THE OPEN UNIVERSITY OF SRI LANKA
BACHELOR OF MANAGEMENT STUDIES DEGREE (BMS) - LEVEL 5
FINAL EXAMINATION 2009
PROJECT APPRAISAL - MCU 3204

DURATION: THREE (03) HOURS

DATE : 21.02.2009	**TIME : 1.30 pm – 4.30 pm**

Instructions: (I) Answer **Question 1 (compulsory) and any THREE (03)** from others.
(II) Use of a non-programmable calculator is allowed.
(III) A PV table is attached herewith.

(1) "SILVER TRANSPORT" company is planning to start a new transportation project to complement a mass development project in the Southern Province of Sri Lanka. As an initial investment the company has to spend 5 million rupees. The company is paid on the basis of the number of kilometers travel per year. **At the beginning of each year** the company is paid a fixed amount of 2.5 million rupees and the balance amount due is paid at the end of the year considering the number of kilometers traveled. Following are the estimated figurers given by the "SILVER TRANSPORT".

	2010	2011	2012	2013	2014
Distance (km)	37000	39000	37000	40000	45000
Rate per km (Rs)	70/-	75/-	80/-	90/-	100/-
Fuel cost per km	20/-	23/-	28/-	32/-	35/-

Maintenance expenses are projected as Rs. 200,000 for the first year and Rs. 100,000 addition to the previous year thereafter. The company will have to spend Rs. 200, 000 on administration expenses annually. The annual lease installment of Rs. 3 million will be paid in first three years. An amount of Rs. 500,000 is to be invested as working capital.

(i) If another company starts the same project to serve the Southern development project in 2012, is this a viable project? Explain your answer. (6 marks)

(ii) If the project is financed with a 80% of lease finance with interest rate of 24% and the rest with equity finance which expects 20% rate of return calculate the NPV of the project. (12 marks)

(iii) "SILVER TRANSPORT" is planning another project which gives 140% net benefit for the investment. As per the Net Benefit Investment Ratio (NBIR) is this project viable? (6 marks)

(iv) Calculate the Accounting Rate of Return of the project? (5 marks)

(v) If the whole project is to be financed with equity capital which expects 25% rate of return, examine the viability of the project as per the Internal Rate of Return is concerned. (6 marks)

(vi) Comment on the feasibility of the project considering Sri Lankan economic and political environment with the above computed values. (5 marks)

(Total 40 marks)

2 (i) "A project life has a linear shape but not cyclical." Do you agree with this statement? Explain your answer. (10 marks)

(ii) "After defining the objectives, the project may be accepted or rejected." Elaborate this statement with suitable examples. (10 marks)

3 (i) Why is it important for project planners to know the market precisely before the feasibility study? Explain. (10 marks)

(ii) Explain how political environment has affected the project planning in Sri Lanka. (10 marks)

4 (i) Why is it important to incorporate institutional analysis in project formulation? Explain. (10 marks)

(ii) "A dynamic project manager is the key to the success of a project." Explain the key characteristics of a successful manager? (10 marks)

5 (i) How do you choose projects when single period budget constraints are existed? (10 marks)

(ii) How do you appraise alternative projects when they are independent? How is it different in appraising projects which are related to each other? (10 marks)

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Table of Present Values

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

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