Paper / Subject Code: 78513 / Group A: Finance : Corporate Restructuring

[Time: 2.30 Hours] **[Marks:75]**

Please check whether you have got the right question paper.

N.B: 1. All questions are compulsory subject to internal choice.
2. Figures to the right indicate full marks.

Q1.A. Multiple Choice Questions.(any 8 out of 10) (8)

a) The Corporate Reconstruction is the process of making changes in the composition of a firms one or more business portfolio in order to have a _______ enterprise.
   I. Profitable
   II. Vertical
   III. Horizontal
   IV. Capital

b) ____________ may be defined as sale of an undertaking for a predetermined lump sum consideration.
   I. Alliance
   II. Franchising
   III. Slump sale
   IV. Joint Venture

c) When the company's existing financial structure is recognized by dissolving the existing company and forming a new company is referred to as ____________.
   I. Internal Reconstruction
   II. Amalgamation
   III. External Reconstruction
   IV. Absorption

d) Amount _______ by shareholders is credited to Capital Reduction Account.
   I. Sacrificed
   II. Gained
   III. Reserved
   IV. None of these

e) To carry __________, permission is required from competent court.
   I. Capital Reduction
   II. Dividend
   III. Valuation
   IV. Capital

f) Amalgamation, absorption or reconstruction is the form of business _______.
   I. Combination
   II. Accounting
   III. Management
   IV. Organization

g) Aayushi Ltd. 's purchase consideration is Rs.16,995 and Net Assets Rs.12,867, then ____________.
   I. Goodwill Rs. 4,128
   II. Capital Reserve Rs. 4,128
   III. Goodwill Rs. 29,862
   IV. Capital Reserve Rs. 29,862

h) As per AS ____ purchase consideration is what is payable to shareholders.
   I. 11
   II. 12
   III. 13
   IV. 14

i) A holding company is a company which acquires majority of _______ of other company.

I. Equity shares
II. Preference shares
III. Debentures
IV. Bonus shares

j) ___________ could lead to changes in existing certification such as ISO or other similar certifications.

I. Restructuring
II. Takeover
III. Merger
IV. Joint venture

Q1.B. Match the following. (any seven) (7)

Group 'A'	Group 'B'
1. Corporate restructuring	• Not transferable to capital reduction
2. Financial restructuring	• Conduct process of winding up
3. Consolidation of shares	• Amount paid by company to vendor
4. Capital stock	• New values fixed
5. Statutory reserve	• Budgeting
6. Liquidator	• contract
7. Purchase consideration	• Can be purchased or sold even in fractions
8. Calculation of Purchase price	• Shares of Re. 1 each converted into shares of Rs.10 each
9. Control technique	• Change the equity pattern
10. Change in external aspect on reorganization	• Redesign one or more aspect of company

Q2

A. The following is the Balance Sheet of Anushka Ltd. As on 31st March 2018 (15)

Balance Sheet

Liabilities	Rs.	Assets	Rs.
4,000 Equity share of Rs. 100 each	4,00,000	Goodwill	1,00,000
3,000, 10% Preference share of Rs. 100 each	3,00,000	Plant and machinery	3,05,000
Sundry Creditor	85,000	Leasehold Property	1,00,000
Capital Reserve	72,000	Stock	1,58,250
Bank Overdraft	1,02,000	Debtors	60,400
		Profit and Loss A/C	2,20,750
		Formation exp.	14,500
	9,58,900		9,58,900

The following scheme of reconstruction was sanctioned:

1. The equity share be reduced by Rs. 87.50 per share.
2. The preference share be reduced by Rs. 50 each.
3. To write off Profit and Loss A/C and intangible assets including formation expenses.
4. Plant and machinery to be maintenance at Rs. 1,50,000

You are required to:

i. Pass journal entries
ii. Prepare capital reduction A/C
iii. Balance sheet after reconstruction

OR

B. The summary Balance Sheet of Sonu Ltd. As on 31/03/2018 appeared as follows: (15)

Balance Sheet as on 31/03/2018

Liabilities	Rs.	Asset	Rs.
30,000 Equity share of Rs. 10 each fully paid	3,00,000	Goodwill	83,500
1,000, 9% Preference Share of Rs. 100 each	1,00,000	Land and Building	1,50,000
fully paid		Plant and	1,07,500
11% Debenture	2,00,000	Machinery	37,500
Interest Accrued on Debenture	22,000	Investment	1,05,000
Unsecured Long Term Loans	1,30,000	Stock	1,55,000
Outstanding Interest on Unsecured Loans	15,000	Sundry Debtors	22,500
creditors	83,000	Bank	
		Preliminary	12,500
		Expenses	1,76,500
		Profit and Loss A/C	
	8,50,000		**8,50,000**

A scheme of reconstruction has been agreed amongst the share holders and the creditors, and approved by the court with the following features.

