UPV/EHU

OCW "Companies Accounting"

Exercises Part I

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EXERCISES TO THE TOPICS II-III

TOPIC II (A)

EXERCISE 1.

On March, 3, 2013, a new Company, **ELCANO Inc.** is formed through the simultaneous process, with the following characteristics:

- Share Capital 100,000 €, divided into 10,000 shares same Par Value, Issuing price 120%.
- Costs incurred in terms of legal fees, stock issuing 1,000 €.
- Publicity costs and promotional expenses 1,000 €.
- Personnel costs 800€.

The incorporators agree to outlay the minimum established in the Spanish Law *"Corporate Enterprises Act"*.
On April, 1, 2013 the Company is registered in the Mercantile Registry.
On May, 3, 2014, the Company calls the shareholders to outlay the par value not yet paid.

- **Record transactions described**

SOLUTION

The following template offered is indicative. The student will decide whether is necessary to use less number of entries or open new ones.

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

EXERCISE 2.

On February, 3, 2013 four shareholders, A, B, C and D have signed the Incorporation`s Act in the notary to form the Corporation named **"CARPETS" Inc**. under the Joint Stock Company`s form. The purpose of this Company, once registered, is the distribution of carpets.

Characteristics of the Corporation:

- 200,000 ordinary shares will be issued, 10 €/share Par Value.
- Issuing Price 120%.
- All four shareholders have subscribed the same proportion of shares.
- Incorporators B, C and D have contributed with money paying at this moment the 40% of the Par Value and the 100% of the Premium Share.
- Incorporator "A" shareholder has contributed with one store and five carpets for the business. An independent expert has valued in 200,000 € the store and 10,000 € each carpet.
- Uncalled capital:
  - ✓ The 60% of the Par Value will be attended in eight months.
  - ✓ Incorporator "A" will give the Company new carpets to attend the uncalled capital.

A month later, on March the 3rd, "CARPET" Inc. is registered, after paying a 1% of the Share Capital in terms of formal costs, that is, registration taxes.

- **Record in a chronological order all transactions described.**
- **Present a Balance Sheet after the recording of all transactions.**

SOLUTION

- **Record in a chronological order all transactions described.**

***The following template offered is indicative. The student will decide whether is necessary to use less number of entries or open new ones.**

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

- **Present a Balance Sheet after the recording of all transactions.**

ASSETS		**EQUITY&LIABILITIES**	
TOTAL		**TOTAL**	

EXERCISE 3.

On January, 20 th, 2014, **"HELLO" Inc**. is formed, by issuing 100,000 shares, 10€ Par Value/share, subscribed in the same proportion by four shareholders.
All of them go to the notary who charges 10,000 € for his services.
A, B and C, contribute a running business they owned, which at this moment is represented with the following Balance Sheet:

ASSETS		EQUITY & LIABILITIES	
NON CURRENT ASSETS		**OWNER`S EQUITY**	
(210) Land	550,000	(100) Share Capital	500,000
(211) Buildings	200,000	(110) Share Premium	60,000
(281) Accum.Deprec.Buil	(100,000)	(112) Legal Reserves	20,000
(216) Furniture	200,000	(129) P/L of the Period	20,000
(281) Accum.Deprec.Furnit	(100,000)		
		NC LIABILITIES	
CURRENT ASSETS		(170) NC Debts financial institutions	100,000
(310) Raw Material	70,000		
(300) Merchandises	20,000		
(390) Impairm. Merchand.	(10,000)	**C LIABILITIES**	
(430) Trade Receivables	5,000	(400) Suppliers	37,500
(570) Banks	25,000	(523) C, Suppliers Fixed Assets	22,500
		(521) C Debt Financial Institutions	100,000
TOTAL	**860,000**	**TOTAL**	**860,000**

An independent expert considers the contributing company has a real value of 675,000 € identifying undervalues for 30,000 € in lands and 20,000 € in buildings. At the beginning of next year this shareholders will complete their investment in the Company by contributing with merchandises.

D subscribes the rest of the shares contributing in cash for the amount called at this moment (the minimum the law stands).All the rest will be paid at the beginning of next year.
On February the 4th the Company is registered.

- **Record the transactions.**
- **Prepare a Balance Sheet after all recordings.**

<u>SOLUTION</u>

The following template offered is indicative, the student will decide whether is necessary to use less number of entries or open new ones.

- Record the transactions

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

- Prepare a Balance Sheet after all recordings

ASSETS		**EQUITY&LIABILITIES**	
TOTAL		**TOTAL**	

EXERCISE 4

On the 15th of November 2013, three young graduates, decide to form a Company under the name **"COMEBIEN" Inc.**

They subscribe 8,000 stocks, 10 € Par Value each. They agree to issue them 120%. The corporate purpose is the selling of fruits and vegetables. They pay 1,000 € to Register the Corporation.

