1. INVESTMENT ACCOUNTS

Problems based on Investment in Debentures

Problem 1.

On 1st April, 1983 XY and Co. held 9% debentures in Bombay Ltd., of the face value of ₹ 10,000 of cost of ₹ 8,000. Market value on that date was ₹ 9,000. Interest is payable on 31st December every year. On 1st December, 1983 debentures of nominal value of ₹ 6,000 were purchased for ₹ 5,000 ex-interest and on 31st December, 1983 debentures of nominal value of ₹ 2,000 were sold cum-interest for ₹ 1,900. On 1st January, 1984 debentures of nominal value of ₹ 6,000 were bought at ₹ 5,800. The market value of the debentures on 31st March, 1984 was ₹ 90.

Make out Investment Account in the books of XY and Co. showing profit or loss on sale of investment. Stocks on 31st March each year are valued at lower of cost and market price.

Solution

Investment in 9% Deb. of Bombay Ltd. A/c

Date	Particulars	F.V.	Int.	Cost	Rate	Par	FV	Int	Cost
1.4	To Balance b/d (10,000 ×9% ×3/12)	10,000	225	8,000	31.12	By Bank	2000	180	1,720
					31.12	By Bank (14,000 ×9% ×1)	-	1260	-
1.12	To Bank	6,000	495	5,000					
1.1	To Bank	6,000	-	5,800					
31.3	To P/L A/c		1,170	11	31.03	By Balance c/d	20,000	450	17,091
		22,000	**1,890**	**18,811**			**22,000**	**1,890**	**18,811**

Working Notes:-

(i) 1.12 Purchase -Ex Interest — 5,000
+ Interest accrued
F V × R × T
6000 × 9% × 11/12 — 495
Pay to seller — 5,495

(ii) Sales
31.12 Sale cum Interest Quotation — 1,900
(-)Interest accrued
2000 × 9% × 12/12 — 180
SP of Debenture — 1,720

(iii) 1.1 Purchase Cum. Interest — 5,800
+ Interest (6000 × 9% × 0/12) — Nil
Interest Quotation — 5,800

(iv) Since interest received from Investment on 31.12 each year investment books closed by investor on 31.3, therefore Interest accrued for 3 month (J.F.M.)

Should also be recognized

Interest accrued A/c …………..Dr. 450

To Interest A/c 450

$$\left(20{,}000 \times 9\% \times \frac{3}{12}\right)$$

(b) ***Current Investment:-*** Value of cost or Market value (fair value) whichever is lower (AS-13).

- Cost for this purpose to be calculate is only as per Average method (No LIFO/FIFO).
- MP Means ex interest Price

(v) Carring Amt Cost

$$Cost = \left(\frac{18{,}800}{22{,}000} \times 20{,}000 = 17{,}091\right)$$

$$M.P. = 20{,}000 \times 90\% = 18{,}000$$

Carrying Amt (whichever is lower) only if given in Que. Use Fifo for calculation of cost at end

1.4	10,000	8,000		
Bal.	8,000	6,400	=	$\frac{8{,}000}{10{,}000} \times 8{,}000$
1.12	6,000	5,000		
1.1	6,000	5,800		
Total cost	20,000	<u>17,200</u>		
Market Price		18,000		
	Carring Amt.		=	<u>17,200</u>

<u>Note:-</u> Any brokerage and Transaction Tax paid at the time of purchase is Added In cost of purchase

At the time of sales. Reduce from selling price.

Problem 2.

Gamma Investment Company hold 1,000, 15% debentures of ₹ 100 each in Beta Industries Ltd. as on April 1, 2009 at a cost of ₹ 1,05,000. Interest is payable on June, 30 and December, 31 each year.

On May 1, 2009. 500 debentures are purchased cum-interest at ₹ 53,500. On November 1, 2009 600 debentures are sold ex-interest at ₹ 57,300. On November 30, 2009, 400 debentures are purchased ex-interest at ₹ 38,400. On December 31 2009, 400 debentures are sold ex-interest for ₹ 55,000.

Prepare the investment account showing value of holdings on March 31, 2010 at cost using FIFO method.

[May- 2010, 6 Marks]

Solution **In the books of Gamma Investment Company**

Investment account for the period April – March 2010 by using FIFO Method

Date	Particulars	Face Value	Int.	Cost	Date	Particulars	Face Value	Int.	Cost
1.4.09	To Balance b/d	1,00,00 0	3,750	1,05,000	30.6.09	By Bank	----	11,250	----
1.5.09	To Bank a/c	50,000	2,500	51,000	1.11.09	By Bank	60,000	3,000	57,300
30.11.9	To Bank a/c	40,000	2,500	38,400	1.11.09	By P/L A/c	-	-	5,700
31.12.0 9	To P/L A/c	-	-	13,000	31.12.9	By Bank a/c	----	6750	----
31.3.10	To P & L a/c	---	18,625	7,300	31.12.9	By bank a/c	40,000	3,000	55,000
		-------	-------	-------	31.3.10	By Bal. c/d	90,000	3,375	89,400
		19,000	**27,375**	**2,01,700**			**1,90,000**	**27,375**	**2,01,700**

Working Notes (1) **Calculation of interest on 15% Debentures**

Date	Particulars	Face value	Period of Interest	Rate of Interest	Interest Amount
1.4.09	Interest accrued on opening balance	1,00,000	3 months	15% p.a.	3,750
1.5.09	Interest on purchase of debenture	50,000	4 months	15% p.a.	2,500
30.6.09	Interest received on holding	90,000	6 months	15% p.a.	11,250
1.11.09	Interest on sale of debenture	60,000	4 months	15% p.a.	3,000
30.11.09	Interest on purchase of debenture	40,000	5 months	15% p.a.	2,500
31.12.09	Interest received on holdings	40,000	6 months	15% p.a.	3,000
31.3.10	Interest accrued on closing balance	90,000	3 months	15% p.a.	3,375

Note: - It is assumed that interest has been received first on 31.12.09 & after that debentures of ₹ 40,000 FV have been sold.

Working Notes (2)

Calculating of cost of debenture purchased on 1.5.2009

Total amount paid (Cum Interest quotation)		53,500
Less: Interest (W.N.1)		2,500
Cost	=	51,000

Working Notes (3)

30 June

Interest received

$$1{,}50{,}000 \times 15\% \times \frac{6}{12} \quad = \quad 11{,}250$$

Working Notes (4)

1 Nov

Ex - Interest SP		57,300
Interest accrued		
$(600 \times 100) \times 15\% \times \frac{4}{12}$	=	3,000
Cum-Interest price		60,300

Working Notes (5)

30 Nov

Ex - Interest purchase price		38,400
+ Interest accrued		
$(400 \times 100) \times 15\% \times \frac{5}{12}$	=	2,500

31 Dec.

Sale Ex - Interest price		55,000
+ Interest accrued		
$(400 \times 100) \times 15\% \times \frac{6}{12}$	=	3,000
Cum-Interest price		58,000

Working Notes (6)

31 Dec.

Interest received

$$9{,}000 \times 15\% \times \frac{6}{12} \quad = \quad 6{,}750$$

Working Notes (7)

31 Mar.

Interest received

$$9{,}000 \times 15\% \times \frac{3}{12} \quad = \quad 3{,}375$$

Working Notes (8)

Carrying amount at end

(i) M.P. as on 31.3 N.A.

(ii) Cost on FIFO

	FV	***Cost***
1.5	50,000	51,000
30.11	40,000	38,400
	90,000	89,400

(iii) Carrying

Problem 3.

In 2011, M/s. Wye Ltd. issued 12% fully paid debentures of ₹ 100 each, interest being payable half yearly on 30th September and 31st March of every accounting year.

On 1st December, 2012, M/s. Bull & Bear purchased 10,000 of these debentures at ₹ 101 cum-interest price, also paying brokerage @ 1% of cum- interest amount of the purchase. On 1st March, 2013 the firm sold all of these debentures at ₹ 106 cum-interest price, again paying brokerage @ 1% of cum-interest amount.

Prepare Investment Account the books of M/s. Bull & Bear for the period 1st December, 2012 to 1st March, 2013.

[May-2013, 5 Marks]

Solution

Investment in 12% Debenture A/c

Date	Particular	Face value	Interest	Principal	Date	Particular	Face value	Interest	Principal
1.12.12	To Bank(W.N.1)	10,00,000	20,000	10,00,100	1.3.13	By Bank	10,00,000	50,000	9,99,400
1.3.13	To P/L A/c (Bal.fig)		30,000		1.3.13	By P/L A/c (Bal.fig)			700
		10,00,000	**50,000**	**10,00,100**			**10,00,000**	**50,000**	**10,00,100**

Working Note 1.

1.12.12

Cum Interest price 10,000 × 101	10,10,000
Less:- Interest accrued $(10,00,000 \times 12\% \times \frac{2}{12})$	20,000
	9,90,000
+ Brokerage 10,10,000 × 1%	10,100
Cost of Investment	10,00,100

Working Note 2.

1.3.13

Cum Interest Quotation of sales 10,000 × 106	10,60,000
Less:- Interest accrued $(10,00,000 \times 12\% \times \frac{5}{12})$	50,000
	10,10,000
Less:- Brokerage 10,60,000 × 1%	(10,600)
Net Sales Price	9,99,400

Problem 4.

Madhuri Dixit purchased on 1st March, 2001 ₹ 24,000 5% Bharat Debenture stock @ 90 cum-interest. Interest being payable on 31st March and 30th September each year. Stamp and expenses on purchase amounted to ₹ 20 and brokerage @ 2% was charged on cost; interest for the half – year was received on the due date. On 1st September ₹ 10,000 of the stock was sold 92 ex-interest *less* brokerage @ 2%. On 30th September, ₹ 8,000 stock was purchased @ 91 ex-interest plus brokerage @ 2% and charges ₹ 10. On 1st December, ₹ 6,000 stock wise sold @ 94 cum interest less Brokerage @ 2%. The market price of stock on 31st December were 88½%. Show the Investment Account for the year ending on 31st December, 2001 assuming FIFO Method. Calculation should be made in the multiple of rupee. Madhuri Dixit holds the Bharat Debenture stock as a current assets.

