CMR INSTITUTE OF TECHNOLOGY

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Internal Assesment Test - II

Sub:	Mergers Acquisitions	s and Corporate	Restructurin	g				Code:
Date:	08.06.2021	Duration:	90 mins	Max Marks:	50	Sem:	II	Branch:

Mar

Part A - Answer Any Two Full Questions (16*02=32 Marks)

1 What is swap ratio

[03]

(a)

A swap ratio is a ratio at which an acquiring company will offer its own shares in exchange for the target company's shares during a merger or acquisition. When two companies merge or when one company acquires another, the transaction does not have to be an outright purchase of the target company's shares with cash. It can involve a stock conversion, which is basically an exchange rate, described through the swap ratio.

(b)Explain the different methods of determining the purchase consideration.

[0]

There are different methods of purchase consideration depending upon the terms and conditions settled between the transferor company.

Net asset method: under this method the net asset value is calculated by deducting all the liabilities taken over by the transferee company from the entire asset taken by the transferee company. The value of the assets and liabilities is not that appear in the balance sheet but it is that which is decided between the two companies.

- 2) Net payment method: in this case purchase consideration is calculated by adding all the payments made by the transferee company to the shareholders of the transferor company. Payment can be in the form of cash, shares or debentures.
- Lump sum method: this is the case when Transferee Company agrees to pay Transferor Company a 3) fixed sum of money. Like xyz limited agrees to pay abc ltd 25 lakh. This is lump sum method.
- Intrinsic value or share exchange method: in this method to calculate purchase consideration following method is used:

Net asset available to the equity shareholders/ number of equity shares

(c)On 31st March the Balance sheet of M stood as follows

Liabilities	Rs	Assets	Rs
Share capital for Rs 10 each	500,000	Machinery	70,000
Provision for Creditors	110,000	Inventory	315,000
		Debtors	105,000

	<10.000	P/L	100,000
Total	610,000	Total	610,000

On this date, L Ltd took over the business of M Ltd for Rs 400,000, payable in the form of its equity shares of Rs 10 each at par. Show the necessary ledger accounts in the books of M LTd

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(b)Distinguish methods of pooling interest methods and purchase methods

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(c)The following is the balance sheet of A Ltd as on 31st March 2017,

Liabilities	Rs	Assets	Rs
Equity Share capital:	150,000	Fixed assets	32,50,000
of Rs 10 each fully paid			
General Reserve	900,000	Investments	600,000
Preference share capital	750,000	Current assets	500,000
15% Debentures	700,000		
Current liabilities	500,000		

Calculate purchase consideration under the following conditions using Net asset method

- a) Discharge debentures at a premium of 12% debenture of X Ltd.
- b) Fixed Assets above 15% of the book value
- c) Investments at par value@ 10% Premium
- d) Current assets at a discount of 12%
- e) Current assets at a book value.

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3 What is called as intrinsic value of share.

(a)

Intrinsic value is the anticipated or calculated value of a company, stock, currency or product determined through fundamental analysis. It includes tangible and intangible factors. Intrinsic value is also called the real value and may or may not be the same as the current market value. It is also referred to as the price a rational investor is willing to pay for an investment, given its level of risk.

(b) What are the different methods of financing mergers

Exchanging Stocks
Debt Acquisition
Paying in Cash
Initial Public Offerings
Issuance of Bonds
Loans

[03

(c) What are the conditions to satisfy an amalgamation to be as the nature of merger, also differentiate amalgamation in nature of merger with amalgamation in nature of purchase.

Amalgamations in The nature of merger, by should Schiff.