- Ahmed subscribed 4,000 stocks contributing for all his investment with a store
- Maria subscribed 1,000 stocks, contributing with cash and paying at this moment only the minimum required by the law. The rest of her investment will be paid when asked for.
- Chiara subscribed the rest of the titles offering a van to transport merchandises valued in 14,000 €. She promised to cover the rest of her investment by delivering fruits and vegetables for that amount around on May , the 15th, 2013

On March, the 2nd, 2014, the Company requires the shareholders to pay the part of the stock unpaid, which is received a month later.
Chiara gives the Company the lot of fruits promised

- **Record all transactions described**
- **Present the Balance Sheet after forming the Company.**

SOLUTION

The following template offered is indicative. The student will decide whether is necessary to use less number of entries or open new ones

- **Record all transactions described**

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

- **Present the Balance Sheet after forming the Company**

ASSETS		EQUITY&LIABILITIES	
TOTAL		TOTAL	

EXERCISE 5

On November the 15th, 2013 three old UPV students formed a new Corporation named **PASTASANA Pl., Inc.** formed by 8,000 stocks 10 € par value/each, issued 125%. The Corporate`s purpose is the production of ecological pasta. They incurred in 2,000 € formal costs. Stocks were subscribed as follows:

- Arbeloa incorporator subscribed 2,000 stocks contributing to the business with a machine valued in the total amount of her investment,
- Bérénice incorporator subscribed 3,000 stocks contributing Money in exchange for the minimum required by law, The uncalled capital will be required in some months,
- Chen incorporator subscribed the rest of the shares contributing at this moment with furniture for 20,000 €. The rest of her investment´s value will be covered with a van for the transport of merchandises, which she will provide on May, the 15th. 2014.

On March, the 2nd, 2014, the company requires the uncalled capital, which is covered a month later. Chen covers her compromise on time:

- **Balance Sheet on November, the 15th, 2013.**
- **Record all the transactions described.**

SOLUTION

- **Present the Balance Sheet November, the 15th, 2013**

ASSETS		EQUITY&LIABILITIES	
TOTAL		TOTAL	

- **Record all the transactions described**

Date	Entry	Debit	Credit
Transaction			
Date	Entry	Debit	Credit
Transaction			

EXERCISE 6,

On January the 3rd, 2014 **LAGO Inc.**, is founded with a share Capital of 4,000,000 €, shares PV 20 €, issued 125%.

Subscriptions:

- Incorporator A: 150,000 shares contributing cash (Banks transfers) for the amount required by law. The rest will be contributed when asked for.
- Incorporator B: 48,000 shares contributing with debt securities worth 550,000 € and rights against a customer for 650,000 € receivable in 90 days period.
- Incorporator C: 2,000 shares contributing on same terms as Incorporator A.

On January, the 15th an after paying 40,000 € for the legal requirements, the Company is registered.

In one year`s period, shareholders are required to contribute a 25% of the Par Value. They all attend the payment except for Incorporator C. The Company pays 1,500 € to some attorneys to manage the collection.

The finally collect the money as well as 6,000 € for the damage.

- **Record all transactions described.**

SOLUTION

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

EXERCISE 7

On May, the 4th 2011 **"XY" Inc.** is founded, by the simultaneous process, with the following characteristics:

- Share Capital divided into 100,000 shares 10€/sh Par Value, issued with a Premium of a 5.
- Shareholders contribute with the minimum established by law.

On February the 6th, 2012 a 25% of the Par Value is called up to the shareholders and they all attend to the payment except for one, owner of 3,000 shares.
The company incurs in 1,500€ expenses trying to collect this owner`s debt.

- **Record the entries that describe the next alternatives for the Company:**
  - **Sell the shareholders in arrears` shares for a 100%, charging the shareholder 500€ in terms of interests and damage, when liquidating the relationship**
  - **Write the shares off**

SOLUTION

Date	Entry	Debit	Credit
Transaction			
Sell the shareholders in arrears` shares			
Date	**Entry**	**Debit**	**Credit**
Transaction			
Date	**Entry**	**Debit**	**Credit**
Transaction			
Write off the shares			

TOPIC II (B)

EXERCISE 8

FRUIT Inc., Company was formed with a Share Capital of 850,000 €, totally outlaid consisting of 5 € par value shares. The General Annual Meeting decides the increase of Capital by issuing 1 new stock for every 4 old ones held with a share premium of 6 €/sh. The transaction will be totally outlaid.

- **Record the transaction**

SOLUTION

Date	Entry	Debit	Credit
Transaction			

EXERCISE 9

AUPA, Inc. presents the following Balance Sheet:

(100) Share Capital	1,300,000	(PV = 10 €)
(112) Legal Reserve	195,000	
(113) Voluntary Reserve	104,000	
(129) P/L of the period	50,000	

It has been approved in the General Annual Meeting the increase of Capital by issuing 52,000 new stocks with a share premium of 1 €/sh.

- **Calculate the Book Value of the shares before and after the increase of Capital.**
- **Has the Share Premium been enough to satisfy the shareholders? Justify your answer.**

SOLUTION

- **Calculate the Book Value of the shares before and after the increase of Capital**

BV before =
BV after increase=

- **Has the Share Premium been enough to satisfy the shareholders? Justify your answer.**

Share Premium:

EXERCISE 10

BILBAINADA Inc., was founded in 2010 with a Share Capital of 1,000,000 € (PV=250 €), On July the 1st, 2013 the Capital was outlaid in a 50%. On this date, the General Annual Meeting decides to increase the Capital asking the shareholders to contribute in cash, by issuing 1 new share for every 4 old ones held. Issuing Price 110 % totally outlaid.

Two months later, the Company increases Capital again to receive a shareholder that will contribute with a land valued 75,000 €. The Company issues 250 new shares of the same Par Value as the old ones and with a Share Premium that covers the Value of the contribution.

