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FINAL EXAM

Course # 171025
A Practical Guide to Mergers, Acquisitions & Div.

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A Practical Guide to Mergers, Acquisitions and Divestitures
by: Dr. Jae K. Shim, Ph.D., 2009, 80 pages

10 CPE Credit Hours
Accounting & Auditing

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Chapter 1 - Mergers and acquisitions

1. Which of the following is not a characteristic of the current merger boom?

   ______ Horizontal consolidation with significant potential for cost synergies.

   ______ Subprime losses incurred by many financial institutions..

   ______ The use by acquirers of existing cash and borrowed money (after-tax cost) to purchase the (relatively higher cost) equity of acquired companies.

   ______ Much lower acquisition premiums being initially paid.

2. An example of a horizontal merger is

   ______ Wholesaler combines with a retailer.

   ______ An electronic company merges with an insurance company.

   ______ Combining of two airlines.

   ______ Combining of a candy company and a sugar plantation.

3. Which of the following is true regarding mergers?

   ______ The larger company is usually the acquirer.

   ______ The larger company is always the acquirer.

   ______ The smaller company is usually the acquirer.

   ______ The smaller company is always the acquirer.

4. Which of the following best illustrates an example of a horizontal merger?

   ______ Compaq merging with Intel.

   ______ Compaq merging with McDonaldâ€™s

   ______ Compaq merging with Hewlett Packard.

   ______ Compaq merging with plastic producers.

5. A candy manufacturing company merging with a sugar processing company would be an example of a

   ______ Horizontal merger.

   ______ Vertical merger.

______ Diagonal merger.

______ Conglomerate merger.

6. All of the following are true of mergers except

   ______ Mergers are legally straightforward.

   ______ Approval by shareholder vote of each firm involved in the merger is required.

   ______ The acquiring firm maintains its name and identity in a merger.

   ______ A merger may never result from a public offer to the shareholders of the target firm to buy its shares directly.

7. The merger of Exxon and Mobil would be categorized as a

   ______ Diversifying merger.

   ______ Conglomerate merger.

   ______ Horizontal merger.

   ______ Vertical merger.

8. What is meant by â€œdue diligenceâ€□?

   ______ An agreement that is assumed by each company involved in the merger to give a 100% effort to maintaining profitability after the merger.

   ______ Consideration of an adequate (thorough) amount of information before doing a deal.

   ______ It is a term used in jobs with contracts involved.

   ______ It is a method for negotiating an acquisition.

9. What benefit(s) might a merger bring?

   ______ Growth.

   ______ Reduction of risk.

   ______ Growth and reduction of risk.

   ______ Anti-trust action.

10. A good take-over candidate for a merger includes all the following except

    ______ A market price of stock that is considerably lower after the merger.

    ______ A cash rich business.

    ______ A company with significant growth potential.

    ______ A company with a low debt-to equity ratio.

11. In a merger, if common stock is exchanged, what would be the result(s)? Tax-free exchange (Yes/No)? EPS (increase/decrease)

    ______ Yes Increase

    ______ Yes Decrease

______ No Increase

______ No Decrease

12. In an effort to provide guidelines as to what type of business combinations would and would not be challenged in antitrust actions, the Justice Department developed the

______ Concentration ratio

______ Herfindahl-Hirshman Index

______ Lerner Index

______ Rothschild Index

13. When choosing a merger over an acquisition of stock to accomplish a business combination, which of the following is irrelevant to the decision?

______ Having to deal directly with shareholders in an acquisition of stock.

______ Failure by some minority shareholders to accept a tender offer.

______ Resistance to an acquisition by the target's management with a consequent increase in the stock price.

______ Whether the companies are in the same industry.

14. Which of the following statements about acquisition of stock through tender offers is false?

______ Shareholder meetings do not need to be held.

______ A vote is not required.

______ The acquiring firm directly deals with the target firm's stockholders.

______ All of the outstanding stock of the target firm must be tendered.

15. The synergy of a business combination can be determined by

______ Calculating the change in revenue minus the change in cost.

______ Calculating the change in revenue minus the change in taxes.

______ Using the risk adjusted discount rate to discount the incremental cash flows of the newly formed entity.

______ Using the risk adjusted discount rate to discount the change in revenues of the newly formed entity.

16. Which of the following will reduce average production costs following a merger?

______ A conglomerate merger.

______ The existence of economies of scale.

______ A vertical merger.

______ Net operating losses of an acquired firm.

17. All of the following are potential sources of tax savings in an acquisition except

______ Economies of scale.

______ Net operating losses.

______ Unused debt capacity.

______ Surplus funds of the acquiring firm.

18. The advantage of a tender offer in a corporate takeover is that

______ Target shareholders have less time to evaluate the offer.

______ Target management has less time to organize a defense.

______ The failing company doctrine might otherwise prohibit the combination.

______ It is exempt from the Clayton Act.

19. A corporate takeover may be attempted through a proxy contest. Which of the following is an SEC requirement concerning a proxy contest?

