

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

CC-18

Corporate Restructuring

April-2024

Time : 2-30 Hours]

[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.

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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 Value 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

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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:

- Estimate Weighted Average Cost of Capital (WACC) of RST Ltd.; and
- 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			
	64,00,000	31,20,000		64,00,000	31,20,000

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

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

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

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

OR

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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	Investment s	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			
	24,00,000	15,50,000		24,00,000	15,50,000

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.

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OR

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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

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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