1. Equity shares are to be reduced to Rs. 3 each fully paid.
2. 9%, Preference share holders have agreed to accept 12% Debenture of face value of Rs. 60,000 issued at par, in full satisfaction on their claim
3. Interest due on unsecured loans is paid at 40% discount.
4. Interest accrued on 11 % debenture is paid at 50% discount
5. 40% of creditors are to be reduced to 75% and balance 60% to be reduced to 80%
6. 20% of stock is obsolete which is sold at 40% of book value.
7. Goodwill, Preliminary Expenses and Debit balance in Profit and Loss A/C is to be written off, Rs. 16,500 should be provided for doubtful debts and the value of fixed assets should be appreciate by 10%
8. Cost of Reconstruction paid Rs. 8,410.

   You are required to:

   i. Prepare Capital Reduction A/C
   ii. Balance Sheet after reconstruction

Q3.

A. The following is the Balance Sheet of Moon Ltd. As on 31st March, 2018 (15)

Balance Sheet as on 31st March, 2018

Liabilities	Rs.	Asset	Rs.
5%, 6,000 Cumulative Preference Shares of Rs. 100	6,00,000	Goodwill	45,000
each	12,00,000	Freehold Property	6,00,000
12,000 Equity Shares of Rs. 100 each	3,00,000	Plant and	9,00,000
6% Mortgage Debentures	1,50,000	Machinery	1,50,000
Bank Overdraft	3,00,000	Stock in Trade	1,20,000
Creditors		Debtors	7,20,000
		Profit and Loss	15,000
	25,50,000	cash	**25,50,000**

The company got the following scheme of capital reduction approved by the Court.

1. The preference shares to be reduced to Rs. 75 per share fully paid-up and Equity shares to Rs. 40 fully paid-up.
2. The debentures holders took over the stock-in-trade and the Book Debts in full satisfaction of the amount due to them.
3. The goodwill Account is eliminated.
4. The Freehold Property to be increased by 30%
5. The value of Plant and Machinery to be depreciated by 33 ⅓ %.
6. The expenses of Reconstruction amounted to Rs. 9,000

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Give the journal entries to record the above transactions and prepare the revised Balance Sheet as on 31st March, 2018.

OR

B. The following were the summarized Balance Sheets of A Ltd and B Ltd. As at 31st March,2018 (15)

Liabilities	A Ltd. (Rs. In lakhs)	B Ltd. (Rs. In lakhs)
Equity Share Capital (fully paid shares of Rs. 10 each)	60,000	24,000
Securities Premium	12,000	-
Foreign Project Reserve	-	1,240
General Reserve	38,000	12,800
Profit and Loss A/C	11,480	3,300
12% Debentures	-	4,000
Bills Payable	480	-
Sundry Creditors	4,320	1,852
Sundry Provisions	7,320	2,808
Total	**1,33,600**	**50,000**
Assets	**Rs**	**Rs**
Land and Buildings	24,000	-
Plant and Machinery	56,000	20,000
Furniture, Fixtures and Fittings	9,216	6,800
Stock	31,448	16,164
Debtors	8,480	4,080
Cash at Bank	4,456	2,436
Bills Receivables	-	320
Cost of Issue of Debentures	-	200
Total	**1,33,600**	**50,000**

All the bills receivable held by B Ltd. Were A Ltd.'s acceptances

On 1st April, 2018, A Ltd. Took over B Ltd. in an amalgamation in the nature of purchase. It was agreed that in discharge of consideration for the business A Ltd. Would allot three fully paid equity shares of Rs. 10 each at par for every two shares held in B Ltd. It was also agreed that 12% debentures in B Ltd. would be converted into 13% debentures in A Ltd. of the same amount and denomination. Expenses of amalgamation amounting to Rs. 4 lakh were set off against General Reserves.