______ The issuer of a proxy statement must file a copy with the SEC before it is mailed to shareholders.

______ The issuer of a proxy statement must file a copy with the SEC after it is mailed to shareholders.

______ The offer to shareholders to buy their shares must be held open for at least 20 business days.

______ Shareholders may not grant the proxy contestants a power of attorney

20. Which company(s) could Company A with 40% market share merge with without having the likelihood of challenge for antitrust violation become â€œlikelyâ€□? Fast-Food Industry Market Share

______ Company X 30%

______ Company Y 4%

______ Company Z 1%

______ Company W 25%

21. What is the threshold for tax-free deals?

______ 0.05

______ 0.25

______ 50%+1 share

______ 0.8

22. Which of the following best describes an effective merger? A. B. C. D.

______ 1 + 1 < 2

______ 1 + 1 > 2

______ 1 + 1 = 2

______ 1 + 1 > 0

23. Under M & A percent rules the threshold when the public must be notified of the purchaser intent is

______ 0.05

- ______ 15 â€“ 25$
- ______ 50% + 1
- ______ 0.8

24. Which of the following is not a reason for the objective of diversification within a merger?

- ______ To avoid the cyclical effect of a single industry.
- ______ To minimize the impact of adverse conditions in a particular market.
- ______ To be able to participate in new growth areas.
- ______ To eliminate overcapacity.

25. When the value per share is based on historical cost rather than current value it is

- ______ Net working capital per share
- ______ Market price of the stock
- ______ Book value per share
- ______ Earnings per share

26. In financing a merger the advantages of giving stock include all the following except

- ______ No cash or financing requirement for the acquirer.
- ______ Quick and simple terms of document preparation.
- ______ Dilution of ownership/control.
- ______ Target holders share the risk of acquisition.

27. Advantages of leverage include all the following except

- ______ Interest payments lower earnings.
- ______ There is a lack of dilution.
- ______ Increased return to shareholders.
- ______ Increased expense is tax deductible.

28. W Company buys B Company. W Companyâ€™s stock sells for $75 per share while Bâ€™s stock sells for $45. As per the merger terms, W offers $50 per share. What is the exchange ratio?

- ______ 0.667
- ______ 1.5
- ______ 1.67
- ______ 0.643

29. A defensive measure used by the target company when the target company buys back the stock accumulated by the raider at a premium price is

- ______ Poison pill.
- ______ Green mail.

______ Golden parachute.

______ White knight.

30. Which of the following defense maneuvers involves finding a third party who is willing to pay a higher premium, typically with â€œfriendlierâ€□ intentions than the raider?

    ______ Greenmail.

    ______ Flip-over rights.

    ______ White knight.

    ______ Crown jewels.

31. Adjusted earnings are net income adjusted for

    ______ Unusual nonrecurring revenue and expenses

    ______ Unusual nonrecurring gains

    ______ Inflation

    ______ Discount rate

32. An approach to valuation that is based on values of comparable companies in the industry and may establish the companies value based on actual sales that are indicative of the companyâ€™s current value which is:

    ______ Earnings (or cash flow)

    ______ Market comparison

    ______ Assets

    ______ Industrial outlook

33. A business is worth the discounted value of future cash earnings plus the discounted value of the expected selling price. Which of the following used this concept?

    ______ Capitalization of earnings method

    ______ Excess earnings return on assets method

    ______ Discount cash flow method

    ______ Adjusted net assets method

34. A common mistake in valuing the firm to be acquired in a business combination is

    ______ Using market values in the valuation.

    ______ Including incremental cash flows in the valuation.

    ______ Using the acquiring firm's discount rate when valuing the incremental cash flows.

    ______ Including all related transaction costs associated with an acquisition.

35. The appropriate discount rate to use in valuing a business combination is the

    ______ Combined firm's cost of debt.

    ______ Acquiring firm's weighted average cost of capital.

⎿______ Acquiring firm's cost of equity.

