

The WAY CA test series

CA FINAL

P2: ADVANCED FINANCIAL MANAGEMENT

15.02.2025

[SYLLABUS : Mergers, Startup]

TIME : 1 HR 45 MIN

TOTAL : 60 MARKS

PART A : MCQ 10 MARKS

Case Scenario

T Ltd. and E Ltd. are in the same industry. The former is in negotiation for acquisition of the latter. Important information about the two companies as per their latest financial statements are given below:

	T Ltd.	E Ltd.
₹ 10 Equity share outstanding	12 lakhs	6 Lakhs
Debt		
10% Debentures (₹ Lakhs)	580	--
12.5% Institutional Loan (₹ Lakhs)	--	240
Earning before interest, depreciation and tax (EBIDAT)(₹ Lakhs)	400.86	115.71
Market Price/share (₹)	220.00	110.00

T Ltd. plans to offer a price for E Ltd., business as a whole which will be 7 times EBIDAT reduced by outstanding debt, to be discharged by own shares at market price.

E Ltd. is planning to seek one share in T Ltd. for every 2 shares in E Ltd. based on the market price.

Tax rate for the two companies may be assumed as 30%.

As per T's approach, calculate the following:

Question : 1

2 Marks

EPS of T Ltd. after acquisition ?

- a) Rs. 20.56
- b) Rs. 20.00
- c) Rs. 17.74
- d) Rs. 18.66

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Question : 2

1 Mark

Expected market price per share of T Ltd. after acquisition ?

- a) Rs. 58/-
- b) Rs. 189/-
- c) Rs. 215/-
- d) Rs. 226/-

Question : 3

1 Mark

As per E's approach, calculate the MPS after acquisition ?

- a) Rs. 110
- b) Rs. 220
- c) Rs. 55
- d) Rs. 330

the WAY

Case Scenario

AFC Ltd. wishes to acquire BCD Ltd. The shares issued by the two companies are 10,00,000 and 5,00,000 respectively:

Question : 4

2 Marks

Calculate the increase in the total value of BCD Ltd. resulting from the acquisition on the basis of the following conditions:

Current expected growth rate of BCD Ltd.	7%
Expected growth rate under control of AFC Ltd., (without any additional capital investment and without any change in risk of operations)	8%
Current Market price per share of AFC Ltd.	100
Current Market price per share of BCD Ltd.	20
Expected Dividend per share of BCD Ltd.	0.60

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- a) Rs. 1,50,00,000
- b) Rs. 75,00,000
- c) Rs. 50,00,000
- d) Rs. 65,00,000

Question : 5

2 Marks

Based on aforesaid conditions calculate the gain or loss to shareholders of AFC Ltd, if AFC Ltd. were to offer one of its shares for every four shares of BCD Ltd.

- a) Rs. 12.22/-
- b) Rs. 20.22/-
- c) Rs. 22.22/-
- d) Rs. 2.22/-

Question : 6

1 Mark

Which of the following statements correctly differentiates angel investors from venture capitalists in terms of their investment approach and risk tolerance?

- a) Angel investors primarily invest pooled funds from multiple investors into startups, whereas venture capitalists use their personal wealth to provide capital to early-stage businesses.
- b) Unlike venture capitalists, angel investors focus more on the entrepreneur rather than the business's viability and typically provide capital from their own funds rather than managed investment pools.
- c) Angel investors always invest in startups with a guaranteed exit strategy, whereas venture capitalists provide funding only when an IPO is imminent.
- d) Venture capitalists and angel investors follow identical investment strategies, but angel investors receive higher equity stakes due to their early involvement.

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Question : 7

1 Mark

In the context of business succession strategy, which of the following best describes the role of a "bridge leader" in a family-owned business, considering the broader implications of leadership transition and organizational sustainability?

- a) A bridge leader is an internal candidate who is temporarily promoted to a leadership position to assess their long-term viability before final succession decisions are made.
 - b) A bridge leader is an external appointee who facilitates business growth and leadership transition, ensuring that young family members are adequately prepared to assume key leadership roles.
 - c) A bridge leader is a consultant hired to restructure the business hierarchy by replacing senior executives with external candidates for better strategic alignment.
 - d) A bridge leader is a financial advisor brought in to evaluate the company's financial health before transitioning leadership to an external candidate.
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PART B : DESCRIPTIVE 50 MARKS

Question : 1

8 Marks

X Ltd. is studying the possible acquisition of Y Ltd. by way of merger. The following data are available in respect of both the companies.

Particulars	X Ltd	Y Ltd
Market Capitalization (₹)	75,00,000	90,00,000
Gross Profit Ratio	20%	20%
Inventory Turnover Ratio	5 times	4 times
Debtor Turnover Ratio	3 times	5 times

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12% Debenture (₹)	10,00,000	--
10% Debenture (₹)	-	14,40,000
No. of Equity Shares	1,00,000	60,000
Operating Expenses	86%	78%
Corporate Tax Rate	30%	30%
Closing Stock (₹)	15,00,000	5,00,000
Debtors (₹)	10,00,000	8,00,000

You are required to calculate:

- i. Swap ratio based on EPS & MPS respectively as weightage of 40% and 60%
- ii. Post-Merger EPS
- iii. Post-Merger market price assuming same PE Ratio of X Ltd.
- iv. Post-Merger gain or loss in EPS.

