

Chapter Tests of SFM of CA Ashish Lalaji 9825856155

SFM Test of M & A

Maximum Marks: 30

Time Allowed: 1 hour

All questions are compulsory

Q 1

(a) Find the missing entries:

	Case A	Case B
Pre-merger Earnings:		
Purchasing Firm	10,00,000	6,00,000
Selling Firm	8,00,000	9,00,000
Number of Shares:		
Purchasing Firm	1,00,000	1,20,000
Selling Firm	80,000	1,50,000
Pre-merger EPS:		
Purchasing Firm	10	5
Selling Firm	10	6
Share Exchange Ratio	1.25	?
New Shares Issued	?	?
Post-Merger Shares	?	?
Expected Increase in Earnings	2,50,000	?
Post-merger Earnings	?	20,70,000
Post-Merger EPS	?	6
Pre-merger PE Ratio		
Purchasing Firm	?	15
Selling Firm	?	20
Pre-merger MPS		
Purchasing Firm	120	?
Selling Firm	80	?
Post-merger MPS	?	?
Synergy	?	?

(9 Marks)

(b) As the finance manager of A Ltd., you are investigating the acquisition of B Ltd. The following facts are provided:

	A Ltd.	B Ltd.
EPS	6.75	2.50
DPS	3.25	1.00
MPS	48	15
No. of shares	60,00,000	20,00,000

Investors currently expect dividends and earnings of B Ltd. to grow at 7% p.a. After acquisition growth rate shall rise to 8%. What is the cost of acquisition to A Ltd. if it offers 1 share for every 3 shares of B Ltd.?

(5 Marks)

- Q 2** During the audit of the Weak Bank (W), RBI has suggested that the Bank should either merge with another bank or may close down. Strong Bank (S) has submitted a proposal of merger of Weak Bank with itself. The relevant information and Balance Sheets of both the companies are as under:

Particulars	Weak Bank	Strong Bank	Assigned Weights (%)
Gross NPA (%)	40	5	30
Capital Adequacy Ratio (CAR) (Total Capital/ Risk Weight Asset)	5	16	28
Market price per Share (MPS)	12	96	32
Book Value			10
Trading on Stock Exchange	Irregular	Frequent	

Balance Sheet (Rs. in Lakhs)

Particulars	Weak Bank	Strong Bank
Paid up Share Capital (Rs. 10 per share)	150	500
Reserves & Surplus	80	5,500
Deposits	4,000	44,000
Other Liabilities	890	2,500
Total Liabilities	5,120	52,500
Cash in Hand & with RBI	400	2,500
Balance with Other Banks	-	2,000
Investments	1,100	19,000
Advances	3,500	27,000
Other Assets	70	2,000
Preliminary Expenses	50	-
Total Assets	5,120	52,500

You are required to

- Calculate Swap ratio based on the above weights;
- Ascertain the number of Shares to be issued to Weak Bank;
- Prepare Balance Sheet after merger; and
- Calculate CAR and Gross NPA of Strong Bank after merger

(16 Marks)

Question Paper by CA. Ashish Lalaji

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