⎿______ Combined firm's cost of equity.

36. In assigning values to individual assets acquired and liabilities under the purchase method the assumed guidelines allow for the following except

⎿______ Inventories.

⎿______ Goodwill.

⎿______ Receivables.

⎿______ Marketable securities.

37. If liabilities are assumed in a purchase the difference between the fixed rate of debt securities and the present yield rate for comparable securities is reflected as

⎿______ Premium or discount.

⎿______ Earnings.

⎿______ Initial investment.

⎿______ Amortization.

38. The Q ratio of a firm equals

⎿______ Market value of the firm's securities Ã· Replacement cost of its assets.

⎿______ Market value of the firm's securities Ã· Book value of its assets.

⎿______ Book value of its assets Ã· Market value of the firm's securities.

⎿______ Book value of its assets Ã· Market value of its assets.

39. A firm is most likely to be a bargain for an acquirer if

⎿______ Its q ratio is greater than one.

⎿______ Its q ratio is less than one.

⎿______ The replacement cost of its assets is less than the value of the firm's securities.

⎿______ The combination is more expensive than internal expansion.

40. Which of the following is true regarding the identities of the former companies (Company A and B) after a consolidation?

⎿______ Companies A and B keep their identity while company C is simultaneously formed.

⎿______ Companies A and B combine to create a new company, company C. In other words neither company legally survives.

⎿______ The acquiring company survives while the other one legally disappears.

⎿______ The larger company usually maintains its identity while the smaller one legally disappears

Chapter 2 - Pros and cons of a merger

41. A business segment may be subject to divestiture if

- ______ Worth of the pieces is less than the whole.
- ______ Meets management goals for growth and profit.
- ______ Related to the primary lies of business.
- ______ Does not produce an acceptable return on invested capital.

42. The primary types of divestiture does not include

- ______ Sale of a operating unit to another firm.
- ______ Sale of the managers of the unit being divested.
- ______ The proposed divested unit supports other more profitable units.
- ______ Outright right liquidation of asserts.

43. ____________________ is not a major reason to divest

- ______ Poor performance.
- ______ Changes in plans.
- ______ Antitrust action.
- ______ Personality conflicts among division managers

44. A corporation issued a property dividend to its shareholders. The dividend was distributed in the form of 100% of the common stock of a subsidiary. This is known as a

- ______ Spin-off.
- ______ Stock split.
- ______ Scrip dividend.
- ______ Reverse split.

45. _______________ is not a primary type of divestitures.

- ______ Chapter 11 bankruptcy.
- ______ Sale of the managers of the unit being divested.
- ______ Setting up the business to be divested as a separate corporation and then giving (or "spinning off") its stock to the divesting firm's stockholders on a pro rata basis.
- ______ Outright liquidation of assets.

46. The typical divestiture plan will not include

- ______ Reviewing existing operations.
- ______ Replacing high performing managers.
- ______ Calculating each unitâ€™s historical and projected return on investment.
- ______ Determining which units are to be divested.

47. Asset valuation methods do not include

- ______ Price-Earnings (P.E.) ratios.
- ______ Adjusted net book value.
- ______ Replacement cost.
- ______ Liquidation value.

48. Techniques used to account for divestiture with uncertainty include all the following except
    - ______ Risk-adjusted discount rate.
    - ______ Leveraged buyouts (LBO).
    - ______ Sensitivity analysis.
    - ______ Simulation.

49. Leveraged buyouts from the sellers perspective is a cash sale but from the prospective purchaser it is largely a
    - ______ Bond transaction.
    - ______ Stock transaction.
    - ______ Combination of stocks and bonds transaction.
    - ______ Paper transaction.

50. If a divestiture qualifies as a segment of a business the results of operations of the divested entity should be
    - ______ Operations, assets and liabilities are proactively rather than retroactively.
    - ______ Reported separately as a discontinued business.
    - ______ Reported as part of income from continuing business operations.
    - ______ Retroactively deconsolidated and reported separately from the continuing operations as a component of income tax before extraordinary items.

Chapter 3 - Disadvantages of a Merger

Chapter 4 - Guidelines

Chapter 5 - Planning for Mergers and Acquisitions

Chapter 6 - Deciding on Acquisition Terms

Chapter 7 - Grading Criteria

Chapter 8 - Factors in Determining Price

Chapter 9 - Acquisition Strategy and Process

Chapter 10 - Divestiture

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