Solution

Investment A/c for the year ending on 31st Dec. 2001
[Scrip: 5% Bharat Debenture Stock]
[Interest Payable on 31st March and 30th September]

Date	Particulars	Nominal Value ₹	Interest ₹	Cost ₹	Date	Particulars	Nominal Value ₹	Interest ₹	Cost ₹
01.03.01	To Bank A/c	24,000	500	21,552	3 1.03.01	By Bank A/c [₹24,000 × 5% × 6/12]	—	600	—
30.09.01	To Bank A/c	8,000	200	7,436	01.09.01	By Bank A/c	10,000	208	9,016
31.12.01	To P & L A/c	—	908	—	30.09.01	By Bank A/c [₹ 22,000 × 5% × 6/12]	—	550	—
					01.12.01	By Bank A/c	6,000	50	5,477
					31.12.01	By P & L A/c (Loss)	—	—	335
					31.12.01	By Balance c/d	16,000	200	14,160
		32,000	**1,608**	**28,988**			**32,000**	**1,608**	**28,988**

Working Notes:

(i) 01.03.01

Cum – Interest purchase price:

	$24{,}000 \times 90 \div 100$	=	21,600
Less: Interest	$24{,}000 \times 5\% \times 5 \div 12$	=	5,00
Ex. Interest Cost		=	21,100
Add: Stamp Duty		=	20
Add: Brokerage	$21{,}600 \times 2\%$	=	4,32
Total cost of debenture		=	21,552

(ii) 31.03.01

Interest $24{,}000 \times 5\% \times 6 \div 12$ = 6,00

(iii) 01.09.01

Ex- Interest Sale price (10,000 x 92%)	=	9,200
Less: Brokerage (9,200 x 2%)	=	1,84
Net ex- interest sale price	=	9,016
Interest accrued 10,000 x 5% x 5/12	=	208

(iv) 30.09.01

Ex-Interest purchase price (8,000 x 91/100)	=	7,280
Add: Stamp	=	10
Add: Brokerage (7,280 x 2%)	=	146
		7,436
Interest accrued 8,000 x 5% x 6/12	=	2,00

(v) 30.09.01

Interest 22,000 x 5% x 6/12 = 5,50

(vi) 01.12.01

Cum Interest Sale price (6,000 x 94%)	=	5,640
Less: Interest accrued		
(6,000 x 5% x 2/12)	=	50
Ex- interest price		5,590
Less: Brokerage (5,640 x 2%)	=	1,13
Net sale price	=	5,477

Problem 5.

Tee Ltd. purchased on 1st May, 1997 13.5% Convertible Debentures in Dee Ltd. of face value of ₹ 5,00,000 @ 105; Interest on the debentures is payable each year on 31st March and 30th Sept. The accounting year adopted by Tee Ltd. is the calendar year.

The following other transactions were entered into in 1997 by Tee Ltd. in regard to these debentures:

August 1	Purchased ₹ 2,50,000 Debentures @ 107 cum interest.
Oct. 1	Sale of ₹ 2,00,000 Debentures @ 103.
Dec. 31	**Receipt of 10,000 Equity Shares in Dee. Ltd**. of ₹10 each in conversion of 20% of the Debentures held.

The market value of the Debentures and Equity shares in Dee. Ltd. at the end of 1997 was 106 and ₹15 respectively.

Prepare the Debenture Investment Account in the books of Tee Ltd. on Average Cost basis.

Solution *Debenture Investment Account in the books of Tee Ltd.*

Date	Particulars	F.V	Interest	Price	Date	Particulars	F.V	Interest	Price
1.5	To Bank	5,00,000	5,625	5,25,000	30.9	By Bank		50,625	
1.8	To Bank	2,50,000	11,250	2,56,250	1.10	By Bank	2,00,000	-	2,06,000
					31.12	By Equity shares in Dee Ltd. $1{,}10{,}000 \times 13.5\% \times 3/12$	1,10,000	3,713	1,50,000
31.12	To P/L		52,313	33,083					
						By Balance c/d	4,40,000	14,850	4,58,333
		7,50,000	**69,188**	**8,14,333**			**7,50,000**	**69,188**	**8,14,333**

Working Notes:-

(i) 01.05

Ex Interest (assume) 5,00,000 ×105% = 5,25,000

$$\text{Interest} = 5{,}00{,}000 \times 13.5\% \times \frac{1}{12} \quad = \quad 5{,}625$$

(ii) 1.8 Cum Interest 2,50,000 × 107% = 2,67,500

$$Less: \text{Interest} = 2{,}50{,}000 \times 13.5\% \times \frac{4}{12} \quad = \quad 11{,}250$$

Ex Interest = 2, 56,250

(iii) 30.09

Interest accrued

7,50,000 × 13.5 × 6/12 = 50,625

(iv) 01.10

Ex- interest 2,00,000 x 103% = 2,06,000

(v) Add: Interest (2,00,000 × 13.5%× 0/12) = 0

(v) 31 Dec.

Investment in Equity Share A/c ……Dr 1, 50,000

To Investment in Debenture 1, 50,000

(vi) Fair value of share = 10,000 × 15 = 1,50,000

(vii) Interest on Debenture converted in shares will be received in cash up to the date of conversion on the portion (Face value) of Debenture converted.

(7,50,000 – 2,00,000) × 20% = 1,10,000 × 13.5% 3/12 = 3,713

(vi) Interest accrued on December Balance

4,40,000 × 13.5% × 3/12 = 14,850

(vii) Carrying Amt at end

(a) MP = 4,40,000 × 106% = 4,66,400

(b) Cost as per Avg. Cost basis

$$Total \quad \frac{7,81,250}{7,50,000} \times 4,40,000 = 4,58,333$$

(whichever is lower)

Carrying Amt. = 4,58,333

Problem. 6

Mr. Chatur had 12% debentures of face value ₹ 100 of M/S Unnati ltd as current investment.

He provides the following details relating to the investments.

1.04.14	Opening balance 4,000 debentures costing 98 each
1.06.14	Purchased 2,000 debentures @ 120 cum interest
1.09.14	Sold 3,000 debentures @ 110 cum interest
1.12.14	Sold 2,000 debentures @ 105 ex interest
31.1.15	Purchased 3,000 debentures @ 100 ex interest
31.3.15	Market value of the investment @ 105each

Interest due dates are 30th June and 31st December. Mr. Chatur closes his books on 31.3.15. He incurred 2% brokerage for all his transactions.

Show investment account in the books of Mr. Chatur assuming FIFO method is followed.

[May-2015, 8 Marks]

Solution

Investment in 12% debentures of M/s Unnati Ltd A/c (in Chatur's Books)

Date	Particulars	₹ FV	₹ Int.	₹ Cost	Date	Particulars	₹ FV	₹ Int.	₹ Cost
01.04.14	To bal. b/d	4,00,000	-	(4,000x98) 3,92,000	30.06.14 Intrecd	By Bank (WN 1b)	-	36,000	-
01.06.14	To Bank (WN 2)	2,00,000	10,000	2,34,800	01.09.14	By Bank (WN 3)	3,00,000	6,000	3,17,400
01.09.14	To P&L-profit transfer	-	-	23,400	01.12.14	By Bank (WN 3)	2,00,000	10,000	2,05,800
31.01.15	To Bank (100 + 2%)	3,00,000	3,000	3,06,000	01.12.14	By P&L- loss transfer	-	-	9,600
31.03.15	To P&L Int. transfer	-	45,000	-	31.12.14 Intrecd	By Bank (WN 1c)	-	6,000	-
					31.03.15	By P&L (WN 4)	-	-	3,400
					31.03.15	By bal. c/d	4,00,000	-	4,20,000
	Total	**9,00,000**	**58,000**	**9,56,200**		**Total**	**9,00,000**	**58,000**	**9,56,200**

Working Notes: ***1. Computation of Interest @ 12% on various dates***

	Date	Particulars	FV (₹)	Period (months)	Interest Amount @ 12% p.a. (₹)
(a)	01.06.14	Interest on Cum-interest Purchase (2000X100)	2,00,000	5	10,000
(b)	30.06.14	Interest received on Holding (4,00,000+2,00,000)	6,00,000	6	36,000
(c)	01.09.14	Interest on Cum-Interest Sale (3,000x100)	3,00,000	2	6,000
(d)	01.12.14	Interest on Ex- Interest sale (2,000x100)	2,00,000	5	10,000
(e)	31.12.14	Interest received on Holding (6,00,000-5,00,000)	1,00,000	6	6,000
(f)	31.01.15	Interest on Ex- Interest Purchase (3,000x100)	3,00,000	1	3,000

2. Computation of cost of Purchase

Particulars	₹
Purchase Value (2,000 x 120 + Brokerage @ 2% of 2,40,000)	2,44,800
Less: Interest(WN 1a) (2,000 x 100 x 12% x 5/12)	10,000
Cost of Debenture	2,34,800
Cost per Debenture (2,34,800/2,000)	117.40

3. Computation of Profit or (Loss) on Sale

Particulars	Cum Interest Sale 01.09.14	Ex- Interest Sale 01.12.14
Sale proceeds	(3,000 × 110) – 2% Brokerage =3,23,400	(2,000 × 105) – 2% Brokerage = 2,05,800
Less: Interest (for cum int. sale)	(WN 1c) = 6,000	N.A
Net Sale Proceeds	3,17,000	2,05,800
Less: Cost of Debentures	Out of OB, i.e. (3,000 × 98)= 2,94,000	(On FIFO Basis) (1,000 × 98) +(1,000 × 117.4) = 2,15,400
Profit / (Loss) on sale	**Profit = 23,400**	**Loss = (9,600)**

4. *Valuation of Current Investment:*

- ✓ As on 31.03.15 cost = 4,23,400, computed by balancing the A/c or [(1,000 × 117.40) + (3,000 × 102)].
- ✓ However, Market Value = 4,000 × 105 = 4,20,000, which is lower than cost
- ✓ Hence, Market Value is considered for Inventory Valuation
- ✓ Loss on Valuation (being Current Investment) is transferred to P & L.

