

Duration: 2 ½ hours.

Marks: 75

N.B. : (a) All questions are compulsory.

(b) Working notes should form part of your answer.

(c) Proper presentation and neatness are essential.

(d) Figures to the right indicate full marks.

Q.1. A. State whether the following statements true or false. [Any Eight]

(08)

- Residual value is the sale value of an old asset after it's usage
- Net asset value and intrinsic value of the share is one and the same
- EPS is calculated by dividing Profit available to equity shareholders with number of equity shares
- Merger of two unrelated companies is called as horizontal merger
- Consolidation of shares leads to increase in the face value of shares
- Capital reduction is utilized for writing off Goodwill
- Lessee is the owner of the asset who lends asset on rental basis
- Lessee gets tax benefit on payment of annual lease rent
- Commercial paper is issued by highly rated corporates
- In recourse factoring entire risk will be borne by factor

Q.1. B. Match the following: **[Any Seven]**

(07)

- | | | | |
|----|--|-------|-------------------------------|
| a. | Super profit method | i. | Initial payment |
| b. | Benefit of merger | ii. | Hire purchase price |
| c. | Merger with the supplier | iii. | Certificate of deposits |
| d. | Decrease in value of assets | iv. | Mediator for bill collection |
| e. | Debenture holders accepting part payment | v. | Fictitious asset |
| f. | Down payment | vi. | Method of valuing Goodwill |
| g. | Interest Plus Installments | vii. | Synergy |
| h. | Working capital finance | viii. | Vertical merger |
| i. | Factor | ix. | Credited to capital reduction |
| j. | Discount on issue of shares | x. | Debited to capital reduction |
| | | xi. | Fixed asset |
| | | xii. | Horizontal merger |

Q.2. A. Following is the balance sheet of PQR Ltd. As on 31st March, 2023.

(15)

Balance Sheet

| Liabilities | ₹ | Assets | ₹ |
|----------------------------------|-----------|---------------------|-----------|
| 50,000 equity shares of ₹10 each | 5,00,000 | Goodwill | 50,000 |
| General reserve | 1,00,000 | Building | 4,00,000 |
| 10% Debentures | 4,00,000 | Plant and machinery | 2,50,000 |
| Profit and Loss A/c | 25,000 | Investment | 1,00,000 |
| Creditors | 50,000 | Debtors | 90,000 |
| Bills Payable | 25,000 | Bank | 60,000 |
| | | Stock | 1,50,000 |
| | 11,00,000 | | 11,00,000 |

A. For the last five year ended 31st March, the company's profits after tax were as under:

| |
|------------------|
| 2019 = ₹85,000 |
| 2020 = ₹90,000 |
| 2021 = ₹96,000 |
| 2022 = ₹1,10,000 |
| 2023 = ₹1,39,000 |

B. The company set aside 10% of profit for general reserve. The fair rate of return in the industry may be taken at 10%.

C. On 31st March, 2023 independent expert valuer has assessed the values of the following assets:

| Assets | ₹ |
|---------------------|----------|
| Plant and machinery | 3,00,000 |
| Buildings | 4,50,000 |
| Investment | 50,000 |

Find out value of business under,

1. Intrinsic Value
2. Yield Value
3. Fair Value

OR

Q.2. B. Calculate **EVA** from the following information:

(08)

| | |
|--------------------------|--------------|
| Equity capital | ₹ 500 Crore |
| Debt Capital | ₹ 1000 Crore |
| Cost of Debt (after tax) | 8% |
| Cost of equity | 15% |
| EBIT (Operating Profit) | 184 Crore |
| Income tax rate | 40% |

Q.2. C. Calculate **MVA** from the following information of Beta Ltd.

(07)

Balance sheet of Arjun Ltd. As on 31st March, 2023

| Liabilities | ₹ in lakhs | Assets | ₹ in lakhs |
|----------------------------------|------------|-----------|------------|
| Equity share capital of ₹10 each | 4,000 | Building | 5,600 |
| Retained earnings | 2,600 | Machinery | 2,000 |
| 8% term loan | 2,100 | Stock | 400 |
| Bills payable | 800 | Debtors | 1,200 |
| Provisions | 500 | Bank | 800 |
| | 10,000 | | 10,000 |

Profit After Tax (PAT) = ₹8,600 (in lakhs), P/E Ratio = 2.

