

# CBCS SCHEME

22MBAFM404



USN

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## Fourth Semester MBA Degree Examination, June/July 2024 Mergers, Acquisitions and Corporate Restructuring

Time: 3 hrs.

Max. Marks: 100

- Note: 1. Answer any FOUR full questions from Q.No.1 to 7.  
2. Q.No. 8 is compulsory.  
3. M : Marks , L: Bloom's level , C: Course outcomes.*

|     |    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | M  | L  | C   |
|-----|----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|----|-----|
| Q.1 | a. | Give the meaning of LBO.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 3  | L1 | CO1 |
|     | b. | Mention some reasons for the failure of merger and acquisition.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | 7  | L2 | CO2 |
|     | c. | Explain industry life cycle in the context of merger.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | 10 | L6 | CO2 |
| Q.2 | a. | What is purchase consideration? List its types.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | 3  | L1 | CO5 |
|     | b. | What is Due Diligence? Explain the types of due diligence.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 7  | L5 | CO3 |
|     | c. | <p>On the basis of following information of XYZ Ltd., you are required to calculate net asset value per share as per book value, market value and liquidation value bases.</p> <p style="text-align: center;">Balance sheet of XYZ Ltd</p> <p style="text-align: right;">Rs.</p> <p>I) Equity and Liabilities :</p> <p>i) Shareholder's Funds</p> <p style="padding-left: 20px;">a) Share Capital (20,000 11% preference shares of Rs.100 each, fully paid-up) 20,00,000</p> <p style="padding-left: 20px;">b) Shares capital (60,000 equity shared of Rs.100 each fully paid-up) 60,00,000</p> <p style="padding-left: 20px;">ii) Non current liabilities 10% debentures 10,00,000</p> <p style="padding-left: 20px;">iii) Current liabilities</p> <p style="padding-left: 40px;">a) Trade creditors 35,50,000</p> <p style="padding-left: 40px;">b) Provision for Income tax 4,00,000</p> <p style="padding-left: 40px;">c) Profit and Loss account 11,50,000</p> <hr/> <p style="padding-left: 20px;">Total 1,41,00,000</p> <p>II) Assets:</p> <p>i) Non-current assets:</p> <p style="padding-left: 20px;">a) Fixed Assets 75,00,000</p> <p style="padding-left: 40px;">Less depreciation 15,00,000 60,00,000</p> <p style="padding-left: 20px;">b) Other non current assets:</p> <p style="padding-left: 40px;">Preliminary exp's 1,00,000</p> <p style="padding-left: 20px;">ii) Current Assets:</p> <p style="padding-left: 40px;">a) Stock 50,00,000</p> <p style="padding-left: 40px;">b) Debtors 25,00,000</p> <p style="padding-left: 40px;">c) Cash and Bank 5,00,000</p> <hr/> <p style="padding-left: 20px;">Total 1,41,00,000</p> | 10 | L5 | CO4 |