Problem. 7

The following information is presented by Mr. Z, relating to his holding in 9% Central Government Bonds. Opening balance (face value) ₹ 1,20,000, Cost ₹ 1,18,000 (Face value of each unit is ₹ 100).

1.3.2008	Purchased 200 units, ex-interest at ₹ 98.
1.7.2008	Sold 500 units, ex-interest out of original holding at ₹ 100.
1.10.2008	Purchased 150 units at ₹ 98, cum interest.
1.11.2008	Sold 300 units, ex-interest at ₹ 99 out of original holdings.

Interest dates are 30th September and 31st March. Mr. Z closes his books every 31st December. Show the investment account as it would appear in his books. Mr. Z follows FIFO method.

Solution

In the Books of Mr. Z
9% Central Government Bonds (Investment) Account

Particulars		*Face Value*	*Interest*	*Cost*	*Particulars*		*Face Value*	*Interest*	*Cost*
2008		₹	₹	₹	**2008**		₹	₹	₹
Jan. 1	To bal. b/d	1,20,000	2,700	1,18,000	March 31	By Bank A/c	-	6,300	-
March 1	To Bank A/c	20,000	750	19,600					
July 1	To P/L A/c	-	-	833	July 1	By Bank A/c By Bank A/c	50,000	1,125	50,000
Oct. 1	To Bank A/c	15,000	-	14,700	Sept. 30	By Bank A/c By Balance c/d	-	4,050	-
Nov. 1	To P & L A/c	-	-	200	Nov. 1		30,000	225	29,700
Dec. 31	To P & L A/c (Transfer)	-	9,938	-	Dec. 31		75,000	1,688	73,633
		1,55,000	**13,388**	**1,53,388**			**1,55,000**	**13,388**	**1,53,388**

Working Note:

Calculation of closing balance:	*Units*		₹
Bonds in hand remained in hand at 31st December 2008			
From original holding (1,20,00 – 50,000 – 30,000)=	40,000	$\frac{1,18,000}{1,20,000} \times 40,000 =$	39,333
Purchased on 1st March	20,000		19,600
Purchased on 1st October	15,000		14,700
	75,000		73,633

Problem 8.

Bonanza Ltd. On 1st April 1993 ₹ 2,00,000 of 9% Government loan (2003) at ₹ 1,90,000. (Face value of loan ₹ 100 each). Three months interest had accrued on the above date. On 31st May, 1993 the company purchased the same Government loan of the face value of ₹ 80,000 at ₹ 95 (net) cum interest. On 1st June 1993 ₹ 60,000 face value of the loan was sold at ₹ 94 (net) ex-interest. Interest on the loan was paid each year 30th June and 31st December and was credited by the bank on the same date.

On the 30th November 1993, ₹40,000 face value of the loan was sold at ₹ 97 (net) cum interest. On 1st December 1993 the company purchased the same loan ₹ 10,000 at par ex interest.

On 1st March 1994 the company sold ₹ 10,000 face value of the loan at ₹ 95 ex-interest. The market price of the loan on 31st March 1994 was ₹ 96.

Draw up the 9% Government loan (2003) Account in the books of Bonanza Limited. First in first out method shall be followed and the balance of the loan held by the company shall be valued at total average costs or market price whichever is lower Calculation shall be made to the nearest rupee or multiple thereof.

Solution

In the books of Bonanzaa Ltd.

9% Government Loan (2003) Account

Dr. **(Interest payable on 30th June and 31st December)** Cr.

Date	Particulars	Nominal Value ₹	Interest Amount ₹	Principal	Date	Particulars	Nominal Value ₹	Interest Amount ₹	Principal
1993 April 1	To Balance b/d	2,00,000	4,500	1,90,000	1993				
					June 1	By Bank A/c	60,000	2,250	56,400
					June 30	By Bank A/c			
May. 31	To Bank A/c	80,000	3,000	73,000		(Interest for 6 months)	—	9,900	—
Dec. 1	To Bank A/c	10,000	375	10,000	Nov. 30	By Bank A/c	40,000	1,500	37,300
1994					1994	By Bank A/c			
						(Interest for	—	8,550	—
Mar. 31	To Income from Invest -ment A/c	—	18,525	—	Mar. 1	6 months)			
						By Bank A/c	10,000	150	9,500
					Mar. 31	By P. & L. A/c		—	1,300
						(Loss on sale)	—		
					Mar. 31	By Balance c/d	1,80,000	4,050	1,68,500
		2,90,000	**26,400**	**2,73,000**			**2,90,000**	**26,400**	**2,73,000**

Working Note

(i) ***1.4.1993***

= 2,00,000 × 9% × 3/12 = ₹ 4,500

(ii) ***31.5.1993***

Cost price cum interest quotation=80,000/100 × 95 = ₹ 76,000

Less: Interest accrued (F.V ×R ×T) = 3,000

(80,000 ×9% ×5/12) 73,000

Net Cost price

(iii) ***1.6.1993***

Cost price = 60,000 × 94/100

= ₹ 56,400

Interest accrued = 60,000 ×9% ×5/12 = ₹ 2,250

(iv) ***30.6.1993***

Interest = 2,20,000 ×9% ×6/12 = ₹ 9,900

(v) ***30.11.1993***

Cum Interest Quotation price = 40,000 × 97% = ₹ 38,800

Less:- Interest accrued (40,000 × 9% × 5/12) = ₹ 1,500

Ex Interest Quotation price = ₹ 37,300

(vi) ***1.12.1993***

Interest accrued = 10,000 ×9% ×5/12 = ₹ 375

31.12.1993

Interest accrued = [(2,00,000 +80,000+10,000)] –(60,000+40,000)]×9%×6/12 =₹ 8,550

(vii) ***1.3.1994***

Ex Interest Quotation = 10,000 ×95% = ₹ 9,500

Interest accrued = 10,000 ×9% ×2/12 = ₹ 150

(viii) Interest accrued on 31.3.2014= ₹ 1,80,000 × 9% × 3/12=₹ 4,050

	Normal Value	**Actual Lost**	**Market Value**
Balance of Opening Stock	90,000	85,500	86,400
Balance of May 2013 (Purchases)	80,000	73,000	76,800
Balance out of Dec 2013 (Purchases)	10,000	10,000	9,600
	1,80,000	**1,68,500**	**1,72,800**

Problem 9.

Mr. Madhukant held 100 6% Stock @ ₹ 102 on 1-1-2002 on which interest is payable half-yearly on 30th June and 31st December. The following were his transactions in the same Stock during the year ended on 31-12-2002:

01-03-2002 Bought	200 Stock ex-interest	@ ₹ 104
31-08-2002 Sold	100 Stock ex-interest	@ ₹ 106
01-10-2002 Bought	300 Stock cum-interest	@ ₹ 105
30-11-2002 Sold	200 Cum-interest	@ ₹ 107

Assuming brokerage @ ¼ % draw up the Investment Account in the books of Mr. Madhukant. Calculate profit/loss on sale on the basis of average cost. Ignore Income- Tax and Stamps duty.

Solution

Investment A/c in the books of Madhukant

Date	**Particulars**	**FV**	**Interest**	**Price**	**Date**	**Particulars**	**FV**	**Interest**	**Price**
1.1	To Balance b/d	10,000	-	10,200	30.6	By Bank	-	900	-
1.3	To Bank	20,000	200	20,852	31.8	By Bank	10,000	100	10,573
1.10	To Bank	30,000	450	31,129	30.11	By Bank	20,000	500	20,846
				62,181	31.12	By Bank	-	900	-
31.12	To P/L A/c	-	1,750	329	31.12	By Bal c/d	30,000	Nil	31,091
		60,000	**2,400**	**62,510**			**60,000**	**2,400**	**62,510**

Working Notes-

$$\text{Average Cost} = \frac{62,181}{60,000} \times 30,000 = 31,091$$

Market at end	Not given
Carrying Amount	31,091

Problems based on Investment in Equity Shares

Problem 10.

Mr. X purchased 500 equity shares of ₹ 100 each in the Omega Company Ltd. for ₹ 62,500 inclusive of brokerage and stamp duty. Some years later the company resolved to capitalize its profits and to issue to the holders of equity shares, one equity share for every share held by them. Prior to capitalization, the shares were quoted at ₹ 92.50 per share Prepare the Investment Account in 'X's books on average cost basis. Apply Average Method. ***[Nov. - 2003]***

Solution

Investment in shares of omega Ltd.

Particular	**No.**	**Amt.**	**Particular**	**No.**	**Amt.**
To Bank @ 125	500	62,500	By Balance c/d	500	62,500
	500	**62,500**		**500**	**62,500**
To Balance b/d	500	62,500	By Balance c/d @ 62.5	1,000	62,500
To Bonus Share	500	-			
Total	**1,000**	**62,500**	**Total**	**1,000**	**62,500**

Carrying Cost

(a) MP = Not applicable

(b) Cost = 62,500

Carry Amt. = 62,500 (whichever is lower)

Problem 11.

Mr. X purchased 500 equity shares of ₹ 100 each in the Omega Company Ltd. for ₹ 62,500 inclusive of brokerage and stamp duty on cum right basis. Later the company announced right issue @ one equity share for every share held by them. X accepted 50% of right share and sold 50% right shares. The share of Omega Co. Ltd. were quoted at ₹ 110 per share per right and the share were quoted at ₹ 92.50 per shares after right issue. Mr. X, sold the right @ ₹ 10 per right share and paid at ₹ 80 per share as subscription charges for his 50% shares.

Prepare Investment account on average cost basis valuation.

Solution

Right Share Ratio = 1:1

Existing = 500 share = $\text{Cost} = \frac{62,500}{500} = 125 / share$

Right to purchase =

500 share	
Sale of Right 50% 250 × 10 = ₹ 2,500	Purchases 50% 250 × 80 = ₹ 20,000

Purchases

Investment A/c ……………..Dr. 20,000

To Bank 20,000

Sales of Rights

Since, old share on which Right is received were purchase at ₹125/share $\left(\frac{62{,}500}{500}\right)$ ***now, after the issue of Right share Market price reduced to 92.5***

Total loss = 500 share × 32.5 (125 – 92.5) = 16,250

Sale of Right = ₹ 2,500

Investment in share A/c

Particular	**No.**	**Amt.**	**Particular**	**No.**	**Amt.**
To Bank@ 125	500	62,500	By Bank (250 × 10)	-	2,500
To Bank @ 80	250	2,0000	By P/L A/c (loss)		10,625
			By Balance c/d	750	69,375
	750	**82,500**		**750**	**82,500**

<u>Working Note:-</u>

Cost at end = 62,500 + 20,000 – 2,500 = 80,000

Market value at end = 750 × 92.5 = 69,375

Carrying amount (whichever is lower) = 69,375

Problem 12.