- **Record these transactions**
- **Indicating the articles of the "*Enterprises Corporates Act*"followed.**

SOLUTION

Date	Entry	Debit	Credit
Transaction			

- **Indicating the articles of the "*Enterprises Corporates Act*"followed.**

EXERCISE 11

The Company **AMORTIGUADORES, Inc.,,** has agreed in its General Annual Meeting, the increase of its Share Capital in an amount of 570,000 € by issuing 57,000 shares (PV = 10 €, as the old ones), The new shares will be issued in a proportion of 4 new for every 9 old ones held.
The increase will be covered in a 70% by available reserves; the rest will be covered in cash.

- **Which was the Share Capital before this transaction was recorded?**
- **Record the transaction.**

SOLUTION

- **Share Capital before:**

- **Record the transaction.**

Date	Entry	Debit	Credit
Transaction			

EXERCISE 12

VAYACO, Inc. presents the following Balance before increasing its Capital:

ASSETS		E & LIABILITIES	
NON CURRENT ASSETS		**EQUITY**	.
(210) Land	2,370,000	(100) Share Capital	3,000,000
(211) Buildings	6,000,000	*(600,000 shares, PV = 5 €)*	
(213) Machinery	900,000	(110)Premium Share	480,000
(216) Furniture	300,000	(112) Legal Reserve	1,200,000
(281) Acc. Deprec.Property	(3,000,000)	(113) Voluntary Reserves	600,000
(251) NC debt securities	300,000	(129) P/L Period	720,000
CURRENT ASSETS		**NC LIABILITIES**	
(430) Trade Receivables	450,000	(170) NC Debts financial institutions	1,680,000
(570) Cash	360,000		
TOTAL	**7,680,000**	**TOTAL**	**7,680,000**

They approve an increase in Capital using all the available reserves by issuing new shares of the same Par Value as the old ones.

- **Calculate the Book`s Value of the shares before the transaction,**
- **Record the increase in Capital**
- **Calculate the Economic Dilution value**
- **Calculate the cost for a shareholder, owner of 100 old shares that wants to subscribe 75 new shares in the transaction.**

SOLUTION

- **Calculate the Book`s Value of the shares before the transaction:**

- **Record the increase in Capital:**

Date	Entry	Debit	Credit
Transaction			

- **Calculate the Economic Dilution value:**

  ED =

- **Calculate the cost for a shareholder, owner of 100 old shares that wants to subscribe 75 new shares in the transaction:**

EXERCISE 13

VAMOS, Inc., presents on December, the 31st, 2010 the following Balance Sheet:

ASSETS		E & LIABILITIES	
(210) Land	360,000	(100) Share Capital (PV = 20€)	1,200,000
(211) Buildings	280,000	(110) Share Premium	120,000
(216) Furniture	56,000	(112) Leal Reserves	192,000
(217) IT Equipment	50,000	(113) Voluntary Reserves	24,000
(218) Vehicles	70,000	(129) P/L Period	36,000
(281)Acc,Deprec, Property,,,	(144,000)	(557) Interim Dividend	(12,000)
(300) Merchandises	480,000	(170) NC Debts financial institutions	100,000
(430) Trade Receivables	444,000		
(572) Banks	180,000		
		(400) Suppliers	76,000
		(410) Payables for rendering of services	40,000
TOTAL	**1,776,000**	**TOTAL**	**1,776,000**

They decide to increase the Share Capital by issuing shares of the same Par Value as the old ones, issued in a 100%, in a proportion of 1 new for every 5 old ones held, partially covered by available reserves. The part not covered with reserves will be contributed with cash.

- **Record the transaction.**
- **Calculate the Book Value of the shares before and after the increase.**
- **Calculate the value of the pre-emptive right.**
- **Present the Balance Sheet of the Company after the increasing of Capital.**

SOLUTION

- **Record the transaction**

Date	Entry	Debit	Credit
Transaction			

- **Calculate the Book Value of the shares before and after the increase:**
  BV0=
  BV1=

- **Calculate the value of the pre-emptive right:**
  R =

- **Present the Balance Sheet of the Company after the increasing of Capital.**

ASSETS		EQUITY&LIABILITIES	
TOTAL		TOTAL	

EXERCISE 14

MUCHACOSA Inc., was founded three years ago by issuing 8,000 shares of 10 €/sh, Par Value, Issuing Price had been 130%. Shares were subscribed in equal parts among the 4 shareholders and totally outlaid. The Legal Reserve already reaches the minimum required by Law, It has also constituted a Voluntary Reserve of 23,000 €, and there haven`t been any other changes in the OE. The shareholders decide to increase Capital by issuing new shares same Par Value as old ones for the maximum possible by covering the increase with available reserves.

- **Record the transaction.**
- **Calculate the Book`s Value of the shares before the transaction.**
- **If one shareholder wants to acquire all the new shares issued:**
  - **How much would be the cost for this shareholder?**
  - **How much will the rest of the shareholders receive?**

SOLUTION

- **Record the transaction.**

Date	Entry	Debit	Credit
Transaction			

- **Calculate the Book Value of the shares before and after the increase:**
  BV0=

- **If one shareholder wants to acquire all the new shares issued:**
  - **How much would be the cost for this shareholder?**

    R=

    Total Cost=

  - **How much will the rest of the shareholders receive?**

TOPIC II (C)

EXERCISE 15

MELPISA, Inc. has a Share Capital divided into two types of shares:

- Type A (10,000 shares): Par Value = 100 € they correspond to the first shares issued to form the Company
- Type B: Par Value = 80 € they correspond to an increase in Capital in which one new for every two old were issued; these shares are outlaid in a 50% and the rest has not yet been called up.

