00259

THE OPEN UNIVERSITY OF SRI LANKA
BACHELOR OF MANAGEMENT STUDIES DEGREE (BMS) - LEVEL 5
FINAL EXAMINATION 2012
PROJECT APPRAISAL - MCU 3204

DURATION: THREE (03) HOURS

DATE : 11th March, 2012	**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.

01. ND Company is engaged in transportation services. They are planning to commence a new project to provide material transportation services for a highway project. The investment in the new project is expected to have the following:

All values are in Rs `000

Year	Investment	Change in revenue.	Change in expenses	Change in depreciation	Change in working capital
0	30,000				
1	-	+10,000	+7500	+2000	+2000
2	-	+20,000	+9000	+4000	+1000
3	-	+30,000	+10,000	+3000	0
4	-	+20,000	+5000	+1000	-1000
5	-	+10,000	+2500	0	-1000

The project will be finished at the end of the 5th year. ND Company's expected rate of return is 20%. Ignore taxes. Assume that there is no salvage value at the end.

Calculate the followings.

(i) Pay Back Period of the project *(04 Marks)*

(ii) Net Present Value (NPV) of the project *(07 Marks)*

(iii) Internal Rate of Return (IRR)of the project *(07 Marks)*

(iv) Accounting Rate of Return (ARR) of the project *(07 Marks)*

(v) Net Benefit Investment Ratio (NBIR) of the project *(07 Marks)*

(vi) Evaluate the project concentrating on different aspects of financial analysis. You need to discuss at least five aspects. *(08 Marks)*

[Total 40 Marks]

02. "A proper appraisal is a must before the commitment of scares resources for a project". Explain this statement using suitable examples. *(20 Marks)*

03. (i) Why is it important to maintain a continuous monitoring and control system at project implementation stage? Explain. *(10 Marks)*

(ii) As a project analyst how do you address the uncertainty of a project at the appraisal stage? Explain. *(10 Marks)*

04. (i) Describe the methods of forecasting future demand for project outcomes. *(12 Marks)*

(ii) Explain the advantages and disadvantages of using time series analysis as a tool for forecasting the demand. *(08 Marks)*

05. (i) 'The size or scale of a project is a variable that must be given due consideration in project planning'. Explain why this is important and what factors need to be addressed in such analysis. *(12 Marks)*

(ii) What is 'choice of technological package' in project appraisal? Explain. *(08 Marks)*

06. (i) Explain the importance of making provisions for 'contingencies' at project appraisal stage. *(10 Marks)*

(ii) The total capital requirement of a project is 400 Mn.. One fourth of the project is financed by ordinary shares of Rs. 10/- each. 60% of the rest is financed with 15% debentures and the balance is financed by a bank loan at 22% interest.

a). Calculate the total cost of capital and state whether the owner would accept the project or not, if owners expect 24% return on their investment. *(04 Marks)*

b). The project expects Rs. 75 Mn of EBIT if the economy is favorable and Rs. 55 Mn. otherwise. Calculate EPS in each case. (Ignore taxes) *(06 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%	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