Ram held 5000 equity shares of ₹ 10 each purchased at ₹ 13 each on July 1, he purchased 1000 shares @ 20 each. On October he receive bonus of 1 : 1. On January 1, he sold 2000 equity shares @ ₹ 18 each on March 1, received dividend ₹ 2000. Market value of shares on March 31 is ₹ 17 per share. Prepare, Investment account (April -March).

Solution

	Particulars	**No.**	**Div.**	**Amt.**	**Date**	**Particulars**	**No.**	**Div.**	**Amt.**
1.4	To Balance b/d @ 13	5,000		65,000	1.1	By Bank @ 18	2,000		36,000
1.7	To Bank @ 20	1,000		20,000	1.3	By Bank	-	2,000	-
	To Bonus	6,000		-	31.3	By Balance c/d	10,000		70,833
1.10	To P/L		2,000	21,833					
		12,000	**2,000**	**1,06,833**			**12,000**	**2000**	**1,06,833**

If the sources of Dividend from which it was declared is not given always assume dividend as revenue income.

<u>Working Notes:-</u>

M.P. = 10,000 × 17 = 1,70,000

$$\text{Cost} = \frac{65{,}000 + 20{,}000}{12{,}000} \times 10{,}000 = \quad 70{,}833$$

Carrying Amount = 70,833

Problem 13.

Ram purchase 10,000 equity Shares of ₹ 10 on April 1, 2002 @ ₹ 15 each on July 1, he again purchased 2,000 shares @ ₹ 20 each on Oct 1, 2002 company declared and paid dividend for the year 2001 - 2002 @ 10%. On January 1, he sold 2,000 shares @ ₹ 15 each. Market value on March 31 is ₹ 12 per share. Prepare Investment accounts.

Solution

Investment Accounts

Date	Particular	No.	Div.	Amt.	Date	Particular	No.	Div.	Amt.
10.4	To Bank @ 15	10,000		1,50,000	1.10	By Bank			12,000
1.7	To Bank @ 20	2,000		40,000	1.1	By Bank @ 15	2,000		30,000
31.3	To P/L				31.3	By P/L			28,000
						By Balance c/d	10,000		1,20,000
		12,000		**1,90,000**			**12,000**		**1,90,000**

At Cost

Dividend received = 12,000 x (10 x 10%) = 12,000

If out of profit earned prior to acquisition of shares → Recovery of high cost paid

If out of profit earned after date of purchase → Revenue Income

In this question, profit earned is before the date of purchase of shares, therefore dividend will be recovery of cost.

Bank……………………………………………………………………Dr.

To Investment A/c

Working Notes:-

M.P. 10,000 × 12 = 1,20,000

$$Cost\left(\frac{1{,}50{,}000 + 40{,}000 - 12{,}000}{12{,}000}\right) = 1{,}48{,}333$$

Carrying Amount = 1,20,000 (whichever is lower)

Problem 14.

Ram acquired 5000 shares @ ₹ 10 each on 10-1-2001 company declare a right issue @ ₹ 15 per share, market value on that date ₹ 25 per share. Right ratio is 1:1 Ram sold 50% of his right in favour of Shyam for ₹ 2 each. Market; price post right was ` 20 per share. Journalize.

Solution

Total Right Share to be issued = $5000 \times \frac{1}{1} = 5{,}000\,share$

Sale of right 50% = 2500 share

Purchase of balance = 2500 share

Particulars	Dr.	Cr.
(i) Purchase of share Investment in share a/c…………........Dr. To Bank a/c (5000 × 10)	50,000	50,000
(ii) Sale of Right Bank a/c……………. ………….......Dr. To income from sale of Right (2500 × 2)	5,000	5,000
(iii) Purchase of Right Share Investment in Equity share……Dr. To Bank	37,500	37,500

<u>Working Note:-</u>

Sale of Right

Original cost = 10

MP before issue = 25

MP after issue = 20

Since MP Right issue is higher than original cost of share therefore, sale of Right revenue income not treated recover as of cost.

Problem 15.

On 1.1.2001 Sri Devi purchased 500 Equity Share of ₹ 100 each in Reliance Ltd. @ ₹ 120 each from a Broker who charged 2%. She incurred 50 Paise per ₹ 100 as cost of shares transfer stamps. On 30.11.2001 bonus was declared in the ratio of 1:2. Before and after the record date of bonus Shares, the shares were quoted at ₹ 175 per Share and ₹ 90 per Share. On 31.12.2001 Sri Devi sold bonus Shares to a Broker who charged 2%.

<u>Required :</u> Show the investment Account in the books of Sri Devi who held the Shares as Current Assets.

Solution

Investment A/c in the Books of Sri Devi
For the year ending on 31st Dec. 2001
[Scrip: Equity Shares of Reliance Ltd.]

Date	Particulars	Nominal Value	Price	Date	Particulars	Nominal Value	Price
01.01.01	To Bank A/c	50,000	61,500	31.12.01	By Bank A/c	25,000	22,050
30.11.01	To Bonus Sh.	25,000	––	31.12.01	By Balance c/d	50,000	41,000
31.12.01	To P & L A/c	––	1,550				
		75,000	**63,050**			**75,000**	**63,050**

Working Notes:

(i) Cost of Equity Shares purchased on 1st Jan.

= 500 × ₹120 + 2% of ₹ 60,000 + 0.5 % of ₹ 60,000 = ₹ 61,500

(ii) Sale proceeds of Equity Shares sold on 31st Dec.

= 250 × ₹ 90 – 2% of ₹ 22,500 = ₹ 22,050

(iii) Profit on sale of Bonus shares on 31st Dec.

= Sale Proceeds – Average cost = ₹ 22,050 – (₹ 61,500 × 25,000 / 75,000)

= ` 1,550

(iv) Valuation of Equity Shares on 31st Dec.

Cost = (₹ 61,500 × 50,000/75,000) = ₹ 41,000

Market value = 500 × ₹ 90 = ₹ 45,000

Closing Balance has been valued at ₹ 41,000 lower than the market value.

Problem 16.

On 1.4.2002, Mr. Krishna Murty purchased 1,000 equity shares of ₹ 100 each in TELCO Ltd. @ ₹ 120 each from a Broker, who charged 2% brokerage. He incurred 50 paise per ₹ 100 as cost of shares transfer stamps. On 31.1.2003 Bonus was declared in the ratio of 1 : 2. Before and after the record date of bonus shares, the shares were quoted at ₹ 175 per share and ₹ 90 per share respectively.

On 31.3.2003 Mr. Krishna Murty sold bonus shares to a Broker, who charged 2% brokerage.

Show the Investment Account in the books of Mr. Krishna Murty, who held the shares as Current assets and closing value of investments shall be made at Cost or Market value whichever is lower.

[Nov-2003, 10 Marks]

Solution ***In the books of Mr. Krishna Investment Account for the year ended 31st March, 2003 (Scrip: Equity Shares of TELCO Ltd.)***

Date	Particulars	N.V. (₹)	Cost (₹)	Date	Particulars	N.V. (₹)	Cost (₹)
1.4.2002	To Bank A/c	1,00,000	1,23,000	31.3..2003	By Bank A/c	50,000	44,100
31.1.2003	To Bonus shares	50,000		31.3.2003	By Bal. b/d	1,00,000	82,000
31.3.2003	To P/L A/c		3,100				
		1,50,000	**1,26,100**			**1,50,000**	**1,26,100**

Working Notes

(i) Cost of equity shares purchased on 1.4.2002 = 1,000 × ₹ 120 + 2% of ` 1,20,000 + 1/2% of ₹1,20,000 = ₹ 1,23,000

(ii) Sale proceeds of equity shares sold on 31st March, 2003 = 500 × ₹ 90 - 2% of ₹ 45,000

= ₹ 44,100.

(iii) Profit on sale of bonus shares on 31st March, 2003 = Sales proceeds - Average cost

Sales proceeds = ₹ 44,100

Average cost = ₹ 1,23,000 × 50,000/1,50,000

= ₹ 41,000

Profit = ₹ 44,100 - ₹ 41,000 = ₹ 3,100.

(iv) Valuation of equity shares on 31st March, 2003

Cost = (₹ 1,23,000 × 1,00,000/1,50,000 = ₹ 82,000)

Market Value = 1,000 shares x ₹ 90 = ₹ 90,000

Closing balance has been valued at ₹ 82,000 being lower than the market value.

Problem 17.

On 1st April, 2008, Mr. Neel purchased 5,000 equity shares of ₹ 100 each in X Ltd. @ ₹ 120 each from a Broker, who charged 2% brokerage. He incurred ½% as cost of shares transfer stamps. On 31st January, 2009, Bonus was declared in the ratio of 1 : 2 Before and after the record date of bonus shares, the shares were quoted at ` 175 per share and ` 90 per share respectively. On 31st March, 2009, Mr. Neel sold bonus shares to a broker, who charged 2% brokerage.

Show the investment Account in the books of Mr. Neel, who held the shares as current assets and closing value of investments shall be made at cost or Market value, Whichever is lower.

[May-2009, 8 Marks]

Solution

Investment Account in the books of Mr. Neel
For the year ended 31st March, 2009
(Scrip: Equity Shares of X Ltd.)

