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THE OPEN UNIVERSITY OF SRI LANKA
BACHELOR OF MANAGEMENT STUDIES – LEVEL 5
ASSIGNMENT TEST- 2011
PROJECT APPRAISAL – MCU 3204
DURATION: TWO (02) HOURS

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

Date : 18th June 2011	Time : 2.00 pm – 4.00 pm

Answer any FOUR questions.
All questions carry equal marks.

1. a) Explain the need for marketing analysis of projects, what are the key components of the marketing environment that one would use to determine the market for a product? Explain each component. *(12 marks)*

   b) How would you plan to estimate the demand for a project in providing technical training for motor mechanics in Sri Lanka? Explain *(8 marks)*

2. Explain three main factors that one would look at in determining the technical feasibility of new projects. Elaborate how project feasibility, capacity and flexibility are affected by these factors. *(20 marks)*

3. a) Explain at least five components that would have a direct influence in determining cost of capital for a project. *(10 marks)*

   b) Explain the need for estimating working capital for a project and the factors that have to be considered in determining the working capital requirement of the project. *(10 marks)*

4. a) Explain the different means of financing projects (2 internal and 2 external sources) with the merits and demerits of the said financing instruments. *(10 marks)*

   b) A project needs Rs 100million and two financing options are available to fund the project, i.e. either finance the project using equity capital or finance Rs 40 million with 25% long term loans and rest with equity capital. The owner expects 30% return. The company pays 40% tax. The earnings before interest and tax of the project is estimated to be Rs 250 million. What is the most beneficial financing option for the project? *(10 marks)*

5. It is found that several assumptions have to be used when determining the estimates for costs and benefits of projects. Using suitable Sri Lankan examples explain four assumptions used in developing estimates for project financial statements. *(20 marks)*

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