GUJARAT NATIONAL LAW UNIVERSITY
GANDHINAGAR

Course: **Corporate Restructuring**

Semester-III (Batch: 2018-20)

MBA End Semester Examination: November-2019

Date: 4th November, 2019

Duration: 3 hours **Max. Marks: 60**

Instructions:

- The respective marks for each question are indicated in-line.
- Do not write anything on the question paper.
- Indicate correct question numbers in front of the answers.
- No questions or clarifications can be sought during the exam period, answer as it is, giving reason, if any.
- Use of calculator other than calculator in mobile phone, gadgets is permitted.

Part-A **Marks**

Answer all questions

Q.1 (a) Crum and Goldberg define 'corporate restructuring' as a "set of discrete decisive measures taken in order to increase the competitiveness of the enterprise and thereby to enhance its value" (5+5=10)

Are the decisive measures referred above in the definition are short run or long run? Substantiate your arguments in the light of the types of corporate restructuring.

(b) Business restructuring (or corporate restructuring) is a process that can address a company's unsatisfactory status quo in the constantly evolving market. It should be based on proper strategic planning fuelled by innovation, or it can be a tactical reaction to unexpected circumstances. A company wishing to embark upon a corporate restructuring programme needs to have clearly defined objectives and an established strategy for pursuing them as restructuring made on a random or speculative basis are rarely likely to be successful. Solution to the aforementioned problem lies in strategic management of corporate restructuring.

Discuss the steps in strategic management of corporate restructuring.

Q.2 (a) Due diligence is a vital part of the acquisition process. The better the parties are prepared the sooner the process will be completed. Do you agree with the statement? Discuss the 'purchaser's consideration as well as the seller's consideration in due diligence. (5+5=10)

(b) Write a note on the 'regulatory framework of Mergers and Acquisitions in India'.

Part-B

Answer all questions

Q.3 AXN Limited was incorporated on May 2018 to take over the business of AXN Media LLP as on January 1, 2018. The first accounts were closed on September, 2018, which disclosed the following information. (10)

	Amt. Rs.
Gross profit for the period	42,000
General expenses	7,200
Director's remuneration	12,000
Preliminary expenses	2,000

Rent up to June 30, 2018 was Rs. 6,000 p.a.; thereafter it was increased by 40%
Salary of the manager, who upon formation of the company, had become a whole time director; was paid Rs. 5,100 p.a.
The company earned a uniform gross profit. The sales up to September, 2018 were Rs. 98,000. The monthly average sales for the first four months of the year were one-half of the remaining period.
You are required to show the P&L statement indicating allocation of the profit between the pre-incorporation and post-incorporation period.

Q.4 Jay Ltd. And Mangal Ltd. amalgamated on and from 1st April 2019. A new company Jaymangal Ltd. was formed to take over the business of existing companies. The balance sheet of Jay Ltd. And Mangal Ltd. Is given below: (15)

(Rs. Lakh)

Liabilities	*Jay Ltd. Amt Rs.*	*Mangal Ltd. Amt. Rs.*	*Assets*	*Jay Ltd. Amt.Rs.*	*Mangal Ltd. Amt. Rs.*
Equity shares of Rs. 100 each	800	750	Land & buildings	550	400
12% preference shares of Rs. 100 each	300	200	Plant & machinery	350	250
General reserve	150	100	Investments	150	50
Revaluation reserve	170	150	Stock	350	250
Investment allowance reserve	50	50	Sundry debtors	250	300
Profit & loss account	50	30	Bills receivables	50	50
10% debentures of Rs. 100 each	60	30	Cash & bank	300	200
Sundry creditors	270	120			
Bills payable	150	70			
	2000	1500		2000	1500

The resolutions passed in the annual general meeting followed by board are:

(a) 10% debenture holders of both the amalgamating companies are to be discharged by the transferee company by such number of 15% debentures of Rs. 100 each so as to maintain the same amount of interest to the debenture holders.

(b) Preference shareholders of transferor companies are to be issued equivalent number of 15% preference shares of Transferee Company at a price of Rs. 150 (face value Rs. 100).

(c) Shareholders of Jay Ltd. shall be issued 5 (five) equity shares for each equity share of Jay Ltd. Agreed market value of each equity share of Jaymangal Ltd. Is Rs. 30 whereas its face value is Rs. 10.

(d) Shareholders of Mangal Ltd. shall be issued 4 (four) equity shares for each equity share of Mangal Ltd. Agreed market value of each equity share of Jaymangal Ltd. Is Rs. 30 whereas its face value is Rs. 10.

(e) Investment allowance reserve is to be maintained for 4 (four) more years.

You are required to give effect to the amalgamation and prepare post-amalgamation balance sheet of Jaymangal Ltd.

Q.5 PCM Projects Ltd. is facing threat of liquidation suit due to its liquidity and solvency issues and non-fulfilment of short term obligations. The management wishes to avoid the same and therefore considering the proposal of internal reconstruction. The following is the position statement of the company as at September 30, 2019: (15)

Liabilities		*Amt Rs.*
Share Capital: 1,50,000 shares of Rs. 10 each fully paid up 5,000; 11% preference shares of Rs. 100 each fully paid up		 15,00,000 5,00,000
Secured loans: 11% debentures Interest accrued and due on debentures Bank overdrafts		 5,00,000 1,10,000 6,30,000
Unsecured loans Interest accrued and due on loans	5,00,000 1,50,000	 6,50,000
Current liabilities		5,00,000
		43,90,000
Assets		*Amt. Rs.*
Fixed Assets at cost Less: Depreciation reserves	20,00,000 15,00,000	 5,00,000
Stock and stores		6,00,000
Receivables		14,50,000
Other current assets		2,00,000
Profit & loss account		16,40,000
		43,90,000

The following scheme of reconstruction has been agreed amongst the shareholders and the creditors; and been duly approved by the Tribunal:

(a) Interest due on unsecured loans is to be waived.
(b) 50% of the interest due on debentures is to be waived.
(c) Preference shareholder's right to be reduced by 50% in consideration of issuance of 15% debentures of Rs. 100 each.
(d) Current liabilities to be reduced by Rs. 50,000 on account of certain provisions not required.
(e) Bank agreed to enhance the overdraft limit by Rs. 1, 00,000 upon the shareholders agreeing to infuse equal amount of capital by way of purchase of equity shares.
(f) Apart from the additional subscriptions of equity shares mentioned above, shareholders agreed to convert the existing equity shares in to new 10 rupees shares of total value Rs. 5,00,000
(g) The debit balance of the P&L account is to be wiped off, Rs. 2,60,000 to be provided for doubtful debt and the value of fixed asset is to be appreciated by Rs. 4,00,000

You are required to give effect to the scheme and prepare the post-reconstruction balance sheet of the company.

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