Dr. **Cr.**

Date	Particulars	Nominal value (₹)	Cost (₹)	Date	Particulars	Nominal Value (₹)	Cost (₹)
1.4.08	To Bank (W.N.1)	5,00,000	6,15,000	31.3.09	By Bank A/c (W.N. 4)	2,50,000	2,20,500
31.01.09	To Bonus Shares	2,50,000					
31.03.09	To Profit and Loss A/c (W.N.3)	-	15,500	31.3.09	By Balance c/d (W.N.4)	5,00,000	4,10,000
		7,50,000	**6,30,500**			**7,50,000**	**6,30,500**

Working Notes

1. Calculation of cost of equity shares purchased on 1.4.08

   = 5,000 × ₹ 120 – 2% of ₹6, 00,000 + $\frac{1}{2}$% of ₹ 6, 00,000 = ₹ 6, 15,000

2. Calculation of profit proceeds of equity shares sold on 31.3.09

   = 2,500 × ₹ 90 – 2% of ₹ 2, 25,000 = ₹ 2, 20,500

3. Calculation of profit on sale of bonus shares on 31.3.09

   = Sale proceeds – Average cost

   = 2, 20,500 – 2, 05,000 i.e. $\left(Rs.6{,}15{,}000 \times \frac{2{,}50{,}000}{7{,}50{,}000}\right) = Rs.15{,}500$

4. Valuation of equity shares on 31.3.09

   Cost = 6, 15,000 $\times \frac{5{,}00{,}000}{7{,}50{,}000} = Rs.4{,}10{,}000$

Market value = 5,000 shares × ₹ 90 = ₹ 4, 50,000

Closing Balance has been valued at ₹ 4, 10,000 i.e. at cost which is lower than the market value.

Problem 18.

MY Ltd. had acquired 200 equity shares of YZ Ltd. at ₹ 105 per share on 01.01.2009 and paid ₹ 200 towards brokerage, stamp duty and STT. On 31st March, 2009 Shares of YZ Ltd. were traded at ₹ 110 per share. At what value investment is to be shown in the Balance Sheet of MY Ltd. as at 31st March, 2009.

[Nov-2009, 2 Marks]

Solution

Calculation of cost of investment

Particular	(₹)
Purchase price of Equity shares of YZ Ltd. (200 shares × ₹105 per share)	21,000
Add: Brokerage , stamp duty and STT	200
Cost of investment	**21,200**

If the investment is a long term investment then it will be shown at cost. So that value of investment will be ₹ 21,200. However, if the investment is a current investment, it will be shown at lower of cost (i.e. ₹ 21,200) or net realizable value (i.e. ₹ 200 × 110 = ₹ 22,000). Therefore value of investment will be ₹ 21,200.

Problem 19.

On 1st April, 2010, Rajat has 50,000 equity shares of P Ltd., at a book value of ₹ 15 per share (face value ₹ 10 each). He provides you the further information:

(1) On 20th June, 2010 he purchased another 10,000 shares of P Ltd. at ₹ 16 per share.

(2) On 1st August, 2010, P Ltd. issue one equity bonus share for every Six shares held by the shareholders.

(3) On 31st October, 2010 the directors of P Ltd. announced a right issue which entitle the holders to subscribe three shares for every seven shares at ₹ 15 per share. Shareholders can transfer their rights in full or in part.

Rajat sold 1/3rd of entitlement to Umang for a consideration of ₹ 2 per share and subscribe the rest on 5th November, 2010.

You are required to prepare Investment A/c in the books of Rajat for the year ending 31st March, 2011.

[May- 2011, 5 Marks]

Solution

Investment A/c

Date	Particulars	No. of Share	Div.	Amount (₹)	Date	Particulars	No. of Share	Div.	Amount (₹)
1.4.10	To Bank b/d	50,000	-	7,50,000	5.11.10	By Bank	-	20,000	-
20.6.10	To Balance b/d	10,000	-	1,60,000					
1.8.10	To Bonus Shares	10,000	-	-	31.3.10	By Bal. c/d	90,000	-	12,10,000
	To P/L A/c								
5.11.10	(b/f)	20,000	-	3,00,000					
31.3.10		-	20,000	-					
		90,000	**20,000**	**12,10,000**			**90,000**	**1,000**	**12,10,000**

Valuation of investment

$$\text{Average cost basis} = \frac{7{,}50{,}000 + 1{,}60{,}000 + 3{,}00{,}000}{90{,}000} \times 90{,}000 = 12{,}10{,}000$$

Problem 20.

Rose Ltd. had made an investment of ₹ 500 lakhs in the equity share of Nose Ltd. on 10.01.2009. The realisable value of such investment on 31.03.2009 became ₹ 200 lakhs as Nose Ltd. lost a case of patent rights. Rose Ltd. follows financial year as accounting year. How will you recognize this reduction in Financial statements for the year 2008-09. ***[Nov-2009, 2 Marks]***

Solution

1. If current Investment

   Valuation lower of

   (i) Cost = 500L

   (ii) MP = 200L

   Carrying Amount = 200L

2. Permanent Investment
   - ✓ Valuation at cost
   - ✓ If since loss of patents is a long lasting effect
   - ✓ Therefore reduction in MP of Investment may be assumed as permanent decline in value.
   - ✓ Therefore value the investment at ₹ 200 lakhs.

Problem 21.

On 1.4.96 Sundar Lal has had 25,000 equity shares of X Ltd. At a book value of ₹15 per share (face value ₹ 10). On 20.6.96 the purchased another 5,000 shares of the company at ₹ 16 per share. The director of X Ltd. Announced a bonus and right issue. No dividend way payable on these issues.

The terms of the Issue are as follows:

Bonus basis 1 : 6 (date 16/8/96)

Right basis 3 : 7 (date 31.8.96) Price ₹ 15 per share

Due date of payment 30.9.96

Shareholders can transfer their right in full or in part. Accordingly Sundar sold 33 1/3% of his entitlement to Sekhar for consideration of ₹ 2 per share. Due date of payment 30.9.96.

Dividends for the year ended 31.3.96 at the rate of 20% were declared by X Ltd. And received by the Sunder on 31.10.96 Dividends for shares acquired by him on 20.6.96 are to be adjusted against the cost of purchase. On 15.11.96 sunder sold ₹ 25,000 equity shares at premium of ₹ 5 per share.

You are required to prepare in the books of Sundar. (1) Investment account (2) P & L Account. For your exercise, assume that the books are closed on 31/12/96 and shares are valued at average cost.

Solution

Investment A/c for the year ending on 31st Dec. 2001
[Equity Shares in X Ltd.]

Date	Particulars	No.	Divi.	Amount	Date	Particulars	No.	Divid.	Amount
01.04.01	To Bal. b/d	25,000		3,75,000	30.09.01	By Bank (Sale of right		10,000	
20.06.01	To Bank	5,000		80,000					
16.08.01	To Bonus	5,000		-	31.10.01	By Bank (divid. on		50,000	10,000
30.09.01	To Bank	10,000		1,50,000		on shares acquired			
	(Rights shares)					on 2nd June)			
15.11.01	To P & L A/c		60,000	44,444	15.11.01	By Bank			
						(Sale of shares)	25,000		3,75,000
					31.12.01	By Balance c/d	20,000		2,64,444
		45,000	**60,000**	**6,49,444**			**45,000**	**60,000**	**6,49,444**

P & L A/c (Relevant Extract)

Particulars	***₹***
Dividend Income Profit on sale of Investment	60,000 44,444
	xx

Working Notes:

Bonus Shares $\left[\frac{(25{,}000+5{,}000)}{6}\right]=5{,}000\,\text{Shares}$

Rights Shares $\left[\frac{(25{,}000+5{,}000+5{,}000)}{7}\right]=15{,}000\,\text{Shares}$

Rights shares renounced = [₹ 15,000 × 1/3] = ₹ 5,000 shares

Dividend received [₹ 25,000 × 10 × 20%] = ₹ 50,000

Dividend on share purchased on 20th June = ₹ 5,000 × 10 × 20% = ₹ 10,000 is adjusted to Investment Account.

Cost of Shares on 31st Dec.

$$\left[\frac{(37{,}5000+80{,}000+1{,}50{,}000-10{,}000)}{45{,}000}\times 20{,}000\right]=2{,}64{,}444$$

Problem 22.

On 01-05-2012, Mr. Mishra purchased 800 equity shares of ₹ 10 each in Fillco Ltd. @ ₹ 50 each from a broker who charged 5%. He incurred 20 paisa per ₹ 100 as cost of shares transfer stamps. On 31-10-2012, bonus was declared in the ratio 1 : 4. The shares were quoted at ₹ 110 and ₹ 60 per share before and after the record date of bonus shares respectively. On 30-l1-2012. Mr. Mishra sold the bonus shares to a broker who charged 5%; You are required to prepare Investment Account in the books of Mr. Mishra for the year ending 31-12-2012 and closing value of Investment shall be made at cost or market value whichever is lower.

[Nov-2013, 8 Marks]

Solution

Investment A/c in the books of Mr. Mishra for the year ended 31-12-2012

Date	Particulars	Nominal Value	Price	Date	Particulars	Nominal Value	Price
01-05-12	To Bank	800	42,080	30-11-12	By Bank	200	11,400
31-10-12	To Bonus	200	-		By Balance c/d	800	33,664
	To P/L A/c		2,984				
		1,000	**45,064**			**1,000**	**45,064**

Working Note 1.

Cost of Equity Share:

Purchase Cost (800 × 50)	=	40,000
+ Brokerage @ 5% of 40,000	=	2,000
+ 0.2% of ₹ 40,000	=	80
		42,080

Working Note 2.

Sale proceeds of equity share sold

S.P. = 200 × 60 12,000

Less: Brokerage @ 5% 600

11,400

Working Note 3.

Cost of share = $\dfrac{42,080}{1,000} \times 800$

= 33,664

Net Realizable Value = 800 × 60 = 48,000

Here, Investment is to be shown at cost or NRV whichever is lower.

∴ Value of Investment = 33,664]

Problem 23.

On 1st April 2014, Hasan has 20,000 equity shares of Vayu Ltd., at a book value of ₹ 20 per share (face value of ₹ 10 each). He provides the following information:

(i) On 10th June 2014, he purchased another 5,000 shares in Vayu Ltd., @ ₹ 15 per share.

(ii) On 1st August 2014, Vayu Ltd., issued one bonus share for every five shares held by the shareholders.

(iii) On 31st August 2014, the directors of Vayu Ltd., announced a rights issue which entitle the shareholders to subscribe two shares for every six shares held @ of ₹ 15 per share. The shareholders can transfer their rights in full in part.

