S4BMS (Fin)
3/5/18
2 to 4·30pm

(L)

(120)

Corporate Restructuring

Q. P. Code: 36374

Time: 2:30 hours **Marks: 75**

pg 5. Q1. A. State whether it is true or false: **(Any 8)** (08)

i. Corporate restructuring is an organic growth strategy.

ii. Franchising is a combination of two or more companies which can be merged together either by way of amalgamation or absorption or by formation of a new company.

iii. Restructuring does not lead to changes in existing certifications such as ISO or similar other certifications.

iv. The takeover or merger of one company with another does not affect the senior managerial personnel.

v. Purchase consideration includes the sum which the transferee company will directly pay to the creditors of the transferor company.

vi. Amalgamation does not include absorption.

vii. Slump sale is transfer of one or more undertaking as a result of sale for a lumpsum consideration without values being assigned to the individual assets and liabilities in such sale.

viii. New resultant company is formed in absorption

ix. Disinvestment means the action of an organisation or goivernement seliing or liquidating an asset or subsidiary.

x. The Accounting standard applicable to external reconstruction is AS – 14.

Q1. B. Match the following: **(any7)** (07)

Group A	**Group B**
1. Opportunity for unlisted companies to become public listed companies without opting for Initial Public Offer (IPO)	a. Co generic merger
2. To give new structure to, rebuild or rearrange	b. Reverse Merger
3. Shares of larger denomination converted to shares of smaller denomination	c. Restructuring
4. Assets, liabilities and reserves of transferor company are taken over by transferee company at existing carrying amount	d. Sub-division of shares
5. Existing company takes over business of one or more existing companies	e. Pooling of Interest method
6. Maintenance of records of merging entity and merged entity	f. Absorption
7. Corporate planning and control is governed by	g. Record keeping
8. Agreement between two or more parties to collaborate with each other in order to achieve certain objectives while continuing to remain independent	h. Corporate policy
9. Takeover of target company with permission of the board	i. Strategic Alliance
10. Merger of two companies of the same or related industries who do not offer same products but related products and may share same distribution channels	j. Friendly takeover

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Q2. A. The balance sheet of M/S Hitesh ltd. as on 31st December 2017 is as under: (15)

Liabilities	Amount	Assets	Amount
8% preference shares of Rs. 100 each	6,00,000	Goodwill	60,000
Equity shares of Rs. 10 each	5,00,000	Patents and trademarks	40,000
Capital reserves	50,000	Building	3,00,000
5% Debentures of Rs. 100 each	3,00,000	Plant and machinery	3,00,000
Debenture interest due	50,000	Furniture	1,00,000
Sundry creditors	1,80,000	Stock	1,50,000
		Debtors	75,000
		Bank	1,00,000
		Cash	25,000
		Discount on debentures	30,000
		P & L A/c	5,00,000
Total	**16,80,000**	**Total**	**16,80,000**

Note – Preference dividend is in arrears for three years

The scheme of reconstruction as approved by court was as under:

i. The preference shares will be converted into equal number of 9% preference shares of Rs. 50 each
ii. The equity shares shall be reduced to Rs. 3 each. However the face value will remain the same.
iii. 5% debentures will be converted into equal number of 6% debentures of Rs. 75 each. The debenture holders also agreed to waive 50% of the accrued interest
iv. Arrears of preference dividend are to be reduced to one year's dividend which is paid in cash.
v. The creditors agreed to waive 30% of their claims and to accept equity shares for Rs. 30,000/- in part settlement of their renewed claims.
vi. The assets were revalued as under

Building	Rs. 350000/-
Plant and machinery	Rs. 250000/-
Furniture	Rs. 80000/-
Stock	Rs. 100000/-
Debtors	Rs. 70000/-

vii. Intangible assets and fictitious assets to be written off

Give Journal entries; prepare capital reduction account and Balance sheet after reconstruction

OR

Q2. B. The following is the balance sheet of Y Ltd. as on 31.3.2015: (15)

