Financial management
BE Chemical – MBA – 5th year
Mid term-1

1. A. On January 1, 20X1, International Copy Machines (ICOM), one of the favorites of the stock market, was priced at $300 per share. This price was based on an expected dividend at the end of the year of $3 per share and an expected annual growth rate in dividends of 20 percent into the future. By January 20X2, economic indicators have turned down, and investors have revised their estimate for future dividend growth of ICOM downward to 15 percent. What should be the price of the firm's common stock in January 20X2?
   Assume the following:
   a. A constant dividend growth valuation model is a reasonable representation of the way the market values ICOM.
   b. The firm does not change the risk complexion of its assets nor its financial leverage.
   c. The expected dividend at the end of 20X2 is $3.45 per share.

B. Do the funds provided by sources such as accounts payable and accruals have a cost of capital? Explain. (6+4)

2. The relevant financial information for Ajara Limited is given below (all in Rs). :
   Profit and Loss Account Data –
   Sales 1000
   Cost of goods sold 750
   Balance Sheet Data

	Beginning of 2020	End of 2020
Inventory	110	120
Accounts receivable	140	150
Accounts payable	60	66

What is the length of the operating cycle? The cash cycle? (10)