Hasan sold 1/4th his right shares holding to Harsh for a consideration of ₹ 3 per share and subscribed the rest on 31st of October.

Prepare Investment A/c in the books of Hasan as on 31st October 2014.

[Nov-2014, 8 Marks]

Solution

Investment in Equity Shares of Vayu Ltd.

Date	Particulars	No.	Income	Principal	Date	Particulars	No.	Income	Principal
1.4.14	To balance b/d @ 20	20,000		4,00,000	31.8	By Bank A/c	-	7,500	
10.6	To Bank A/c @ 15					By Balance c/d	37,500		5,87,500
1.8	To Bonus Shares 25000×1/5	5,000		75,000					
31.10	To Bank A/c @ 15	5,000	7,500	-					
31.10	To P/L A/c	7,500		1,12,500					
		37,500	**7,500**	**5,87,500**			**37,500**	**7,500**	**5,87,500**

Working Note-

(i) Total right to subscribe = 30000 share × 2/6 = 10000 share

(ii) Sale of right = 10,000×1/4×3 = 7,500

(iii) Purchase of shares = 10000×3/4 = 7,500 shares @ 15

Assuming : No reduction in MP due to right issue.

Problem 24.

On 1st April, 2009, XY ltd. has 15, 000 equity shares of ABC Ltd. at a book value of ₹15 per share (face value ₹ 10 per share). On 1st June, 2009, XY Ltd. acquired 5,000 equity shares of ABC Ltd. for ₹ 100,000. ABC Ltd. announced a bonus and right issue.

(1) Bonus was declared, at the rate of one equity share for every five shares held, on 1st July 2009.

(2) Right shares are to be issued to the existing shareholders on 1st September 2009. The company will issue one right share for every 6 shares at 20% premium. No dividend was payable on these shares.

(3) Dividend for the year ended 31.3.2009 were declared by ABC Ltd. @ 20%, which was received by XY Ltd. on 31st October 2009.

XY Ltd.

(i) Took up half the right issue.

(ii) Sold the remaining rights for ₹ 8 per share.

(iii) Sold half of its share holdings on 1st January 2010 at ₹ 16.50 per share. Brokerage being 1%.

You are required to prepare Investment account of XY Ltd. for the year ended 31st March 2010 assuming the shares are being valued at average cost.

[P.M. Page – 12.2]

Problem 25.

A Limited purchased 5,000 Equity Shares (Face Value ₹ 100 each) of Allianz limited for Rs.105 each on 1st April 2014. The Shares were quoted cum dividend. On 15th May 2014, Allianz Limited declared & paid dividend of 2% for year ended 31st March 2014. On 30th June 2014, Allianz Limited issued Bonus Shares in ratio of 1:5. On 1st October 2014, Allianz Limited issued Rights Share in the ratio of 1:12 at ₹ 45 per Share. A Limited subscribed to half of the rights issue and the balance was sold at ₹ 5 per Right Entitlement. The Company declared Interim Dividend of 1% on 30th November 2014, Right Shares were not entitled to Dividend. The Company sold 3,000 Shares on 31st December 2014 at ₹ 95 per Share. The Company A Ltd incurred 2% as Brokerage while buying and selling Shares.

You are required to prepare Investments Account in books of A Ltd.

[Nov-2015, 6 Marks]

Solution *Points for Consideration*

- Sale Proceeds of Rights is to be credited to P & L A/c and not Investment A/c, assuming the Ex-Rights Price is not lower than the Cost of Acquisition.
- Reduce the Dividend on Shares on 15th May 2014 from the cost of acquisition, to arrive at the Net Cost of Shares since it is Pre-Acquisition Dividend.

Working Notes

Particulars	Computation	Result
1. Cost of Purchase	(5,000 × ₹ 105) Add 2% Brokerage	₹ 5,35,500
2. Dividend Received	5,000 × 100 × 2%	₹ 10,000
3. Pre-Acquisition No. of Bonus Share	5,000 ÷ 5	1,000 Shares
4. No. of Rights Shares eligible	(5,000 + 1,000) × 1/12	500 shares
5. No. of Rights shares subscribed	500 × ½ = 250 shares at ₹ 45	₹ 11,250
6. No. of Rights shares Renounced	500 – 250 = 250 Shares at ₹ 5 will be taken to P & L	₹ 1,250
7. Interim Dividend on 30/11/2014	(5,000 +1,000) × ₹ 100 ×1%, will be taken to P & L	₹ 6,000
8. Cost of Shares sold on 31/12/2014	(5,35,500 + 11,250 – 10,000) ×3,000/6,250	₹ 2,57,640
9. Net sale Proceeds for Sale on 31/12/2014	(3,000 Shares × ₹ 95) less Brokerage 2%	₹ 2,79,300
10. Profit on sale of Shares on 31/12/2014	Net Sale Proceeds ₹ 2,79,300 Less Cost ₹ 2,57,640	₹ 21,660

Investment (Equity Shares in Vaikuntam Ltd) Account

Date	Particulars	Shares Nos.	₹	Date	Particulars	Shares Nos.	₹
01/04/14	To Bank (WN 1)	5,000	5,35,500	15/05/14	By Bank (Dvd) (WN		
30/06/14	To Bonus (WN 3)	1,000	-		2)	3,000	10,000
01/10/14	To Bank	250	11,250	31/12/14	By Bank (Sale of		
	(Rights)(WN5)				Shares) (WN 7)	3,250	2,79,300
31/12/14	To P & L – Prft (WN 8)		21,660	31/03/15	By Balance c/d		2,79,110
	Total	6,250	5,68,410		Total	6,250	5,68,410

Mixed Problems based on Investment in Equity and Bonds

Problem 26.

The following transaction of X Investment Ltd. took place during the year ended 31st March, 2002:
2001.

1st April Purchased ₹ 12,00,000 8% bonds @ ₹ 80.5 cum-interest. Interest is payable on 1st Nov. and 1st May

12th April Purchased 1,00,000 Equity Shares of ₹ 10 each in X Ltd. for ₹ 40,00,000.

1st May Received half year's interest on 8% bonds.

15th May X Ltd. made a bonus issue of three Equity Shares for every two held. Investor Ltd. sold 1,25,000 bonus Shares @ ₹ 20 each.

1st July Purchased 50,000 Equity Share of ₹10 each in C Ltd. @ ₹ 7.75 each.

1st Oct. Sold ₹ 3,00,000 8% bonds @ ₹ 81 ex-interest.

1st Nov. Received half year's bond interest.

1st Dec. Received 18% dividend on Equity Share in X Ltd.

2002

1st Jan. C Ltd. made a rights issue of one Equity Share for every two held @ ₹ 5 per sh.Right sold in the market @ ₹ 2.25 per share.

1st March Received 12.5% dividend on Equity Share in C Ltd.

Required: Prepare the relevant investment accounts in the books of Investor Ltd. for the year ended of 31st March, 2002.

Solution

8% Bond A/c

Date	Particular	Nominal	Income	Cost	Date	Particulars	Nominal	Income	Cost
2001 Apr.1	To Bank A/c	12,00,000	40,000	9,26,000	2001 May 1	By Bank A/c	__	48,000	__
					Oct 1	By Bank A/c	3,00,000	10,000	2,43,000
2002 Mar.31	To profit on sale	__	84,000	11,500	Nov.1	By Bank A/c	__	36,000	__
					2002 Mar.31	By Balance c/d	9,00,000	30,000	6,94,500
		12,00,000	**1,24,000**	**9,37,500**			**12,00,000**	**1,24,000**	**9,37,500**

Equity Share in X Ltd

Date	Particular	Nominal	Income	Cost	Date	Particulars	Nominal	Income	Cost
2001 Apr.12	To Bank A/c	10,00,000	__	40,00,000	2001 Mar. 15	By Bank A/c	12,50,000	__	25,00,000
May 15	To Bonus issue A/c	15,00,000	__	__	Dec. 1	By Bank A/c (Dividend)	-	2,25,000	-
2002				__	2002 Mar. 31	By Bank c/d	12,50,000	__	20,00,000
Mar.31	To Interest	__	2,25,000						
	To profit on sale	__	__	5,00,000					
		25,00,000	**2,25,000**	**45,00,000**			**25,00,000**	**2,25,000**	**45,00,000**

Note: It is assumed the bonus shares are entitled for dividend.

Equity Share in C Ltd.

Date	Particular	Nominal	Income	Cost	Date	Particulars	Nominal	Income	Cost
1.7	To Bank A/c @ 7.75	50,000		3,87,500	1.1	By Bank A/c (25,000× 2.5)		56,250	-
	To P & L A/c		1,18,750		1.3	By Bank (50,000× 10) × 12.5%		62,500	
						By c/d	50,000		3,87,500
		50,000	**1,18,750**	**3,87,500**			**50,000**	**1,18,750**	**3,87,500**

Working Notes: Calculation of Profit on Sale

A. Cost per share after Bonus = ₹ 40,00,00 / 25,000 = ₹16.
B. Profit = [(₹ 20 - ₹ 16) × (₹ 1,25,000] = ₹ 5,00,000.

Problem 27.

Mr. Brown has made following transactions during the financial year 2011-12:

Date	Particulars
01.05.2011	Purchased 24,000 12% Bonds of ₹ 100 each at ₹ 84 cum-interest. Interest is payable on 30th September and 31st March every year.
15.06.2011	Purchased 1,50,000 equity shares of ₹ 10 each in Alpha Limited for ₹ 25 each through a broker, who charged brokerage @ 2%.
10.07.2011	Purchased 60,000 equity shares of ₹ 10 each in Beeta Limited for ₹ 44 each through a broker, who charged brokerage 2%.
14.10.2011	Alpha Limited made a bonus issue of two shares for every three shares held.
31.10.2011	Sold 80,000 shares in Alpha Limited for ₹ 22 each.
01.01.2012	Received 15% interim dividend on equity shares of Alpha Limited.
15.01.2012	Beeta Limited made a right issue of one equity share for every four shares held at ₹ 5 per share. Mr. Brown exercised his option for 40% of his entitlements and sold the balance rights in the market at ₹ 2.25 per share.
01.03.2012	Sold 15,000 12% Bonds at ₹ 90 ex-interest.
15.03.2012	Received 18% interim dividend on equity shares of Beeta Limited. Interest on 12% Bonds was duly received on due dates.

