(2 ½ Hours) [Total Marks: 75]

Note: 1) All questions are compulsory.
2) Figures to the right indicates full marks.
3) Working notes should form part of the answer.
4) Use of simple calculator is allowed.

Q1 (a) Select the correct alternative from the choices given below and rewrite the statement (any 8) **[8 marks]**

1. Among all types of values, the__________ value of a business or an asset is likely to be the lowest.
   (a) Intrinsic (b) Fair
   (c) Disposal (d) Liquidation
2. Using ____________ company can evaluate the project performance and decide whether to execute the project or not to execute.
   (a) Intrinsic Value (b) Fundamental Value
   (c) Economic Value Added (d) Salvage Value
3. Pooling of resources by two or more companies under a common entity is called__________
   (a) Merger (b) Amalgamation
   (c) Absorption (d) Takeover
4. Balance of Capital Reduction should be transferred to____________
   (a) Security premium (b) Capital Reserve
   (c) Share Capital (d) Profit & Loss A/c
5. Reduction in share capital of a company means reduction in __________
   (a) Paid up capital (b) Called up capital
   (c) Authorized capital (d) Uncalled capital
6. From the point of view of a Lessee, a lease is a__________
   (a) Working Capital Decision (b) Financing Decision
   (c) Investment Decision (d) Buy or make Decision
7. Annual Lease Rental is considered as cash outflow for ___________
   (a) Lessor (b) Lessee
   (c) Finance Company (d) None of the above
8. In India Commercial papers are issued as per the guidelines issued by__________
   (a) SEBI (b) RBI
   (c) Forwards Market Commission (d) None of the above
9. Factoring involves __________
   (a) Management of debtors (b) Borrowing from Banks
   (c) Borrowing against B/E (d) None of the above
10. Which of the following is a liability of a bank
   (a) Treasury Bills (b) Commercial Papers
   (c) Certificate of Deposits (d) Junk Bond

Q 1 (b) Match the column (Any 7) [7 marks]

Column A	Column B
1) ROI indicates	a) Internal reconstruction
2) EVA measures	b) Increases profitability
3) Fictitious balance	c) Cash price only
4) Capital reduction scheme	d) Benefit of factoring
5) Corporate restructuring	e) Overall profitability
6) Lease rentals	f) Advance 70% to 80% of Debt
7) The last instalment in hire purchase includes	g) Transfer to capital reduction
	h) Provided against inventories
8) Working Capital Finance	i) Deductible for tax
9) Reduction in working capital need	j) Corporate surplus
10) Recourse factoring	k) Spontaneous source of finance
	l) Cash price plus interest

Q 2 (a) The following is the Balance Sheet of Nishtha Ltd as on 31.03.2021 **[15 marks]**

Liabilities	Rs.	Assets	Rs.
3,000, 8% Preference Shares of Rs. 100 each fully paid	3,00,000	Goodwill	1,00,000
60,000 Equity Shares of Rs. 10 each fully paid	6,00,000	Land & Building	4,00,000
Reserves & Surplus	4,66,000	Equipment	2,40,000
10% Debentures	2,00,000	Trade Investment	1,50,000
Current Liabilities	1,84,000	Stock	4,65,000
		Bills Receivable	3,20,000
		Bank & Cash Balance	60,000
		Preliminary Expenses	15,000
	17,50,000		17,50,000

Additional Information:

1. Independent valuation of assets shows the following values.
Goodwill – Rs. 3, 60,000; Land & Building – Rs. 6, 10,000; Equipment -Rs. 2, 40,000
2. Market Value of Investments is Rs. 1, 59,000
3. Normal Rate of return in this type of business may be taken at 15%.
4. The Company earned net profits for the last three years as follows:
Rs. 2, 54, 400; Rs.2, 73,300; Rs. 3, 54,300
5. Preference Share Capital was same during the last three years.
6. Use simple average

Find out the value of equity shares of the company by the:

i) Intrinsic Value method
ii) Yield Value method
iii) Fair Value method

OR

Q 2 (b) Calculate EVA from the following information of Bhutani LTD. **[8 marks]**

Equity Share Capital	Rs. 5,00,000
13% Preference Share Capital	Rs. 2,00,000
Reserves & Surplus	Rs. 6,00,000
Non trade investments (Face value Rs. 1,00,000) rate of interest	10%
14% Debentures	Rs. 3,00,000
Profits before tax	Rs. 2,00,000
Tax Rate	40%
WACC	13%

Q 2 (c) Calculate MVA from the following information of Finwin Ltd. **[7 marks]**

