

## M.Com. HPP (FFS) Semester-4 Examination

CC-18

## Corporate Restructuring

Time : 2-30 Hours]

April-2024

[Max. Marks : 70

Q.1 Define Strategy. Explain Various levels of Strategy.

14

OR

Q.1 Define Corporate Restructuring. Discuss Various forms of Corporate Restructuring.

14

Q.2 The following information is given for 3 companies X, Y and Z which are identical except for their capital structure for the year 2023-24: 14

	X	Y	Z
Operating Income (EBIT)	1,00,000	1,00,000	1,00,000
Total invested capital	4,00,000	4,00,000	4,00,000
Debt / assets ratio	0.8	0.5	0.2
Shares outstanding	24,400	33,200	40,000
Cost of equity	26%	22%	20%
Pretax cost of debt	16%	13%	15%

The tax rate is uniform 35% in all cases.

- Compute the Weighted average cost of capital for each company.
- Compute the Economic Valued Added (EVA) for each company.
- Based on the EVA, which company would be considered for best investment?

OR

Q.2 PQR Ltd.'s current financial year's income statement reported its net income after tax as ₹ 2,50,000. The applicable corporate income tax rate is 30%. Following is the capital structure of PQR Ltd. at the end of current financial year: 7

Particulars	₹
Equity	12,50,000
11% Debt	4,00,000
Total Capital Employed	16,50,000

NS4-2

Further details are as under:

Equity Beta	1.36
Risk free rate (Rf)	8.5%
Return on Market Portfolio (Rm)	17.5%

You are required to:

- (i) Estimate Weighted Average Cost of Capital (WACC) of RST Ltd.; and
- (ii) Estimate Economic Value Added (EVA) of RST Ltd.

**Q.2** Explain the difference between Economic value Added and Market Value Added. 7

**(B)**

**Q.3** The following are the Balance Sheets of Anushka Ltd. and Virat Ltd. as on 31-3-2024: 14

Equities and Liabilities	Anushka Ltd. (₹)	Virat Ltd. (₹)	Assets	Anushka Ltd. (₹)	Virat Ltd. (₹)
Equity shares of ₹ 100 each fully paid up	32,00,000	16,00,000	Fixed Assets	40,00,000	17,60,000
12% Preference Shares of ₹ 100 each fully paid up	4,80,000	3,20,000	Inventories	9,60,000	6,40,000
General Reserve	16,00,000	6,40,000	Trade Receivables	8,00,000	6,40,000
Investment Allowance Reserve	1,60,000	80,000	Cash and cash equivalents	6,40,000	80,000
Profit & Loss A/c	4,80,000	2,40,000			
10% Debentures	-	96,000			
Trade Payables	4,80,000	1,44,000			
	<b>64,00,000</b>	<b>31,20,000</b>		<b>64,00,000</b>	<b>31,20,000</b>

Anushka Ltd. decided to take over Virat Ltd. on 1st April, 2024 on the following terms:

- (1) Anushka Ltd. will issue 17,600 equity shares of ₹ 100 each fully paid to shareholders of Virat Ltd.
- (2) Anushka Ltd. will issue 3,360 12% preference shares of ₹ 100 each fully paid to Preference shareholders of Virat Ltd.
- (3) Debentures of Virat Ltd. will be exchanged for 12% new debentures so that they will get the same income of interest.
- (4) Investment Allowance Reserve is to be maintained for more 2 years.

Prepare the balance sheet of Anushka Ltd. after amalgamation on the assumption that

- i. The amalgamation is in the nature of merger.
- ii. The amalgamation is in the nature of purchase.