The General Annual Meeting has agreed to reduce Capital with the following conditions: (there is no opposition from third parties)

- Decreasing the Par Value of shares Type B, by the condoning of uncalled capital.
- The rest of the reduction will be done by writing off 2,000 shares from the initial Capital repaying the shareholders the Par Value of the shares.

- **Record the transactions described**

<u>**SOLUTION**</u>

- **Record the transactions described**

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

EXERCISE 16

PER, Inc. presents the following Balance Sheet on December the 31th, 2011:

ASSETS		**E & LIABILITIES**	
154,000	(200) Research	(100) Share Capital (PV=10)	1,200,000
(30,000)	(280) Acc.deprec. intangible assets	(112) Legal reserve	120,000
560,000	(210) Land	(129) P/L period	(380,000)
460,000	(211) Buildings	(121) Prior losses	(440,000)
120,000	(213)Machinery	(130) Grants & Donations	284,000
(300,000)	(281)Acc, depreciation property, plant & equipment	(171) NC Debts financial institutions	384,000
280,000	(25) NC Receivables	(400) Suppliers	332,000
216,000	(300) Merchandises		
40,000	(572) Banks		
1,500,000			**1,500,000**

- **Does the Company have to reduce its Capital? Justify your answer according to what is established by law.**
- **Which is the minimum required to reduce?**

SOLUTION

- **Does the Company have to reduce its Capital? Justify your answer according to what is established by law.**

- **Which is the minimum required to reduce?**

EXERCISE 17

FOSA, Inc. presents the following accounts:

ASSETS		E & LIABILITIES	
10,800,000 1,200,000 2,800,000 1,200,000	(2XX) Property, plant &equipment (250) NC investments in equity instruments (251) NC Debt securities (430)Trade Receivables	(100) Share Capital *(PV=80)* (121) Prior period`s losses (171) NC Debts financial institutions	8,000,000 (8,000,000) 16,000,000
16,000,000			**16,000,000**

According to this situation, FOSA decides to do the following:

- **Clean up all losses by reducing Capital**
- **Increase Capital again by issuing 300,000 shares Par Value 20 euros, subscribing price 100%**

SOLUTION

- **Clean up all losses by reducing Capital**

Date	Entry	Debit	Credit
Transaction			

- **Increase Capital again by issuing 300,000 shares Par Value 20 euros, subscribing price 100%**

Date	Entry	Debit	Credit
Transaction			

EXERCISE 18

FILMASA, Inc. presents the following situation:

ASSETS		E& LIABILITIES	
124,000 6,000 24,000 46,000	(2XX) Property, plant &equipment (431) Trade bills receivable (440) Receivables (572) Banks	(100) Share Capital *(PV=5)* (113) Voluntary Reserves (129) P/L period (130) Capital Grants (521) C debts financial institutions (400) Suppliers	100,000 20,000 20,000 16,000 24,000 20,000
200,000			**200,000**

FILMASA agrees in the General Annual Meeting the reduction of Capital repaying 40,000€ to the shareholders and creating the "Redeemed Capital Reserve"

- **Can the third parties oppose to this reduction?**
- **Record the transaction.**

SOLUTION

- **Can the third parties oppose to this reduction?**

- **Record the transaction**

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

EXERCISE 19

From the structure of the Equity in the next Companies, explain, according to the "*Corporate Enterprises Act*" which requirements to they have to follow to re-establish the situation:

	Share Capital	Unrestricted Reserves	Prior Period`s Losses	**EQUITY**
"ELKANO"	200,000	160,000	(120,000)	240,000
"BRISA"	200,000	160,000	(180,000)	180,000
"YOU"	200,000	160,000	(240,000)	120,000
"ME"	200,000	160,000	(280,000)	80,000

SOLUTION

"ELKANO"
"BRISA"
"YOU"
"ME"

TOPIC II (D)

EXERCISE 20

ACCIPROP Inc., Publicly held Company, presents on December the 31st, 2011 the following balance sheet:

ASSETS		E& LIABILITIES	
NC Assets C Assets	1,119,000 373,000	Share Capital *(PV = 10)* Voluntary Reserves Share Premium Legal Reserve NC Liabilities C Liabilities	840,000 60,000 40,000 152,000 200,000 200,000
Total	**1,492,000**	**Total**	**1,492,000**

The Company decides to acquire 9,000 outstanding shares for 110%, as a long term investment

- **Record the transactions described**
- **Explain the requirements of the Corporate Enterprises Act in this situation**

SOLUTION

- **Record the transaction**

Date	Entry	Debit	Credit
Transaction			
Date	Entry	Debit	Credit
Transaction			

- **Explain the requirements of the Corporate Enterprises Act in this situation:**

EXERCISE 21

EGUNON Inc., Which has a Share Capital of 1,800,000 € with PV = 10 € /share acquires 18,000 shares on October the 27th, 2010 in the exchange market for a 110%. The Company already had 2,000 own shares acquired a year ago consequence of a judicial acquisition against a shareholder.