Q.3. A. You have been provided the following financial data of two companies: (15)

| Particulars | P Ltd. | Q Ltd. |
|---------------------------|--------------|---------------|
| Earnings after tax | Rs. 7,00,000 | Rs. 10,00,000 |
| Equity shares outstanding | 2,00,000 | 4,00,000 |
| Price – earnings ratio | 10 times | 14 times |
| Market Price (₹) | 35 | 35 |

Company Q Ltd. is acquiring P Ltd.

You are required to calculate:

1. What is the swap ratio based on current market price
2. The EPS subsequent to merger.
3. What is the expected market price per share of Q Ltd. After acquisition assuming P/E ratio remains unchanged.
4. The market value of the post – merger firm.
5. Calculate gain or loss for shareholders of the two companies after acquisitions.

OR

Q.3. B. Following is the balance sheet of Sangeet Ltd. as on 31st March, 2023. (15)

Balance Sheet

| Liabilities | Rs. | Assets | Rs. |
|---|-----------|-------------------|-----------|
| Share capital: | | Goodwill | 3,40,000 |
| 1,60,000 Equity Shares of Rs. 5 each | | Land & Buildings | 2,60,000 |
| fully paid | 8,00,000 | Equipment | 2,50,000 |
| 4,000 6% cumulative Preference Shares | | Sundry Debtors | 2,40,970 |
| of Rs. 100 each fully paid | 4,00,000 | Stock | 3,30,340 |
| 8% Debentures (Rs. 100 each) | 4,00,000 | Investment | 45,450 |
| Bank Overdraft | 1,50,000 | Cash at Bank | 20,240 |
| Sundry Creditors | 3,40,360 | Profit & Loss A/c | 6,03,360 |
| (Including Rs. 20,000 interest on Bank Overdraft) | | | |
| | 20,90,360 | | 20,90,360 |

Preference dividend in arrears for five years.

Following scheme of reconstruction was approved by the court.

1. Equity shares to be reduced to Rs. 1.25 each and then to be consolidated into shares of Rs. 10 each.
2. 6% preference shares to be reduced to Rs. 40 each and then to be subdivided into shares of Rs. 10 each.
3. Interest accrued but not due on 8% Debentures for half year ended 31st March 2023 has not been provided in the above balance sheet. The Debenture Holders have agreed to receive 40% of the interest in cash immediately and provision for the balance to be made in the books of account.
4. Rs. 24,000 be paid to preference shareholders in lieu of arrears of preference dividend.
5. Bank has agreed to take over 50% of stock in full satisfaction of its claim including interest. The remaining stock be revalued at Rs. 1,20,000.
6. The Debenture Holders have also agreed to accept equal number of 9% Debentures of Rs. 60 each in exchange of 8% Debenture of Rs. 100.
7. Investment be sold for Rs. 40,000
8. Tangible Fixed Assets be appreciated by 20%. Goodwill be written off in full and provision be made for doubtful debts of Rs. 20,000.

Give journal entries for the above scheme of reconstruction.

- Q.4. A. Abhishek Ltd. Requires an equipment costing ₹ 4,00,000 the same will be utilized over the period (15) of 5 years it has two financing option in this regard. The salvage value of equipment at the end of 5th year is zero. The company uses straight line depreciation. Assume tax rate is 40%.

Option 1:

To buy with borrowed fund at the cost of 18% p.a. payable in 5 equal instalments of ₹ 1,28,000 p.a.

Option 2:

To take equipment on lease and on an annual rent of ₹64,000

Discount Factor at 18%

Advise the company which option should go for if Internal Rate of Return is 18%

OR

- Q.4. B. PQR & Co. plans to issue Commercial Paper (CP) for ₹1,00,000 at a price of ₹98,000. (08)

- a. Maturity Period = 4 months
- b. Expenses for issue of CP are:
 - i. Brokerage = 0.10%
 - ii. Rating Charges = 0.60%
 - iii. Stamp Duty = 0.15%

Find the effective interest rate per annum and the cost of the fund.

- Q.4. C. A firm has a total credit sale of ₹3,20,00,000 and its average collection period is 90 days. Bad debts (07) are around 1 % of credit sale. The firm spends ₹1,00,000 per year on administering credit sale. A factor is prepared to buy firm receivable. He will advance receivable to the firm at 15% interest after keeping 10% reserve. Suggest whether the company should opt for inhouse management of debt and/or factoring service (Assume number of days in a year 360 days.)

- Q.5. A. Explain advantages of mergers and acquisitions. (08)

- Q.5. B. Discuss various types of factoring. (07)

OR

- Q.5. Short Notes: [Any Three] (15)

- a. Leasing and Hire Purchase
- b. Sources of working capital financing
- c. Types of Mergers
- d. Takeover
- e. Approaches of business valuation