OR

N 54, 3

**Q.3** Suhana Ltd. And Shahrukh Ltd. were amalgamated on 1-4-2024. A new company Gori Ltd. was formed to take over the business of both the companies. **14**

Equities and Liabilities	Suhana Ltd. (₹)	Shahrukh Ltd. (₹)	Assets	Suhana Ltd. (₹)	Shahrukh Ltd. (₹)
Equity shares of ₹10 each	10,00,000	8,00,000	Fixed Assets (Market value is 20% more)	20,00,000	10,00,000
10% Preference Shares of ₹100 each	5,00,000	3,00,000	Investments	2,00,000	1,00,000
General Reserve	3,00,000	2,00,000	Current assets	2,00,000	4,50,000
Investment Allowance Reserve	80,000	20,000			
Profit & Loss A/c	1,20,000	80,000			
12% Debentures	1,00,000	50,000			
Current liabilities	3,00,000	1,00,000			
	<b>24,00,000</b>	<b>15,50,000</b>		<b>24,00,000</b>	<b>15,50,000</b>

Additional information

- 1) Preference shareholder of the two companies are issued equivalent number of 12% preference sets of Gori Limited at the price of ₹120. Having face value of ₹100 each.
- 2) Equity shareholders of the two companies are issued equivalent number of equity shares of Gori Ltd at the price of ₹12 each. Having a face value of ₹10 each.
- 3) 12% debentures of Suhana Ltd and Shahrukh Limited are discharged by Gori Limited issued issuing such number of its 15% debentures of ₹100 each so as to maintain the same amount of interest.
- 4) Investment allowance reserve is to be maintained for 2 more years.

Prepare the balance sheet of Gori Ltd. after amalgamation on the assumption that

- a. The amalgamation is in the nature of merger.
- b. The amalgamation is in the nature of purchase.

**Q.4** Write a note on Strategic Alliance.

**14**

OR

NS4-4

**Q.4** Write a note on takeover and its various types in brief **14**

**Q.5** Attempt any Seven out of Twelve: **14**

1. Which of the following is a motive for expansion?
  - a) Growth
  - b) Technology advancement
  - c) Diversification
  - d) All of the above
2. Merger between two firms involved in totally unrelated business is known as \_\_\_\_\_
  - a) Horizontal Merger
  - b) Conglomerate Merger
  - c) Acquisition
  - d) None of these
3. Which of the following is not a level of Strategy?
  - a) Corporate level Strategy
  - b) Business Level strategy
  - c) Functional Level strategy
  - d) Technology Level of Strategy
4. A corporate level strategy to sell off subsidiaries or division of a company is called \_\_\_\_\_.
  - a) Takeover
  - b) Demerger
  - c) Merger
  - d) None of the above
5. \_\_\_\_\_ is where two or more organizations set up a separate, independent organization set up for a specific purpose.
  - a) Joint Venture
  - b) Strategic alliance
  - c) ESOP
  - d) Expansion
6. \_\_\_\_\_ Is Acquisition of business with more debt capital or borrowed capital.
  - a) Takeover
  - b) Leveraged Buy out
  - c) Strategic Alliance
  - d) Demerger
7. The excess of purchasing price over net assets is
  - a) Goodwill
  - b) Capital Reserve
  - c) Capital redemption reserve
  - d) Revenue loss

NS4-5

8. Which of the following reserve is considered Non-statutory reserve with respect to amalgamation?
  - a) Investment Fluctuation reserve
  - b) Investment allowance reserve
  - c) Development rebate reserve
  - d) None of the above
9. Which one of the following reserve of the transferor company should be included in the financial statement of the transferee company?
  - a) General reserve
  - b) Capital reserve
  - c) Statutory reserve
  - d) Dividend Equalisation reserve
10. SGR stands for\_\_\_\_
  - a) Sustainable Growth Rate
  - b) Steady Growth Rate
  - c) Single Growth Rate
  - d) None of the above
11. MVA means\_\_\_\_
  - a) Markup Value Analysis
  - b) Moderate Value Added
  - c) Market Value Added
  - d) None of the above
12. EVA equals to:
  - a) NOPAT - Cost of Capital
  - b) NOPAT - Return
  - c) NOPAT - Cost of equity
  - d) None of the above

\*\*\*\*\*

---