Balance Sheet of Finwin Ltd. as on 31st March, 2021

Liabilities	Rs. In Lakhs	Assets	Rs. In Lakhs
Equity Share Capital Rs.10 each	1,200	Building	1,800
		Machinery	800
Reserves & surplus	600	Stock	100
8% Term Loan	800	Debtors	80
Bills payable	350	Bank	600
Provision	430		
	3,380		3,380

Profit after Tax = Rs. 2,271 Lakhs, P/E = 2

Q 3 (a) The following information is provided related to the acquiring firm Surya Ltd. and the target firm Tara Ltd. **[15 marks]**

Particulars	Surya Ltd	Tara Ltd
No. of Equity shares	200 Lakhs	100 Lakhs
Profit After Tax	Rs. 2,000 Lakhs	Rs. 400 Lakhs
PE Ratio	10	5

i) Calculate the swap ratio based on current market price.
ii) Calculate EPS of Surya Ltd. after acquisition.
iii) What is the expected market price per share of Surya Ltd. after the acquisition, assuming P/E multiple of Surya Ltd. remains unchanged.
iv) Determine the market value of the merged firm.
v) Calculate Gain/ Loss for shareholders of the two independent companies after acquisition.

OR

Q 3 (b) The Balance Sheet of Nandan Ltd. as on 31st December, 2019 stands as under:

[15 marks]

Liabilities	Rs.	Assets	Rs.
10% Preference Shares of Rs. 10 each	5,00,000	Goodwill	2,00,000
Equity shares of Rs. 10 each	10,00,000	Land & Building	10,00,000
10% Debentures	2,00,000	Investments	5,00,000
Creditors	2,00,000	Publicity Campaign Expenses	4,00,000
Other Liability	7,00,000	Stock	4,00,000
		Preliminary Expenses	1,00,000
	26,00,000		26,00,000

The following scheme of reconstruction was submitted and approved by the Court:

1. Each existing equity shares will be written down from Rs. 10 to Rs. 4
2. Each existing 10% Preference Shares is to be written down from Rs. 10 to Rs. 8 of which Rs. 4 will be represented by 12% preference shares and Rs. 4 by equity shares.
3. 10% Debenture holders agree to waive 20% of right.
4. Assets were revalued as under:
   Land & Building Rs. 12, 00,000. Investments Rs. 4, 80,000. Stock reduced by 10%.
5. Creditors due are settled as:
   a) 20% immediate payment.
   b) 40% amount cancelled.
   c) 40% paid by issue of 16% debentures.
6. All fictitious & Intangible assets written off.

You are required to show the necessary Journal entries and prepare the Capital Reduction Account and Final Balance Sheet of the Company.

Q4 (a) **[15 marks]**

An equipment costing Rs. 5,00,000 with a five- year life, can be leased for five years for payment of Rs. 1,20,000 per year at the end of each year. Alternatively, you can borrow Rs. 5,00,000 and buy the equipment, 6% interest is payable on the outstanding balance at the close of each year, the principal being repayable in 5 equal instalments.

You are required to compute depreciation at 20% original cost p.a. Assume tax rate to be 50% and a fair return of 10% after tax is expected on the business funds. Explain which proposal is beneficial?

PV Factor at 10%

Year	1	2	3	4
	.91	.83	.75	.68

OR

Q4. (b) **[8 marks]**

The turnover of GINI is Rs. 120 lakhs of which 80% is on credit. Debtors are allowed one month to clear off dues. A factor is willing to advance 90% of the bills raised on credit for a fees of 2% a month plus a commission of 5% on the total amount of debts. GINI as result of the arrangement is likely to save Rs. 1,00,000 p.a. in management costs and avoid bad debts @1% on the credit sales. A bank has come forward to make an advance equal to 90% of the debts at an annual interest rate of 18%. However, its processing fee will be 2% on the debts.

Would you accept factoring or the offer from the bank?

Q4. (c) **[7 marks]**

MK Co. Ltd. issued commercial paper worth Rs. 100 Crores as per the following details:

Date of issue - 17th January 2021
Date of maturity – 17th April 2021
No. of days = 90
Interest rate = 11.25%
What was the amount received by the company on issue of commercial paper?
(Assume number of days in a year to be 365)

Q5. (a) Explain briefly the types of corporate restructuring strategies **[8 marks]**

(b) Explain the different sources of working capital finance? **[7 marks]**

OR

Q5. Write short notes on the following (any 3) **[15 marks]**

(a) Methods of Valuation of Goodwill
(b) Internal Reconstruction Vs External Reconstruction
(c) Economic Value Added
(d) Operating Lease Vs Financial Lease
(e) Hire Purchase Financing

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