CBCS SCHEME

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18MBAFM401

Fourth Semester MBA Degree Examination, Aug./Sept.2020

Mergers, Acquisitions and Corporate Restructuring

Time: 3 hrs. Max. Marks:100

Note: ***Answer any FIVE full questions.***

1 a. Distinguish between horizontal and vertical mergers. **(03 Marks)**
b. Explain the different types of synergies resulting from Mergers and Acquisitions. **(07 Marks)**
c. Examine the various efficiency theories of mergers. **(10 Marks)**

2 a. List the methods of calculations of purchase consideration. **(03 Marks)**
b. Explain Five Stage Model of merger process. **(07 Marks)**
c. Discuss the reasons for failure of M and A. **(10 Marks)**

3 a. Explain a spin off. **(03 Marks)**
b. Firm A acquires firm B by exchanging 0.5 of its share for each share of Firm B. Input available is given as follows:

	Firm A	Firm B
Profit after tax (Rs.)	20,00,000	5,00,000
Number of equity shares	5,00,000	2,00,000
EPS (Rs.)	4	2.5
P/E Ratio	10	8
Market price per share (Rs.)	40	20

Determine:
(i) The number of equity shares to be issued by firm A for acquisition of firm B.
(ii) EPS of firm A after acquisition.
(iii) If the P/E ratio of firm A does not change by acquisition, determine the value of the merged firm. **(07 Marks)**

c. Discuss the different types of due diligence performed in M and A. **(10 Marks)**

4 a. Explain Master Limited Partnership. **(03 Marks)**
b. Discuss the salient features of the Competition Act 2002. **(07 Marks)**
c. Explain financial restructuring. Describe the reasons for financial restructuring. **(10 Marks)**

5 a. Explain Limited Liability Partnership. **(03 Marks)**
b. Discuss the organizational and Human Resource Management aspects of M and A. **(07 Marks)**
c. Discuss the different takeover defenses available to target firms. **(10 Marks)**

6 a. Explain pooling of interests method of accounting for amalgamation. **(03 Marks)**

b. On 31st March 2020, Thin Ltd was absorbed by Thick Ltd., the later taking over all the assets and liabilities of the former at book values. The consideration for the business was fixed at Rs.4,00,000 to be discharged by the transferee company in the form of its fully paid equity shares of Rs.10 each to be distributed among the shareholders of the transferor company, each shareholder getting two shares for every share held in the transferor company. The balance sheet of the two companies as at 31st March 2020 stood as under:

Liabilities	Thick Ltd. (Rs.)	Thin Ltd. (Rs.)	Assets	Thick Ltd. (Rs.)	Thin Ltd. (Rs.)
Share capital			Goodwill	2,00,000	60,000
Authorized	15,00,000	5,00,000	Plant & Machinery	4,12,000	1,00,000
Issued & Subscribed			Furniture	80,000	30,000
Equity shares of			Stock	2,65,500	60,000
Rs.10 each fully paid	9,00,000	2,00,000	Debtors	2,21,200	46,000
General Reserve	1,80,000	50,000	Prepaid insurance	-	700
Staff provident fund	10,200	4,000	Income tax refund	-	6,000
P & L a/c	20,502	12,900	Cash in hand	869	356
Workmen compensation			Cash at bank	14,000	8,300
fund	12,000	9,000			
Creditors	58,567	30,456			
Provision for taxation	12,300	5,000			
	11,93,569	3,11,356		11,93,569	3,11,356

Amalgamation expenses amounting to Rs.1000 were paid by Thick Ltd. You are required to:
(i) Prepare realization account and equity shareholders account in th books of Thin Ltd.
(ii) Pass journal entries in the books of Thick Ltd.
Assume that the amalgamation is in the nature of merger. **(07 Marks)**

c. The management of firm A is considering takeover of firm B. Financial details of two firms A and B are given below:

