[Frequently Asked Questions]

Mergers and Acquisitions

Subject:	Business Economics
Course:	B.A., 3rd Semester, Undergraduate
Paper No. & Title:	Paper – 303 Business Finance
Unit No. & Title:	Unit - 5 Mergers and Acquisitions
Lecture No. & Title:	Lecture – 3 Mergers and Acquisitions

Frequently Asked Questions

Q1. What is the difference between Merger and Acquisition?

A1. In case of a Merger, two firms, together, form a new company. After Merger, the separately owned companies become jointly owned and get a new single identity but in case of Acquisition, one firm takes over another and establishes its power as the single owner.

Q2. What is difference between Acquisition and takeover?

A2. An Acquisition may be either Friendly or Hostile Acquisition. Many strategist said Takeover is nothing it is Hostile Acquisition only. Generally, when bigger and stronger firm takes over the business of relatively less powerful and smaller firm it is known as takeover.

Q3. How to calculate the Net present value of Target Company?

A3. In a simple term, NPV means surplus of Gain over Cost.

NPV = present value of cash inflow – present value of cash outflow.

Q4. Is there any specific standard procedure about Merger and Acquisition?

A4. In India, ICAI set the standard of accounting. For Merger and Acquisition accounting, the institute gave Accounting Standard – 14 before conversion with the IFRS (International Financial Reporting Standard) but as of now Accounting standard – 103: Business Combination has been given for all common terminology used by the company related to Mergers and Acquisitions

Q5. Why company go for Vertical Merger?

A5. The essential objective of vertical Merger is either cost reduction or may reduce cost of selling and distribution.

Q6. Is there any conditions for Merger?

A6. According to accounting standard – 14, Suppose there are two companies X (being the transferor company) and Y (being the transferee company) then the provision of this accounting standard would be as follows:

Amalgamation in the nature of Merger:

If following condition are satisfied:

1. All assets and liabilities of X become the assets and liabilities of Y.
2. Shareholders holding at least 90% of face value of equity shares of X become equity share of Y.
3. The consideration paid by Y is discharged by issue of share.
4. Business of X is run by Y.
5. No adjustment is made in the book values of assets and liabilities of X when incorporated in Y.

Q7. When the ways of Merger was started?

A7. First Wave: Horizontal Mergers (1897 -1904)
Second Wave: Vertical Mergers (1920s)
Third Wave: Diversified Conglomerate Mergers (1960s)
The fourth waves: Congeneric Mergers (1980s)

Q8. Why de-Merger is known as Spin-off?

A8. When subsidiary company is created as a new legal entity by the parent company itself. In this strategy, parent company just Spin the minds of the stakeholder that both or many new companies is separate from each other. Off course it is separated but the fact behind it is usually no change in ownership.

Q9. Give the reasons of Conglomerate Merger?

A9. While making the decision of conglomerate merger, A company may think that available capital can be allocated more efficiently among new business entities, or may diversify the risk of its existing line.

Q10. What is Economies of Scale?

A10. In a layman's language, more the products, more is the bargaining power. This is possible only when the companies merge/ combine/ acquired. When company wants to lowering without compromising revenue stream and thus increasing profit, it uses economies of scale.