Prepare separate investment account for 12% Bonds, Equity Share of Alpha Limited and Equity Shares of Beeta Limited in the books of Mr. Brown for the year ended on 31st March, 2012.

[May-2012, 6 Marks]

Solution

12% Bond

Date	Particulars	FV	Interest	Cost	Date	Particulars	FV	Interest	Cost
1.5.11	To Bank A/c	24,00,000	24,000	19,92,000	30.9.11	By Bank A/c		1,44,000	
1.3.1231. 3.12	To P&L A/c			1,05,000	1.3.12	By Bank A/c	15,00,000	75,000	13,50,000
	To P&L A/c		2,49,000		31.3.12	By Bank A/c		54,000	
					31.3.12	By Bal. c/d	9,00,000		7,47,000
		24,00,000	**2,73,000**	**20,97,000**			**24,00,000**	**2,73,000**	**20,97,000**

Equity shares in Alpha Ltd.

Date	Particulars	FV	Dividend	Cost	Date	Particulars	FV	Dividend	Cost
15.6.2011	To Bank A/c	1,50,000		38,25,000	31.10.12	By Bank A/c	80,000		17,60,000
14.10.2011	To Bonus Share	1,00,000			1.01.2012	By Bank A/c		2,55,000	
	To P & L A/c				31.3.2012	By Bal. c/d	1,70,000		26,01,000
31.3.2011	To P & L A/c			5,36,000					
31.3.2011	(b/f)		2,55,000						
		2,50,000	**2,55,000**	**43,61,000**			**2,50,000**	**2,55,000**	**43,61,000**

Equity Shares in Beeta Ltd.

Date	Particulars	FV	Dividend	Cost	Date	Particulars	FV	Dividend	Cost
10.7.2011	To Bank A/c	60,000		26,92,800	15.1.2012	By Bank A/c		20,250	
15.1.2012	To Bank A/c	6,000		30,000	15.3.2012	By Bank A/c		1,18,800	
31.3.2012	To P&L A/c		1,39,050		31.3.2012	By Bal. c/d	66,000		27,22,800
		66,000	**1,39,050**	**27,22,800**			**66,000**	**1,39,050**	**27,22,800**

Problem 28.

Smart Investments made the following investments in the year 2013-14:

12 % State Government Bonds having face value ₹ 100

Date	Particulars
01.04.2013	Opening Balance (1200 bonds) book value of ₹ 126,000
02.05.2013	Purchased 2,000 bonds @ ₹ 100 cum interest
30.09.2013	Sold 1,500 bonds at ₹ 105 ex interest

Interest on the bonds is received on 30th June and 31st Dec. each year.

Equity shares of X Ltd.

15.04.2013	Purchased 5,000 equity shares @ ₹ 200 on cum right basis Brokerage of 1% was paid in addition (Face Value of shares ₹ 10)
03.06.2013	The company announced a bonus issue of 2 shares for every 5 shares held.
16.08.2013	The company made a rights issue of 1 share for every 7 shares held at ₹ 250 per share. The entire money was payable by 31.08.2013.
22.08.2013	Rights to the extent of 20% was sold @ ₹ 60. The remaining rights were subscribed.
02.09.2013	Dividend @15% for the year ended 31.03.2013 was received 16.09.2013
15.12.2013	Sold 3,000 shares @ ₹ 300. Brokerage of 1% was incurred extra.
15.01.2014	Received interim dividend @ 10% for the year 2013-14
31.03.2014	The shares were quoted in the stock exchange @ ₹ 220

Prepare Investment Accounts in the books of Smart Investments. Assume that the average cost method is followed.

[May-2014, 8 Marks]

Solution

Investment in 12% Debenture Account

Date	Particulars	Nominal Value	Amt.	Income	Date	Particulars	N.V.	Amt.	Income
1.4.2013	To balance b/d	1,200	1,26,000	3,600 (3 month)	30.6.2013	By Bank	-	-	19,200 (6 months)
02.05.2013	To bank	2,000	1,91,978	8,022	30.9.2013	By Bank	1,500	1,57,500	4,500 (3 Marks)
30.9.2013	To profit on sale	-	8,448	-	31.12.2013	By Bank	-	-	10,200 (6 months)
31.3.2014	To P/L	-	-	27,378	31.3.2014	By accrued int. (1,70,000 × 12%×3/12)	-	-	5,100
						By Balance c/d	1,700	1,68,926	-
		3,200	**3,26,426**	**39,000**			**3,200**	**3,26,426**	**39,000**

Investment in shares Account

Date	Particulars	No.	Amount	Date	Particulars	No.	Amount
15.4.2013	To bank (5,000 ×200) + 1%	5,000	10,10,000	30.06.2013	By sale of right (1,000 × 20%)@ 60	-	12,000
03.06.2013	To bonus shares (5,000 × 2/5)	2,000	Nil	02.09.2013	By Pre acquisition dividend (5,000× 10 ×15%)	-	7,500
30.8.2013	To Bank (7,000 × 1/7) - 20%	800	2,00,000	15.12.2013	By Bank (Sold)	3,000	8,91,000
15.12.2013	To profit on sale	-	4,33,115	31.03.2014	By Balance c/d	4,800	7,32,615

Valuation of investment as on 31.03.2014

- Cost of investment as a balancing figure in investment account for 4,800 shares-7,32,615.
- Market value @ 220 per share for 4,800 shares – 10,56,000

∴ Whichever is lower = 7,32,615

Problem 29.

A Ltd. purchased on 1st April, 2015 8% convertible debenture in C Ltd. of face value of 2,00,000 @ 108. On 1st July, 2015 A Ltd. purchased another ₹ 1,00,000 debenture @ ₹ 112 cum interest.
On 1st October, 2015 ₹ 80,000 debenture was sold @ ₹ 105. On 1st December, 2015, C Ltd. give option for conversion of 8% convertible debentures into equity share of ₹ 10 each. A Ltd. receive 5,000 equity share in C Ltd. in conversion of 25% debenture held on that date. The market price of debenture and equity share in C Ltd. at the end of year 2015 is ₹ 110 and ₹ 15 respectively.
Interest on debenture is payable each year on 31st March, and 30th September.
The accounting year .of A Ltd. is calendar year.
Prepare -investment account in the books of A Ltd. on average cost basis.

Solution

1. *Investment in 8% Convertible Debentures of C. Ltd. A/c*

Date	Particulars	Cost	Int.	Date	Particulars	Cost	Int.
01.04.15	To Bank (WN 1a)	2,16,000	-	30.09.15	By Bank (3,00,000 × 8%×1/2)	-	12,000
01.07.15	To Bank (WN lb)	1,10,000	2,000	01.10.15	By Bank (WN 2a)	84,000	-
31.12.15	To P&L A/c - Int tfr	-	10,000	01.10.15	By Loss on Sale (WN 1c)	2,933	-
				01.12.15	By Equity Shares A/c (WN 3)	59,767	-
				31.12.15	By bal. c/d (WN 3)	1,79,300	

	Total	**3,26,000**	**12,000**		**Total**	**3,26,000**	**12,000**

2. Investments in Equity Share of C Ltd. A/c

Date	**Particulars**	**FV**	**Cost**	**Date**	**Particulars**	**FV**	**Cost**
01.12.15	To Debentures A/c (5,000 ES × ₹ 10)	50,000	59,767.	31.12.15	By balance C/d	50,000	59,767
	Total	50,000	59,767		Total	50,000	59,767

Working Notes:

1. Cost of Debentures:

(a) Purchased on 01.04.2015= ₹ 2,00,000 × $\frac{108}{100}$ = ₹ 2 16 000

(b) Purchased on 01.07.2015: Total Amount = ₹ 1,00,000 × 112 = ₹ 1,12,000 100

Interest = ₹ 1,00,000 × 8% × $\frac{3}{12}$ = ₹ 2,000 (for 01.04.15 to 30.06.15)

So, Cost = 1,12,000 - 2,000 = ₹ 1,10,000

2. **Sale of Debenture on 01.10.2015**

(a) Sale Proceeds = ₹ 80,000 × $\frac{105}{100}$ = ₹ 84,000

(b) Average Cost of ₹ 80,000 Debentures = $\frac{2,16,000+1,10,000}{3,00,000}\times 80,000$ = ₹ 86,933

Loss on Sale = ₹ 86,933 - ₹ 84,000 = ₹ 2,933

(c) Conversion into Equity & Balance Sheet Valuation

Note: Cost of Debentures held before conversion = ₹ 3 26 000 - ₹ 86,933 = ₹ **2,39,067**

Particulars	**Cost**	**Market Value at Year End**	**B/S Value**
25% Converted into Shares	2,39,067 × 25% = 59,767	5,000 Shares × ₹ 15 = 75,000	₹ 59,767
75% held as Debentures	2,39,067× 75% = ₹ 1,79,300	₹ 2,20,000 Deb×75%× 110/100 =1,81,500	₹ 1,79,300

AS-13 based Problems

Problem 30.

Mention two categories' of investments defined by AS 13 and also State their valuation principles.

[Nov-2008, 2 Marks]

Solution

As per AS-13, Investment is the asset held for earning income by way of dividend, interest and rentals for capital appreciation or for other benefits.

1.	Current Investments Valuation Principle	Lower of cost or Net Realizable value

Note: If realizable value of investment is increased subsequently, then the increase in value of current investment to the lower of the cost is credited to P & L A/c.

2.	Long term Investment Valuation Principles	Cost less permanent diminution in the value of investments.

Problem. 31

Blue-chip Equity Investments Ltd., wants to re-classify its investments in accordance with AS 13.

(i) Long term investments in Company A, costing ₹ 8.5 lakhs are to be re-classified as current. The company had reduced the value of these investments to 6.5 lakhs to recognize a permanent decline in value. The fair value on date of transfer is ₹ 6.8 lakhs.