- **Record the transaction on October the 27th,, 2010.**
- **If the Company decides to distribute an 8% dividend, which is the total amount distributed? Profitability per share?**

SOLUTION

- **Record the transaction on October the 27th 2010**

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

- **If the Company decides to distribute an 8% dividend, which is the total amount distributed? Profitability per share?**

EXERCISE 22

ASPALDIKO Inc., acquires 100,000 own shares in the stock exchange market for 20 € /share, The Par Value is 10 €. Some months later, they sell 90,000 of these shares for a total amount of 1,980,000 €. The rest of the shares are written off.

- **Record the transactions described.**

SOLUTION

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

TOPIC III

EXERCISE 23

NN, Inc. presents the following Balance Sheet on the 31st May 2011:

ASSETS		E & LIABILITIES	
NC ASSETS		EQUITY	
(2XX) Property, plant & equip	4,000,00	(100) Share Capital	6,000,000
(281) Accum, depreciation	(1,282,000)	*(PV=150€)*	
		(103) Uncalled Capital	(225,000)
C ASSETS		(113) Voluntary Reserve	120,000
		(121) Prior Period`s Losses	(1,850,000)
(300) Merchandises	1,200,000		
(390) Impairment merchandise	(120,000)		
(430) Trade Receivables	360,000	NC LIABILITIES	
(572) Banks	240,000	(17) NC Debts financial instit	120,000
		C LIABILITIES	
		(500) C, bonds & obligations	153,000
		(400) Suppliers	80,000
TOTAL	**4,398,000**	TOTAL	**4,398,000**

The General Annual Meeting agrees to dissolve and liquidate the Company. They name some liquidators who perform the following transactions:

- The Property is sold in 4,800,000 and the merchandises in 360,000€. Trade receivables are considered lost-
- Employees are compensated with 240,000 €.
- All liabilities are paid with a 40% discount.

- **Record the transactions to liquidate the Company**
- **How much will each type of share receive from the liquidation, knowing there are 5,000 shares that have outlaid only a 70% of the Par Value of their shares?**

SOLUTION

- **Record the transactions to liquidate the Company**

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

- How much will each type of share receive from the liquidation, knowing there are 5,000 shares that have outlaid only a 70% of the Par Value of their shares?

FULLY OUTLAID SHARES	
PARTIALLY OUTLAID SHARES	

EXERCISE 24

Shareholders of **FINITE Inc.,** decide to liquidate the Company. The Balance Sheet previous to the liquidation is the following:

ASSETS		E & LIABILITIES	
(201) Development	18,000	(100) Share Capital*	360,000
(280) Accum. Deprec. intang,assets	(3,200)	(112) Legal Reserve	34,000
(210) Land	123,200	(121) Prior period`s losses	(230,000)
(211) Buildings	96,000		
(216) Furniture	48,000	(170) NC Debts financial institutions	116,000
(281) Accum. Deprec. property	(32,000)		
		(520) C Debts financial institutions	57,000
(300) Merchandises	92,000	(410) Other payables	4,000
(390) Impairment of merchandises	(10,000)	(4751) Tax authorities withholding tax	9,000
		(476) Social Security payable	34,000
(436) Doubtful trade receivables	46,000		
(490) Impairment of receivables	(46,000)		
(431) Trade bills receivable	32,000		
(572) Banks	20,000		
TOTAL	**384,000**	**TOTAL**	**384,000**

Share Capital distributed: 10,000 shares 30€/sh, Par Value
3,000 shares 20€/sh, Par Value

Additional information:

The Accumulated depreciation corresponds: 45% to the furniture and 55% to the buildings,

The assets are sold in the following way:

- Investment in Development is considered to have no value
- Lands are sold for 135,000 €
- Buildings are sold for 120,000 €
- Furniture is sold in half its accounting value
- Merchandises are sold in one fourth its value
- Receivables are definitely lost
- Debts with Tax authorities and Social Security are paid
- We get a 30% discount in our payables with the Bank
- We get a 50% discount in other payables

- **Which reason can the company find to liquidate?**
- **Record the transactions necessary to liquidate the Company.**
- **Consider how much will the different type of shares receive from the liquidation.**

SOLUTION

- Which reason can the company find to liquidate?

- Record the transactions necessary to liquidate the Company,

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

- Consider how much will the different type of shares receive from the liquidation.

10,000 SHARES 30€ PAR VALUE	
3,000 SHARES 20€ PAR VALUE	

EXERCISE 25

Company "A" liquidates and converts all its Equity into cash for the amount of 5,000,000€. Its Share Capital is formed by the following types of shares:

Type 1: 100,000 non-voting shares 20€/sh, Par Value

Type 2: 150,000 ordinary shares 20 €/sh, Par Value fully outlaid

Type 3: 50,000 ordinary shares 20 €/sh, Par Value outlaid in a 50%

- **How much will each type of share get from the liquidation?**

SOLUTION

TYPE 1	
TYPE 2	
TYPE 3	

EXERCISE 26

WINTER, Inc. and SUMMER Inc. have agreed in the acquisition of SUMMER`s spin-off part by WINTER.
WINTER, Inc. has a Share Capital of 4 million euros, totally outlaid, and formed by 500,000 shares,
Once valued the Companies in terms of acquisition, winter shares are valued in 25€/sh.
SUMMER balance sheet is the following:

