

## “STEP BY STEP” Inc.

On the 8th of March 2007, three friends found the Company “STEP BY STEP” Inc. following the simultaneous process. The activity of the Company is the manufacturing of footwear. The Share Capital of 500,000 € is divided into 25,000 shares issued at par value and outlaid in a 40% by the subscribers of monetary contributions.

Shareholders Ugarte, and Renault subscribe 10,500 shares each and contribute in cash. Shareholder Ferrari subscribes the rest of the shares contributing 2 lots of leather. These lots are valued by the independent experts in half the contribution that corresponds to her investment in the company. She promises to contribute in six months with another leather’s lot for the amount left.

On the 1st of October 2007 the company claims for the monetary contributions. In a months period all shareholders attend and pay. Ferrari contributes on the established date with the leather as she promised.

On the 8th of April 2009 the company decides to reduce its Capital in a 20% through the reduction of the Par Value of its shares and repaying the owners their contributions. The reduction will follow the requirements needed to avoid the potential opposition of creditors (*consider there are available unrestricted reserves to perform this transaction*).

FLYING Inc. is a company that commercializes with material used in climbing. It has a Share Capital of 1,000,000 € divided into 50,000 shares of same Par Value each that are exchanged in the market.

This company has treasury stocks in the maximum permitted by the “*Capital Enterprises Act*” acquired in 23€/sh. On the 1st of May 2009 these shares are sold for 25,2 € selling price/share. The amount obtained in the selling will be destined to purchase, on the 10<sup>th</sup> May of the same year, all the shares of Ferrari owner of “STEP BY STEP”.

On December the 18th 2009, “STEP BY STEP” and “FLYING” agree that “FLYING” will absorb “STEP BY STEP”.

At the beginning of the merging process “STEP BY STEP”’s Equity is formed by the share capital at this moment (*consider previous transactions*), the minimum Legal Reserve established by law, a Voluntary Reserves for 50,000 € and the restricted Reserve considered in the reduction of Capital.

The rest of items that form the balance are the following:

Development: 300,000, NC Tax Provisions: 110,000, Accumulated Depreciation intangible assets: 50,000; Buildings: 300,000, Merchandises: 90,000, Suppliers: 55,000, Trade Receivables: 45,000, Raw Material: 140,000, Ac. Depreciation PP&E: 150,000, Machinery: 150,000, Banks: 50,500, C Debts Financial institutions: 75,000, Impairment of Merchandises: 5,500.

- The Depreciation corresponds:
  - 50,000 to machinery,
  - 100,000 to buildings
- There are no merging Adjustments

FLYING Inc. presents the next Balance Sheet previous to the merging process:

ASSETS		EQUITY & LIABILITIES	
<b>NON CURRENT ASSETS</b>		<b>EQUITY</b>	
(210) Land	774,000	(100) Share Capital (50,000 sh.)	1,000,000
(211) Buildings	900,000	(112) Legal Reserve	200,000
(281) Ac. Depreciation PP&E.	(250,000)	(117) Voluntary Reserve	350,000
(250) Financial Investments in "STEP BY STEP"	XXXX	(113) Statutory Reserve	500,000
<b>CURRENT ASSETS</b>		<b>NON CURRENT LIABILITIES</b>	
(300) Merchandises	500,000	(170) NC Debts	180,000
(390) Impairment of Merchandises	(22,000)	<b>CURRENT LIABILITIES</b>	
		(400) Suppliers	XXX
<b>TOTAL</b>		<b>TOTAL</b>	

- Independent experts have considered the buildings are undervalued in 250,000 € and the land in 245,200€.
- The Financial investments in the balance are the ones acquired to Ferrari, shareholder in "STEP BY STEP" at the acquisition price.

1. Record all transactions described in "STEP BY STEP"
2. Record all transactions described in "FLYING".
3. Prepare the Balance Sheet of "STEP BY STEP" on December the 18th 2009
4. How many shares will shareholders of "STEP BY STEP" receive from FLYING Inc. ?

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**SOLUTION**

*\*The next template offered is not necessary. The student can choose whether to use it or not. It is only a guide that can help the student in the solution of the exercise.*

**1. Record all transactions in "STEP BY STEP"**

Date Transaction	Entry	Debit	Credit
Date Transaction	Entry	Debit	Credit
Date Transaction	Entry	Debit	Credit
Date Transaction	Entry	Debit	Credit
Date Transaction	Entry	Debit	Credit
Date Transaction	Entry	Debit	Credit
Date Transaction	Entry	Debit	Credit
Date Transaction	Entry	Debit	Credit

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2. Record all transactions in "FLYING"

Date Transaction	Entry	Debit	Credit
Date Transaction	Entry	Debit	Credit
Date Transaction	Entry	Debit	Credit
Date Transaction	Entry	Debit	Credit
Date Transaction	Entry	Debit	Credit
Date Transaction	Entry	Debit	Credit
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Date Transaction	Entry	Debit	Credit

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3. Prepare the Balance Sheet of "STEP BY STEP" on the 18th December 2009

ASSETS	EQUITY & LIABILITIES
<b>TOTAL</b>	<b>TOTAL</b>

4. How many shares will shareholders of "STEP BY STEP" receive from FLYING Inc. ?

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