all the following conditions

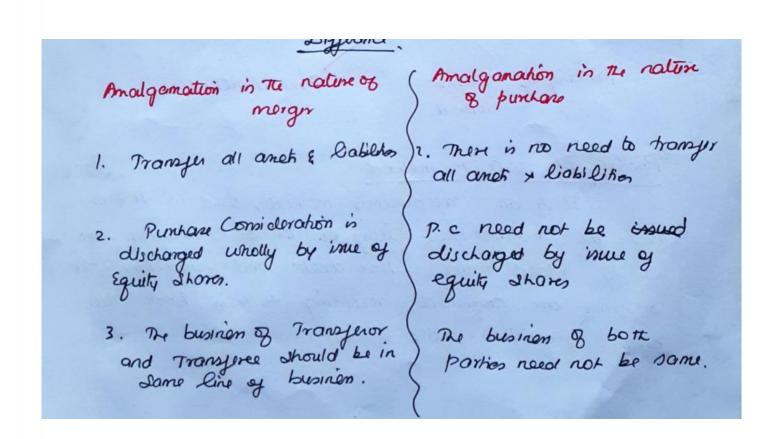
1). Transfer of all and a liabilities.

2. Pumhase Consideration in Equity shores

3). Some business (Transfers and Transfers)

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5. Equity shoreholders holding 90% of equity shores are some in both the Cost.



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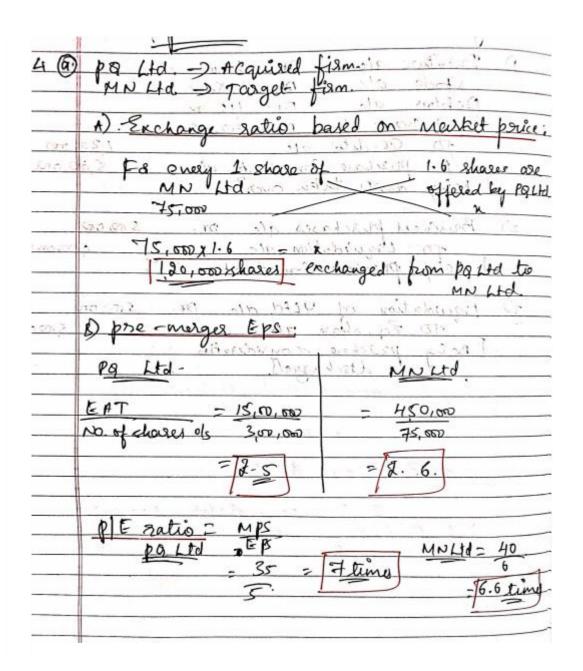
Part B - Compulsory (01*08=08 marks)

4

(a)PQ Ltd wants to acquire MN Ltd by exchanging its 1.6 shares for every share of MN Ltd. It anticipates to maintain the existing P/E ratio subsequent to merger also. The relevant financial data are furnished below:

Particulars	PQ Ltd	MN Ltd
EAT (Rs)	15,00,000	450,000
No. of equity shares outstanding	300,000	75,000
Market price per share (Rs)	35	40

- A) What is the exchange ratio based on market price
- B) What is the pre merger and P/E ratio for each company?
- C) What will the P/E ratio used in acquiring MN Ltd
- D) What is the EPS of PQ Ltd after acquisition?
- E) What is the expected market price per share of the merger firm?



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Course Outcomes		PO1	P02	PO3	P04	PO5	P06	PO7
CO1:	Understand Corporate and merger acquisition activity							
CO2:	Analyse M & A deals that took place in the past							
CO3:	Understand the synergies of M &A							
CO4:	Compute the valuation associated with M & A	1a, 1b. 1c, 3a, 3b	2a, 2b				2c, 3c, 4c	
CO5:	Understand the human and cultural aspect of M &A							

Cognitive level	KEYWORDS
L1	List, define, tell, describe, identify, show, label, collect, examine, tabulate, quote, name, who, when, where, etc.
L2	summarize, describe, interpret, contrast, predict, associate, distinguish, estimate, differentiate, discuss, extend
L3	Apply, demonstrate, calculate, complete, illustrate, show, solve, examine, modify, relate, change, classify, experiment, discover.
L4	Analyze, separate, order, explain, connect, classify, arrange, divide, compare, select, explain, infer.
L5	Assess, decide, rank, grade, test, measure, recommend, convince, select, judge, explain, discriminate, support, conclude, compare, summarize.

PO1 - Knowledge application; PO2 - Analytical and logical thinking; PO3 - Team work; PO4 - Leadership; PO5 - life-long learning; PO6 - Analyze and practice aspects of business; PO7- Personal and Societal growth;