	Firm A (Rs. in lakhs)	Firm A (Rs. in lakhs)
Equity and Liabilities:		
Equity share capital (shares Rs.10 each)	100	25
Preference share capital	27	-
Share premium	-	2
Profit and loss account	40	5
10% debentures	20	6
Total	185	38
Assets:		25
Fixed assets	140	13
Currents assets	45	
Total	185	38
Profit after tax and preference dividend	25	10

Market prices of firm A and firm B are Rs.25 and Rs.40 respectively. Determine the share exchange ratio and member shares of firm A to be issued based on:
(i) Net asset value
(ii) EPS
(iii) Market price
Which is better from the point of view of Firm A? **(10 Marks)**

7 a. Explain Management Buy Out (MBO). **(03 Marks)**

b. Discuss the reasons for divestitures. **(07 Marks)**

c. The summarized balance sheets as at 31-3-2020 of Bharath Ltd and Arjun Ltd are as under:

	Bharath Ltd. (Rs.)	Arjun Ltd. (Rs.)		Bharath Ltd. (Rs.)	Arjun Ltd. (Rs.)
Issued subscribed capital (shares of Rs.100 each)	15,00,000	5,00,000	Goodwill	-	1,00,000
			Buildings	6,00,000	-
Capital Reserve	-	50,000	Plant & Machinery	6,50,000	4,20,000
General Reserve	2,00,000	60,000	Furniture	10,000	5,000
Profit & Loss a/c	1,20,000	-	Stock	3,80,000	2,10,000
Current liabilities	2,40,000	3,95,000	Debtors	2,30,000	1,80,000
			Cash and Bank	1,90,000	15,000
			Expenses of New project	-	75,000
	20,60,000	10,05,000		20,60,000	10,05,000

Arjun Ltd. was absorbed by Bharath Ltd as on 1st April 2020 on the terms given below:

(i) Fixed assets other than goodwill to be valued at Rs.5,00,000 including Rs.6000 for furniture.

(ii) Stock to be reduced by Rs.20,000 and debtors by 5%.

(iii) Bharath Ltd to assume liabilities of Arjun Ltd.

(iv) The new project to be valued at Rs.95,000.

(v) The shareholders of Arjun Ltd to receive cash payment of Rs.30 per share plus four equity shares in Bharath Ltd for every five shares held.

(vi) Bharath Ltd to pay the liquidation expenses of Arjun Ltd amounting to Rs.6,000.

Prepare journal entries and show the balance sheet of Bharath Ltd after amalgamation in the nature of purchase. **(10 Marks)**

8 Hypothetical Limited wants to acquire Target Ltd. The balance sheet of Target Ltd. as at 31st March 2020 has the following assets and liabilities.

Liabilities	Rs.	Assets	Rs.
Equity share capital (30000 share of Rs.10 each)	3,00,000	Fixed assets	5,50,000
		Current assets	1,10,000
Retained earnings	1,00,000		
12% debentures	1,00,000		
Creditors and other liabilities	1,60,000		
	6,60,000		6,60,000

Additional information:

(i) The shareholders of Target Ltd. will get one share in Hypothetical Ltd for every two shares. The shares of Hypothetical Ltd would be issued at its current market price of Rs.15 per share. The debenture holders will get 13% convertible debentures in the purchasing firm of the same amount. The external liabilities are expected to be settled at Rs.1,50,000. Further, current assets expected to realize Rs.1,00,000.

(ii) It is expected that the cash flows after taxes (CFAT) will be Rs.1,50,000 per year for the next 6 years. It is expected that the fixed assets of the Target Ltd fetch Rs.50,000 at the end of the 6th year.

(iii) Given the risk complexion of Target Ltd, cost of capital relevant for Target Ltd is 12%.

Advise the company regarding the financial feasibility of the acquisition.

(Present value of cash flows for Re.1 @ 12% is

Year 1 : 0.893 Year 2 : 0.797
Year 3 : 0.712 Year 4 : 0.636
Year 5 : 0.567 Year 6 : 0.507) **(20 Marks)**

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