ASSETS		E&LIABILITIES	
(211) Buildings	2,600,000	(100) Share Capital	2,000,000
(216) Furniture	400,000	*(200,000 shares, PV = 10 €)*	
(2813) Acc.deprec.buildings	(280,000)	(112) Legal Reserve	400,000
(2818) Acc.deprec. furniture	(50,000)	(113) Voluntary Reserve	100,000
(300) Merchandises	340,000	(141) Provision for taxes	600,000
(430) Trade Receivables	160,000	(400) Suppliers	70,000
(572) Banks	100,000	(499) Trade Provisions	100,000
TOTAL	**3,270,000**	**TOTAL**	**3,270,000**

The Spin-off part is the following:

	Book`s Value	SPIN-OFF PART Book`s Value
Buildings	2,320,000	1,740,000
Furniture	350,000	262,500
Merchandises	340,000	255,000
Trade Receivables	160,000	120,000
Banks	100,000	75,000
Goodwill		
Provision for taxes	600,000	450,000
Suppliers	70,000	52,500
Trade Provisions	100,000	75,000
Equity		**1,875,000**

ADDITIONAL INFORMATION FOR THE SPIN-OFF:

- A Goodwill of 100,000 € is recognized
- The Buildings are considered to be overvalued in 80,000 €
- Inventories show the merchandises are valued in 220,000 €

- **Record in SUMMER`s accounting the transferring of its spin-off part to WINTER**
- **Record the decrease in Capital in SUMMER to transfer WINTER its spin-off part.**
- **Record in WINTER`s accounting the reception of SUMMER`s spin-off part**
- **Record the increase in Capital in WINTER to receive SUMMER`s spin-off part.**

SOLUTION

- **Record in SUMMER`s accounting the transferring of its spin-off part to WINTER**

Date	Entry	Debit	Credit
Transaction			

- **Record the decrease in Capital in SUMMER to transfer WINTER its spin-off part**

Date	Entry	Debit	Credit
Transaction			

- **Record in WINTER`s accounting the reception of SUMMER`s spin-off part,**

Date	Entry	Debit	Credit
Transaction			

- **Record the increase in Capital in WINTER to receive SUMMER`s spin-off part**

Date	Entry	Debit	Credit
Transaction			

EXERCISE 27

SPORTSA Company performs two different activities which are the commercializing of sports clothes and the organization of sport`s activities, On the 3rd of March 2015, the shareholders of the company approve that the first business will be absorbed by the existing company FRISA (shares Par Value 100€/sh. Book`s Value 118€/sh.) through a partial spin-off.

SPORTSA presents the following balance sheet on that date:

ASSETS		**E & LIABILITIES**	
NON CURRENT ASSETS		EQUITY	
(206) Software	3,000	(100) Share Capital	1,000,000
(280) Ac, Depreciation		*(10,000 sh. PV = 10 €)*	
Intangible Assets	(1,000)	(112) Legal Reserve	80,000
(210) Land	550,000	(113) Voluntary Reserve	80,000
(211) Buildings	690,000		
(217) IT Equipment	30,000	NC LIABILITIES	
(281) Ac, Depreciation PP&E	(240,000)	(171) NC Debts financial	
		institutions	400,000
CURRENT ASSETS		(400) Suppliers	230,000
(300) Merchandises	400,000		
(430) Trade Receivables	440,000	(521) C. Debts	152,000
(572) Banks	70,000		
TOTAL	**1,942,000**	**TOTAL**	**1,942,000**

The detail of the activity to be split-off is the following:

ASSETS	**BOOK`S VALUE**	**REAL VALUE**	**LIABILITIES**	**BOOK`S VALUE**	**REAL VALUE**
(206) Software	2,000	*2,100*	(171) NC Debts	300,000	*300,000*
(280) Ac, Depreciation Intangible Assets	(600)	*(600)*	(400) Suppliers	230,000	*230,000*
(210) Land	350,000	*400,000*	(521) C, Debts	152,000	*152,000*
(211) Buildings	490,000	*510,000*			
(217) IT Equipment	20,000	*18,000*			
(281) Ac, Depreciation Buildings	(170,000)	*(170,000)*			
(281) Ac, Depreciation IT Equipment	(8,000)	*(8,000)*			
(300) Merchandises	400,000	*420,000*			
(572) Banks	40,000	*40,000*			
(430) Trade Receivables	340,000	*330,000*			

- **Record the transactions in SPORTSA**
- **Record the transactions in FRISA**

SOLUTION

- **Record the transactions in SPORTSA**

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**

- **Record the transactions in FRISA**

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

EXERCISE 28

“X” Corporation wants to acquire Corporation “Y”. They accept the following balance sheets of the Companies previous to the acquisition:

X (Absorbing Company)

ASSETS		E & LIABILITIES	
NON CURRENT ASSETS		EQUITY	
(2XX) Property, plant & equipment	80,000,000	(100) Share Capital	40,000,000
		(4,000,000 sh. PV = 10 €)	
(28X) Accum. depreciation	(24,000,000)	(11X) Reserves	64,000,000
		(129) P/L Period	8,000,000
CURRENT ASSETS			
(300) Merchandises	36,400,000	NC LIABILITIES	
(430) Trade Receivables	30,000,000	(171) NC Debts financial institutions	24,000,000
(572) Cash	13,600,000		
TOTAL	**136,000,000**	**TOTAL**	**136,000,000**