Liabilities	Amount	Assets	Amount
Equity shares of Rs. 100 each	24,00,000	Goodwill	90,000
10% cumulative preference shares of Rs. 100 each	12,00,000	L & B	12,00,000
10% debentures of Rs. 100 each	6,00,000	P & M	18,00,000
Trade payable	3,00,000	Inventories	2,60,000
Bank O/D	6,00,000	Trade Receivable	2,80,000
		Cash	30,000
		Profit & loss a/c	14,40,000
Total	**51,00,000**	**Total**	**51,00,000**

The following scheme reconstruction is sanctioned:

i. All the existing equity shares are reduced to Rs. 40 each.
ii. All preference shares are reduced to Rs. 75 each.
iii. The debenture holders tookover inventories and trade receivable in full satisfaction of their claims
iv. The L & B to be appreciated by 30% and P & M depreciated by 30%.
v. It is decided to write off the debit balance of profit and loss account and the intangible assets.
vi. Expenses on reconstruction amounted to Rs. 5,000/-

Pass Journal entries and show the balance sheet of the company giving effect to the above.

Q3. A. The balance sheet of M/S Shubham ltd. as on 31st December 2016 is as under: (15)

Liabilities	Amount	Assets	Amount
Preference shares of Rs. 100 each	5,00,000	Land	80,000
Equity shares of Rs. 10 each	7,00,000	Building	2,60,000
12% Debentures	2,00,000	Plant and machinery	3,75,000
Creditors	2,80,000	Trademark	75,000
Bank loan	2,15,000	Goodwill	1,50,000
		Stock	1,60,000
		Debtors	2,73,000
		P & L A/c	5,12,000
		Preliminary expenses	10,000
Total	**18,95,000**	**Total**	**18,95,000**

The scheme as proposed by the director is as follows:

i. Bank agreed to waive interest amount outstanding of Rs. 15000/- included in the balance subject to immediate payment of 50 % of their dues.
ii. Land was revalued upwards by 550%, other tangible fixed assets are to bge written down by 20% uniformly, all intangible and fictitious assets to be written off.
iii. Debenture holders agreed to reduce their claim by 20% provided they are paid 20% immediately and balance being redeemed in 4 equal instalments.
iv. The preference shares to reduce their shares to Rs. 60 paid up each.
v. The equity shares shall be reduced to Rs. 2 per share fully paid and subscribe to such number of shares to meet the cash requirement of the scheme and also leave a cash balance of Rs. 25000/-

Prepare capital reduction account and Balance sheet after reconstruction

OR

Q3. B. The balance sheets of H Ltd. & V ltd. as on 31st March 2015 was as under. (15)

Liabilities	H ltd.	V ltd.	Assets	H ltd.	V ltd.
Equity shares of Rs. 10 each fully paid	10,00,000	3,00,000	Goodwill	50,000	25,000
9% preference shares of Rs. 100 each fully paid	1,00,000	-	Building	3,00,000	1,00,000
10% preference shares of Rs. 100 each fully paid	-	1,00,000	Machinery	5,00,000	1,50,000

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General reserves	70,000	70,000	Stock	2,50,000	1,75,000
Retirement gratuity fund	50,000	20,000	Trade receivables	2,00,000	1,00,000
Trade payables	1,30,000	80,000	Cash at Bank	50,000	20,000
Total	**13,50,000**	**5,70,000**	**Total**	**13,50,000**	**5,70,000**

H Ltd absorbs V Ltd on the following terms –

i. 10% Preference shareholders are to be paid at 10 % premium by issue of 9% preference shares of H Ltd.

ii. Goodwill of V Ltd. is valued at Rs. 50,000/-, buildings to be valued at Rs. 1,50,000/- and machinery at Rs. 1,60,000/-.

iii. Inventory to be taken over at 10% less value and provision for doubtful debts to be created at 7.5%.

iv. Equity shareholders of V Ltd. will be issued equity shares @ 5% premium.