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|------------|----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|--------|
|            |    | <u>Additional Information:</u><br>i) According to professional assessors the market value of fixed asset is Rs.65,00,000; stock is Rs.51,00,000; debtors is Rs.22,50,000 and all the remaining assets are to be taken at their balance sheet values.<br>ii) The dividend on preference share is neither paid nor declared.<br>iii) In case if the company goes into liquidation the assessors gave the estimate of current amount of sale of fixed assets as Rs.52,50,000 stock as Rs.45,00,000 and debtors as Rs.20,00,000.<br>iv) The liquidation cost amounts to Rs.7,50,000. |    |        |
| Q.3        | a. | What is spin off?                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | 3  | L1 CO1 |
|            | b. | Discuss the salient features of the competition Act 2002.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | 7  | L5 CO6 |
|            | c. | What are the organizational and human aspect that should be considered during post merger integration?                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 10 | L6 CO2 |
| Q.4        | a. | What is Master Limited Partnership (MLP)?                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | 3  | L1 CO1 |
|            | b. | Define Corporate Restructuring. What are the objectives of Corporate Restructuring?                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | 7  | L1 CO1 |
|            | c. | What is Joint Venture? What are the reasons for forming joint ventures and what are the reasons for failure of joint ventures?                                                                                                                                                                                                                                                                                                                                                                                                                                                   | 10 | L3 CO2 |
| Q.5        | a. | What are different types of merger?                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | 3  | L1 CO2 |
|            | b. | Explain the strategic motives behind mergers and acquisitions.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | 7  | L6 CO3 |
|            | c. | Discuss the various efficiency theories of mergers.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | 10 | L5 CO3 |
| Q.6        | a. | Name three challenges of due diligence process.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | 3  | L1 CO2 |
|            | b. | Narrate the process of merger integration.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 7  | L5 CO6 |
|            | c. | Dividend on a share during current year Rs.20, the value is Rs.100. Dividends are expected to grow at a constant rate 10.9% for 5 years and then 8% infinitely. An investor expects a return of 25% p.a. suggest him at what price he should buy it?                                                                                                                                                                                                                                                                                                                             | 10 | L5 CO6 |
| Q.7        | a. | What is ESOP?                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 3  | L1 CO2 |
|            | b. | Define M & A five stage model. Explain five stage model with diagram. Write a note on five stage model.                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | 7  | L3 CO3 |
|            | c. | Explain the different types of business valuation approaches.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 10 | L5 CO3 |
| 2 of 3     |    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |    |        |

Q.8

## CASE STUDY (Compulsory)

20

L5

CO4

The companies, X Ltd. and Y Ltd. have furnished their balance sheets for the accounting treatment of amalgamation.

| Particulars                                                                 | X Ltd.<br>(Rs.) | Y Ltd.<br>(Rs.) |
|-----------------------------------------------------------------------------|-----------------|-----------------|
| I) Equity and Liabilities:                                                  |                 |                 |
| i) Shareholder's fund 9% preferences shares capital (Shares of Rs.100 each) | 4,00,000        | -               |
| Equity shares capital (shares of Rs.10 each)                                | 8,00,000        | 4,00,000        |
| a) Reserves and surplus:                                                    |                 |                 |
| Reserves                                                                    | 1,60,000        | 1,00,000        |
| Statement of P and L                                                        | 2,00,000        | 40,000          |
| b) Current Liabilities and Provisions:                                      |                 |                 |
| Creditors                                                                   | 40,000          | 20,000          |
| Total                                                                       | 16,00,000       | 5,60,000        |
| II) Assets:                                                                 |                 |                 |
| i) Non current assets                                                       |                 |                 |
| a) Property, Plant and Equipment and Intangible assets                      |                 |                 |
| 1) Goodwill                                                                 | 2,80,000        | -               |
| 2) Building (office)                                                        | 4,00,000        | 2,00,000        |
| 3) Plant and Machinery                                                      | 3,00,000        | 1,20,000        |
| 4) Furniture and fixtures                                                   | 1,40,000        | 80,000          |
| b) Investments                                                              | 2,00,000        | -               |
| ii) Current Assets:                                                         |                 |                 |
| a) Stock                                                                    | 1,60,000        | 80,000          |
| b) Debtors                                                                  | 80,000          | 60,000          |
| c) Bank Balance                                                             | 40,000          | 20,000          |
| Total                                                                       | 16,00,000       | 5,60,000        |

Thus, for serving the purpose of amalgamation, a new company is formed as XY Ltd. for taking over the business of both companies based on the following conditions:

- i) The valued worth of X Ltd. is agreed at Rs.20,00,000 and for purchase consideration, the equity shares of Rs.10 each are issued at a premium of Rs.6 per share.
- ii) The valued worth of Y Ltd is agreed at Rs.8,00,000 and for purchase consideration, the equity shares of Rs.10 each are issued at Rs.16 per share.
- iii) The newly formed company XY Ltd. is bearing liquidation expenses of Rs.8,000 and Rs.4,000 for X Ltd. and Y Ltd. respectively. You are required to pass journal entries only in the books of transferee companies (X Ltd.) and prepare required accounts for the same.

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