Y (Absorbed Company)

ASSETS		E & LIABILITIES	
NON CURRENT ASSETS		EQUITY	
(21) Property, plant &Equipment	40,000,000	(100) Share Capital	20,000,000
		(2,000,000 sh, PV = 10€)	
(281) Accum, depreciation	(20,000,000)	(11X) Reserves	4,000,000
		(129) P/L Period	8,000,000
CURRENT ASSETS			
(300) Merchandises	12,000,000	NC LIABILITIES	
(430) Trade Receivables	8,000,000	(171) NC Debts financial institutions	16,000,000
(572) Cash	8,000,000		
TOTAL	**48,000,000**	**TOTAL**	**48,000,000**

- **Calculate the Equity and Book`s Value/share before the acquisition.**
- **How many shares must the Company “X” issue?**
- **Establish the exchange of shares.**
- **Record the transactions in both Companies.**

SOLUTION

- **Calculate the Equity and Book`s Value/share before the acquisition.**

COMPANY “Y”(Absorbed)	COMPANY “X” (Absorbing)
Equity from balance	Equity from balance …………,,
Adjustments in value (merger):	Adjustments in value (merger):
Adjusted Equity……………………………,	**Adjusted Equity…………………………………,,**
Adjustments in participations ……………………	Adjustments in participations:
Equity Merger E”Y”……………………………	**Equity Merger E”X”………………………**
BV”Y” =	**BV”X” =**

- How many shares must the Company "X" issue?

  Number of shares "X" = Equity "Y"/BV "X"=

- Establish the exchange of shares,

  Shares "X"/Shares "Y"=

- Record the transactions in both Companies,

  COMPANY "Y"

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

COMPANY "X"

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

EXERCISE 29

Companies "DAY" and "NIGHT" have agreed "DAY" will acquire "NIGHT". Balance Sheets on September the 30th, 2011, before the acquisition:

DAY

ASSETS		**E&LIABILITIES**	
(201) Development	600,000	(100) Share Capital *(100,000 sh, PV = 60 €)*	6,000,000
(210) Land	7,380,000	(112) Legal Reserve	1,200,000
(211) Buildings	7,200,000	(118) Contributions from shareholders	1,800,000
(213) Machinery	135,000		
(216) Furniture	900,000		
(281) Accum. Depreciation	(1,200,000)	(140) Provisions for long term employee benefits	1,800,000
(251) NC Debt Securities	1,200,000		
(570) Cash	585,000	(171) NC Debts financial institutions	6,000,000
TOTAL	**16,800,000**	**TOTAL**	**16,800,000**

ADDITIONAL INFORMATION (Auditing the Company`s situation)

- The cash checking shows the Company has 285,000 euros.
- The amortization is considered to be undervalued in 2,700,000 euros.

NIGHT

ASSETS		**E&LIABILITIES**	
(200) Investigation	2,400,000	(100) Share Capital *(200,000 sh. PV = 90 €)*	18,000,000
(280) Accum. Depreciation intangible assets	(1,200,000)	(129) P/L period	(2,400,000)
(218) Vehicles	9,000,000	(130) Capital grants	3,000,000
(281) Accum. Depreciation	(1,800,000)		
(250) Equity instruments *(DAY)*	3,840,000	(142) Prov. other liabilities	4,200,000
(300) Merchandises	12,000,000	(171) NC Debts financial institutions	6,000,000
(430)Trade Receivables	4,200,000		
(571) Cash	360,000		
TOTAL	**28,800,000**	**TOTAL**	**28,800,000**

ADDITIONAL INFORMATION

- The participation of NIGHT in DAY was acquired for 96 €/sh.
- The Company constituted the Provision because of a pendent litigation, Once solved, it is considered not responsible for it,
- The investment in Investigation is considered to have no success.
- The amount in Cash corresponds to foreign currency (60,000 pesos) valued in 6 €/peso. The exchange in this moment is of 4. 8 €/peso.

▪ In terms of customers, perspectives, prestige and situation the Company`s overvalue is considered to be 3,912,000 euros.

- **Calculate the OE and Books Value of the shares in both Companies.**
- **Consider the number of shares to be issued by DAY.**
- **Establish the shares exchange.**

SOLUTION

- **Calculate the OE and Books Value of the shares in both Companies**

COMPANY “NIGHT”(Absorbed)	COMPANY “DAY” (Absorbing)
Equity from balance	Equity from balance
Adjustments in value (merger):	Adjustments in value (merger):
Adjusted Equity	**Adjusted Equity „**
Adjustments in participations	Adjustments in participations:
Equity Merger E”NIGHT”	**Equity Merger E”DAY”**
BV”NIGHT” =	BV”DAY” =

- **Consider the number of shares to be issued by DAY**

  Number of shares ”DAY” = (Equity “NIGHT”-Participation in “DAY”)/BV “X”=

- **Establish the shares exchange**

  Shares “DAY”/Shares “NIGHT”