You are required to:

1. Pass journal entries in the books of A Ltd and
2. Prepare A Ltd.'s Balance Sheet immediately after the merger by Purchase Method.

Q4.

A. The following is the Balance Sheet of Sachin Ltd. (15)

Liabilities	Rs.	Assets	Rs.
Issues and Paid-up		Intangible Assets	2,50,000
Equity Share Capital	25,00,000	Fixed Assets	21,00,000
Statutory Reserves (to be maintained for 3 more years)	50,000	Current Assets	5,50,000
Debentures	5,00,000	Profit and Loss A/C	4,00,000
Creditors	2,50,000		
	33,00,000		**33,00,000**

Kapil Ltd. agreed to absorb Sachin Ltd. on the following terms:

1. Kapil Ltd. agreed to take over all the assets and liabilities.
2. The assets of Sachin Ltd. are to be considered to be worth Rs. 25,00,000

3. The purchase price is to be paid one-quarter in cash and the balance in shares which are issued at the market price.
4. Liquidation expenses amounted to Rs. 1,500 agreed to be paid by Sachin Ltd.
5. Market value of share of Rs. 10 each of Kapil Ltd. is Rs. 12 per share.
6. Debentures of Sachin Ltd. were paid
7. The amalgamation is in the nature of purchase.

   You are required to show:

   i. Purchase consideration
   ii. Ledger accounts in the books of Sachin Ltd.
   iii. Opening entries in the books of Kapil Ltd.

OR

B. Ram Limited and Shyam Limited carry on business of a similar nature and it is agreed that they should amalgamate. A new company, Ram and Shyam Limited, is to be formed to which the assets and liabilities of the existing companies, with certain exception, are to be transferred. On 31st March 2018 the Balance Sheet of the two companies were as under (15)

Ram Ltd.

Balance Sheet as at 31/03/2018

Liabilities	Rs.	Assets	Rs.
Issued and subscribed: Share Capital: 1,80,000 Equity Shares of Rs. 10 each, fully paid	18,00,000	Freehold Property at cost	12,60,000
General Reserve	9,60,000	Plant and Machinery at cost less depreciation	3,00,000
Profit and Loss Account	2,40,000	Motor Vehicles, at cost less depreciation	1,20,000
Sundry creditors	9,00,000	Stock	7,20,000
		Debtors	9,84,000
		Cash at Bank	5,16,000
	39,00,000		**39,00,000**

Shyam Limited

Balance Sheet as at 31/03/2018

Liabilites	Rs.	Assets	Rs.
Issued and Subscribed Share Capital: 96,000 Equity Shares of Rs. 10 each, fully paid	9,60,000	Freehold Property at cost	7,20,000
Profit and Loss Account	2,40,000	Plant and Machinery at cost less depreciation	1,80,000
6% Debentures	7,20,000	Stock	9,36,000
Sundry Creditors	3,84,000	Debtors	2,52,000
		Cash at Bank	2,16,000
	23,04,000		**23,04,000**

Assets and Liabilities are to be taken at book-value with the following exceptions:

a) Goodwill of Ram Limited and of Shyam Limited is to be valued at Rs. 9,60,000 and Rs.3,60,000 respecti vely
b) Motor Vehicles of Ram Limited are to be valued at Rs. 3,60,000
c) The debentures of Shyam Limited are to be discharged by the issue of 6% Debentures of Ram and Shyam Limited at a premium of 5%

d) The Debtors of Shyam Ltd. realized fully and Bank Balance of Shyam Limited are to be retained by the liquidator and the Sundry Creditors of Shyam Ltd. are to be paid out of the proceeds thereof.

You are required to:

1. Compute the basis on which shares in Ram and Shyam Limited will be issued to the Shareholders of the existing companies assuming that the nominal value of each share in Ram and Shyam Limited is Rs. 10
2. Write up journal entries in the books of Ram and Shyam Ltd.
3. Draw up a Balance Sheet of Ram and Shyam Limited as of 1st April,2018 the date of completion of amalgamation.

Q5.

A. State the scope of Corporate Restructuring (8)

B. State the impact of Re-organization on external aspects of company (7)

OR

Q5. Write short notes on (Any three) (15)

1. Corporate Restructuring business strategy
2. Franchising
3. Need for Internal Reconstruction
4. Distinguish between – Amalgamation and Absorption
5. Impact of Re-organization on Production and Marketing Management

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