20% and Rs. 1.0 million at 25%.

5. a) Explain the merits and demerits of using debt capital for projects?
   b) A project has two financing options. You are required to propose the most profitable financing option with reasons.
   The project needs Rs. 50million and it is expected to earn Rs. 50 million before charging interest and taxes. Corporate tax is 30%.
   The financing options are as follows:
   Option 1: Issue ordinary shares (20% dividends) for the full requirement.
   Option 2: Issue Rs. 25 million ordinary shares (20% dividends) and balance is financed by 25% long term loans.

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