EXERCISE 30

MOUNTAIN, Inc. and BEACH Inc. have agreed that MOUNTAIN will absorb BEACH.
MOUNTAIN`s Share Capital is 4 million euros, totally outlaid, divided into 500,000 shares, same par value each, After considering the value in terms of acquisition, the book value of the shares is of 10 €/sh.
The Balance Sheet of BEACH before the acquisition is the following:

ASSETS		**E & LIABILITIES**	
(213) Machinery	2,800,000	(100) Share Capital *(200,000 shs, PV = 10 €)*	2,000,000
(218) Vehicles	500,000	(112) Legal Reserve	400,000
(2813) Accum. Depr.machinery	(280,000)	(113) Voluntary Reserve	300,000
(2818) Accum. Depr. Vehicle	(60,000)		
(300) Merchandises	320,000	(171) NC Debt financ.instit.	700,000
(430) Trade Receivables	180,000	(520) C, Debt financ.instit.	60,000
(572) Banks	100,000	(400) Suppliers	100,000
TOTAL	**3,560,000**	**TOTAL**	**3,560,000**

ADDITIONAL INFORMATION (BEACH):

- The Machinery is considered to be overvalued in 120,000 €
- Once checked the inventory, merchandises are considered to be worth 240,000 €.

- **Calculate the Equity and Book`s Value of the shares in both Companies.**
- **Record in MOUNTAIN`s accounting the reception of BEACH.**
- **How many shares from MOUNTAIN will a shareholder, owner of 800 shares in BEACH receive?**

SOLUTION

- **Calculate the Equity and Book`s Value of the shares in both Companies,**

COMPANY "BEACH"(Absorbed)	**COMPANY "MOUNTAIN" (Absorbing)**
Equity from balance	Equity from balance
Adjustments in value (merger):	Adjustments in value (merger):
Adjusted Equity	**Adjusted Equity**
Adjustments in participations	Adjustments in participations:
Equity Merger E"BEACH"	**Equity Merger E"MOUNTAIN"**
BV"BEACH" =	**BV"MOUNTAIN" =**

- Record in MOUNTAIN`s accounting the reception of BEACH

Date Transaction	Entry	Debit	Credit

- How many shares from MOUNTAIN will a shareholder, owner of 800 shares in BEACH, receive?

Number of shares from MOUNTAIN

EXERCISE 31

Companies "YOU" & "ME" want to Merger and Create "WE" by issuing shares 10 € par value issuing price 100%,

Balance Sheet of "ME" before Merging

ASSETS		E & LIABILITIES	
(210) Land	40,000	(100) Share Capital *(PV=30€)*	120,000
(211) Buildings	103,000	(112) Legal Reserve	6,000
(216) Furniture	40,000	(110) Share Premium	3,000
(213) Machinery	56,000	(113) Voluntary Reserve	8,500
(281) Accum.deprec.Prop.	(96,000)		
(300) Merchandises	23,000	(170) NC Debt financial institutions	44,000
(390) Impairment Merch.	(12,000)		
(430) Trade Receivables	42,000		
(572) Banks	16,000	(520) C Debt financial institutions	22,000
(480)Prepaid Expenses	1,000	(410) Other payables	9,000
		(485) Differed income	500
TOTAL	**213,000**	**TOTAL**	**213,000**

The Accumulated depreciation corresponds to the assets in the following percentages:

- Buildings 25%
- Furniture 40%
- Machinery 35%

The General Annual Meeting of both companies agrees the following value of "ME" assets:

- Land 52,000€
- Buildings are considered to be undervalued in 20,000€,

Balance Sheet of "YOU" before merging

ASSETS		E & LIABILITIES	
(200) Investigation	38,000	(100) Share Capital *(PV=15€)*	150,000
(280)Accum. Deprec. Inv.	(9,000)	(112) Legal Reserve	30,000
(211) Buildings	92,000		
(216) Furniture	48,000	(174) NC finance lease payables	24,000
(212) Technical Installations	68,000		
(281) Accum. Deprec.PP&E	(68,000)	(524) C finance lease payables	3,000
		(410) Other payables	9,000
(430) Trade Receivables	52,000		
(490) Impairm.Trade Rec	(16,000)		
(572) Banks	11,000		
TOTAL	**176,000**	**TOTAL**	**176,000**

The Accumulated depreciation corresponds to the assets in the following percentages:

Technical Installations	20%
Buildings	30%
Furniture	50%

The General Annual Meeting of both companies agrees the following value for the assets of "YOU":

- Buildings are considered to be undervalued in 30,000€.
- Technical Installations are considered to be overvalued in 46,000€.

- **Calculate the Equity of both Companies.**
- **How many shares will "WE" issue?**
- **Exchange in shares for both Companies.**
- **Record transactions that affect to the new Company.**

SOLUTION

- **Calculate the Equity of both Companies.**

COMPANY "ME"	**COMPANY "YOU"**
Equity from balance	Equity from balance
Adjustments in value (merger):	Adjustments in value (merger):
Adjusted Equity	**Adjusted Equity**
Adjustments in participations	Adjustments in participations:
Equity Merger E"ME"	**Equity Merger E"YOU "**
BV"ME" =	**BV"YOU" =**

- **How many shares will "WE" issue?**

Number of Shares issued by "WE"

- **Exchange in shares for both Companies.**

Shares for "ME" **Shares for "YOU"**

- **Record transactions that affect to the new Company.**

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