Prepare necessary ledger accounts to close the books of V ltd. and show the necessary acquisition entries in the books of H Ltd. Also draft the balance sheet after absorption as on 31st March, 2015.

Q4. A. Following is the balance sheet of Prakash ltd. as on 31/3/2017: (15)

Liabilities	Amount	Assets	Amount
Equity shares of Rs. 10 each fully paid	4,00,000	Land & building	3,85,000
Capital reserve	25,000	Furniture & fittings	80,000
Profit & loss a/c	75,000	Stock	40,000
Export profit reserve	60,000	Sundry receivables	75,000
Revaluation reserve	1,50,000	Bank balance	2,20,000
Sundry payable	90,000		
Total	**8,00,000**	**Total**	**8,00,000**

On the above date, Aakash ltd. is formed to take over the business of Prakash ltd (including bank balance), on the following terms and conditions:

i. Stock is taken over at 75% of its book value.

ii. Furniture & fittings are taken over at Rs. 70,000.

iii. Sundry receivables are taken over, subject to reserve for bad debts of 5,000.

iv. Land & building is taken over by Aakash ltd at Rs. 10,00,000.

v. Statutory reserve is required to be maintained for 1 more year.

vi. Goodwill is valued and taken over at 250% of the book value of furniture and fittings.

vii. 90% purchase consideration is settled by issuing equity shares in Aakash ltd ofRs. 10 each at Rs. 15 each, to the equity shareholders of Prakash ltd. 10% of the purchase consideration is settled in cash.

viii. Aakash ltd. issued 12%, 40,000 preference shares of Rs. 10 each at Rs. 9 each fully paid up. All these preference shares were fully subscribed by public and issued accordingly by the company.

You are required to:

i. Compute purchase consideration as per net assets method.

ii. Pass Journal entries in the books of Aakash ltd. and prepare its balance sheet.

OR

Q4. B. On 31st March 2015, the balance sheet of X ltd. was as follows: (15)

Liabilities	Amount	Assets	Amount
5000, 6% cumulative preference shares of Rs. 10 each fully paid up	50,000	Goodwill	40,000
15,000 equity shares of Rs. 10 each fully paid	1,50,000	Patents	15,000
6% debentures	30,000	Sundry assets	1,64,500
Creditors	20,000	Cash	500
		Profit & loss a/c	28,000
		Preliminary expenses	2,000
Total	**2,50,000**	**Total**	**2,50,000**

Preference dividends are in arrears for 4 years
A scheme of reconstruction was agreed upon as follows:

i. A new company to be formed called Y ltd. with an authorised capital of Rs. 3,25,000 all in equity shares of Rs. 10 each.
ii. One equity share of Rs. 5paid, in the new company to be issued for each equity share in the old company.
iii. Two equity shares of Rs. 5 paid, in the new company to be issued for each preference share in the old company.
iv. Arrears to be cancelled.
v. Debenture holders to receive 3000 equity shares in the new company credited as fully paid.
vi. Creditors to be taken up by new company.
vii. The remaining unissued and uncalled shares to be taken up and paid for in full by directors.
viii. The new company to take over the old company's assets except patents, subject to writing down sundry assets by Rs. 35,000.
ix. Patents were realised by X ltd. for Rs. 1,000. Reconstruction expenses paid by X ltd. were Rs. 1000.

Pass journal entries in the books of X ltd and Y ltd. And prepare balance sheet of Y ltd.

Q5. A. Explain the meaning of corporate restructuring. Discuss its importance as business strategy. (08)

Q5. B. Define amalgamation. Explain the concepts amalgamation, absorption and external reconstruction in relation to each other. (07)

OR

Q5. C. Write short Notes on: **(Any 3)** (15)

i. Net Asset method
ii. Disinvestment
iii. Impact of reorganisation
iv. Amalgamation in the nature of merger
v. Types of mergers

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