Question : 2

8 Marks

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

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Balance Sheet

(Rs. In Lakhs)

Particulars	Weak Bank (W)	Strong Bank (S)
Paid up Share Capital (₹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

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

Question : 3

5 Marks

ABC Ltd. is intending to acquire XYZ Ltd. by way of merger and the following information is available in respect of these companies:

	ABC Ltd.	XYZ Ltd.
Total Earnings (E) (In Lakh)	Rs. 1200	Rs. 400
Number of outstanding shares (S) (in lakh)	400	200

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Price earnings ratio (P/E)	8	7
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- i. Determine the maximum exchange ratio acceptable to the shareholders of ABC Ltd., if the P/E ratio of the combined firm is expected to be 8?
- ii. Determine the minimum exchange ratio acceptable to the shareholders XYZ Ltd., if the P/E ratio of the combined firm is expected to be 10?

Note: Make calculation in lakh multiples and compute ratio upto 4 decimal points.

Question : 4

8 Marks

R Ltd. and S Ltd. are companies that operate in the same industry. The financial statements of both the companies for the current financial year are as follows:

Particulars	R. Ltd. (₹)	S. Ltd (₹)
Equity & Liabilities		
Shareholders Fund		
Equity Capital (₹10 each)	20,00,000	16,00,000
Retained earnings	4,00,000	-
Non-current Liabilities		
16% Long term Debt	10,00,000	6,00,000
Current Liabilities	14,00,000	8,00,000
Total	48,00,000	30,00,000
Assets		
Non-current Assets	20,00,000	10,00,000
Current Assets	28,00,000	20,00,000
Total	48,00,000	30,00,000

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Income Statement

Particulars	R. Ltd. (₹)	S. Ltd. (₹)
A. Net Sales	69,00,000	34,00,000
B. Cost of Goods sold	55,20,000	27,20,000
C. Gross Profit (A-B)	13,80,000	6,80,00
D. Operating Expenses	4,00,000	2,00,000
E. Interest	1,60,000	96,000
F. Earnings before taxes [C-(D+E)]	8,20,000	3,84,000
G. Taxes @ 35%	2,87,000	1,34,400
H. Earnings After Tax (EAT)	5,33,000	2,49,600

Additional Information:

No. of equity shares	2,00,000	1,60,000
Dividend payment Ratio (D/P)	20%	30%
Market price per share	₹50	₹20

Assume that both companies are in the process of negotiating a merger through exchange of Equity shares.

You are required to:

- i. Decompose the share price of both the companies into EPS & P/E components. Also segregate their EPS figures into Return on Equity (ROE) and Book Value/Intrinsic Value per share components.
- ii. Estimate future EPS growth rates for both the companies.
- iii. Based on expected operating synergies, R Ltd. estimated that the intrinsic value of S Ltd. Equity share would be ₹25 per share on its acquisition. You are required to develop a range of justifiable Equity Share Exchange ratios that can be offered by R Ltd. to the shareholders of S Ltd. Based on your analysis on parts (i) and (ii), would you expect the negotiated terms to be closer to the upper or the lower exchange ratio limits and why?

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Question : 5

5 Marks

Abhishek Ltd. has a surplus cash of ₹90 lakhs and wants to distribute 30% of it to the shareholders. The Company decides to buyback shares. The Finance Manager of the Company estimates that its share price after re-purchase is likely to be 10% above the buyback price; if the buyback route is taken. The number of shares outstanding at present is 10 lakhs and the current EPS is ₹3.

You are required to determine:

- i. The price at which the shares can be repurchased, if the market capitalization of the company should be ₹200 lakhs after buyback.
- ii. The number of shares that can be re-purchased.
- iii. The impact of share re-purchase on the EPS, assuming the net income is same.

Question : 6

4 Marks

What do you mean by the term Unicorn? State the features a Start-up should possess to be referred as a Unicorn?

Question : 7

4 Marks

Challenges faced in implementing Succession Planning.

Question : 8

8 Marks

Tangent Ltd. is considering calling ₹3crores of 30 years, ₹1,000 bond issued 5 years ago with a coupon interest rate of 14 per cent. The bonds have a call price of ₹1,150 and had initially collected proceeds of ₹2.91crores since a discount of ₹30 per bond was offered. The initial floating cost was ₹3,90,000. The Company intends to sell ₹3crores of 12 per cent coupon rate, 25 years bonds to raise funds for retiring the old bonds. It proposes to sell the new bonds at their par value

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of ₹1,000. The estimated floatation cost is ₹4,25,000. The company is paying 40% tax and its after tax cost of debt is 8 per cent. As the new bonds must first be sold and then their proceeds to be used to retire the old bonds, the company expects a two months period of overlapping interest during which interest must be paid on both the old and the new bonds. You are required to evaluate the bond retiring decision.

ALL THE BEST

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