(ii) Long term investments in Company B, costing ₹ 7 lakhs are to be re-classified as current. The fair value on date of transfer is ` 8 lakhs and book value is ₹ 7 lakhs.

(iii) Current investment in Company C, costing ₹ 10 lakhs are to be re-classified as long term as the company wants to retain them. The market value on date of transfer is ₹ 12 lakhs.

(iv) Current investment in Company D, costing ₹ 15 lakhs are to be re-classified as long term. The market value on date of transfer is ₹ 14 lakhs.

[P.M, Page No- 1.32. Q. No-49]

Problem 32.

ABC Ltd. wants to re-classify its investments in accordance with AS 13. Decide and state on the amount of transfer, based on the following information:

(1) A portion of current investments purchased for ₹ 20 lakhs, to be reclassified as long term investment, as the company has decided to retain them. The market value as on the date of Balance Sheet was ₹ 25 lakhs.

(2) Another portion of current investments purchased for ₹ 15 lakhs, to be reclassified as long term investments. The market value of these investments as on the date of balance sheet was ₹ 6. 5 lakhs.

(3) Certain long term investments no longer considered for holding purposes, to be reclassified as current investments. The original cost of these was ₹ 18 lakhs but had been written down to ₹ 12 lakhs to recognize permanent decline as per AS 13.

[P.M Page No- 1.31. Q. No-48]

*P*roblem 33.

M/s Innovative Garments Manufacturing Company Limited invested in the shares of another Company on 1st October, 2014 at a cost of ₹ 2,50,000. It also earlier purchased Gold of ₹ 4,00,000 and Silver of ₹ 2,00,000 on 1st March, 2012. Market value as on 31st March, 2015 of above Investments are as follows:

	₹
Shares	2,25,000
Gold	6,00,000
Silver	3,50,000

How above investments will be shown in the books of accounts of M/s Innovative Garments Manufacturing Company Limited for the year ending 31st March, 2015 as per the provisions of Accounting Standard 13 "Accounting for Investments"?

[P.M, Page No- 1.31. Q. No- 47]

*P*roblem 34.

M/s Active Builders Ltd. invested in the shares of another company on 31 October, 2015 at a cost of ₹ 4,50,000. It also earlier purchased Gold of ₹ 5,00,000 and Silver of ₹ 2,25,000 on 31st March, 2013. Market values as on 31st March, 2016 of the above investments are as follows:

Shares ₹ 3,75,000; Gold ₹ 7,50,000 and Silver ₹ 4,35,000

How will the above investments be shown in the books of account of M/s Active Builders Ltd. for the year ending 31st March, 2016 as per the provision of AS-13?

[May – 2016, 5 Marks]

*S*olution

Type of Investment	Valuation Principal	Carrying Amount
Equity Shares	Lower of Cost ₹ 4,50,000 or Market Value ₹ 3,75,000	₹ 3,75,000
Gold	Cost (Long Term Investment, since the asset is held for about 3 years)	₹ 5,00,000
Silver	Cost (Long Term Investment, since the asset is held for about 3 years)	₹ 2,25,000
Total		**₹ 11,00,000**

*P*roblem. 35

The company had subscribed to shares of associate companies amounting to ₹ 5 crores. These associate companies have incurred substantial losses and have been referred to BIFR for being declared as sick companies. The company does not want to make any provision for the fall in the value of the investments.

[CA Final May 2001]

*S*olution

Valuation of Investment: AS 13 on "Accounting for Investments" requires investments to be classified as long term and current investments distinctly in its financial statements. The investments in shares of associate companies can very well be considered as trade investment since they would not be intended to be liquidated within a period of one year from its acquisition.

Hence they would be classified as long-term investments.

AS-13 states, "Long-term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognize a decline, other than temporary in the value of the investments, such reduction being determined and made for each investment individually". In the instant case, these associate companies have incurred substantial losses and have been referred to BIFR for being declared as sick companies. The net worth of these companies would have been wiped out resulting in a fall in the value of the investments. Therefore, such fall cannot be merely temporary as the companies could take a long time to turn around (if at all) and again have a positive net worth. The auditor in the value of investments as required by AS 13 has been made and to that extent the profits and reserves have been overstated.

Problem. 36

In preparing the financial statements of R Ltd. for the year end 31st March, 1998, you come across the following information. State with reasons, how you would deal with them in the financial statements:

An unquoted long-term investment is carried in the books at a cost of ₹ 2 lakhs.1 published accounts of the unlisted company received in May, 1998 showed that the company was incurring cash losses with declining market share and the long-term investment may not fetch more than ₹ 20,000.

[Advanced Accounting, May 1998]

Solution.

Para 32 of AS 13 on" Accounting for Investments", issued by ICAI, states that long-term investments should be carried in the financial statements at cost. However, if there is a permanent decline in the value of investment then, a provision for diminution should be made in respect of such investments.

In the present case, the company is incurring cash losses and its market share is declining. These factors indicate that the decline in value of this Investment is permanent. Thus, a provision for ₹ 1.8 lakh should be made to recognize this permanent decline.

Problem. 37

R Ltd. has borrowed ₹ 25 crores from financial institutions during the financial year 2001-02. These borrowings are used to invest in shares of A Ltd. a subsidiary company which is implementing a new project estimated to cost ₹ 50 crores. As on 31-3-2002, since the said project was not yet complete, the directors of ₹ Ltd. resolved to capitalize the interest on the borrowings amounting to ₹ 3 crores and add it to the cost of investments.

[Adv. Auditing, Nov. 2002]

Solution.

According to AS 13 on "Accounting for investments", issued by ICAI, cost of investment includes acquisition charge viz brokerage, fees, duties, etc. In the present case, R Ltd. has used the borrowed funds for Investing In shares of a subsidiary company.

For acquiring shares of subsidiary company, apart from any fees, duties. etc., there are no cost incurred for investing in shares. Hence, any borrowing cost incurred cannot be treated as part of cost of investment and cannot be treated as part of cost of investments. The Accounting Standard 16 on 'Borrowing Costs' also does not consider investment in share as qualifying assets that can enable company to add the amount of borrowing cost to investments. In the present case, therefore, statutory auditor would need to qualify his report by stating that the borrowing costs have been wrongly added to the cost of investments rather than charging them to the profit and loss account. The effect of the same on the profit for the year would also have to be mentioned in the audit report.

Problem. 38

A Company has invested a substantial amount in the shares of another company under the same management. The market price of the shares of the aforesaid company is about half of that at which these shares were acquired by the company. The management is not prepared to provide for the fall in the value of shares on the ground that the loss is only notional till the time the share are actually sold ?

Solution.

As per AS-13, for the purpose of determining carrying amount of shares the investment has to be classified into long-term and current; in the instant case it appears that the investment is long-term; hence it should be carried at cost, unless there is permanent diminution in value of investment. At the market price investment is half of its cost. The reduction appears to be heavy and permanent, hence the provision for permanent diminution (decrease) in value of investment should be made. The contention of management is not as per AS-13.

Problem. 39

On 1st December 2015, M/s. Blue & Black purchased, 20,000 12% fully paid debentures of ₹ 100 each at ₹ 105 cum interest price, also paying brokerage @ 1% of cum interest amount of the purchase. On 1st March, 2016, the firm sold all these debentures at Rs.110 cum-interest price, again paying brokerage @ 1 % of cum interest amount. Prepare Investment Account in the books of M/s. Blue & Black for the period 1st Dec., 2015 to 1st March 2016. Interest being payable half yearly on 30th September and 31st March of every accounting year.

[Nov.-2016, 4 Marks]

Solution

In the books of M/s Blue & Black

Investment Account

Date	*Particulars*	*Nominal Value (₹)*	*Interest*	*Cost (₹)*	*Date*	*Particulars*	*Nominal Value (₹)*	*Interest*	*Cost (₹)*
1.12.15	To Bank A/c (W.N.1)	20,00,000	40,000	20,81,000	1.03.16	By Bank A/c (W.N.2)	20,00,000	1,00,000	20,78,000
1.3.16	To P & L A/c		60,000		1.3.16	By P&L A/c			3,000
		20,00,000	**1,00,000**	**20,81,000**			**20,00,000**	**1,00,000**	**20,81,000**

Working Notes:

(i) Cost of 12% debentures purchase on 1.12.2015

		₹
Cost value (20,000 × ₹ 105)	=	21,00,000
Add: Brokerage (1% of ₹ 21,00,000)	=	21,000
Less: Interest (20,000 × 100×12% × 2/12)	=	(40,000)
Total	=	20,81,000

(ii) Sale proceeds of 12% debentures sold on 1st March, 2016

		₹
Sales Price (20,000 × ₹ 110)	=	22,00,000
Less: Brokerage (1% of ₹ 22,00,000)	=	(22,000)
Less: Interest (20,000 × 100 × 12% × 5/12)	=	(1,00,000)
Total	=	20,78,000

Problem.40

Akash Ltd. had 4,000 equity share of X Limited, at a book value of ₹ 15 per share (face value of ₹ 10 each) on 1st April 2016. On 1st September 2016, Akash Ltd. acquired 1,000 equity shares of X Limited at a premium on 4 per share. X Limited announced a bonus and right issue for existing share holders.

The terms of bonus and right issue were

(1) Bonus was declared, at the rate of two equity shares for every five equity shares held on 30th September, 2016.

(2) Right shares are to be issued to the existing shareholders on 1st December 2016. The company issued two right shares for every seven" shares held at 25% premium. No dividend was payable on these shares. The whole sum being payable by 31st December, 2016.

(3) Existing shareholders were entitled to transfer their rights to outsiders, either wholly or in part.

(4) Akash Ltd. exercised its option under the issue for 50% of its entitlements and sold the remaining rights for ₹ 8 per share:

(5) Dividend for the year ended 31st March 2016, at the rate of 20% was declared by the company and received by Akash Ltd. on 20th January 2017.

(6) On 1st February 2017, Akash Ltd. sold half of its share holdings at a premium of ₹ 4 per share.

(7) The market price of share on 31.03.2017 was ₹ 13 per share.

You are required to prepare the Investment Account of Akash Ltd. for the year ended 31st March, 2017 and determine the value of share held on that date assuming the Investment as current investment.

[May-2017, 8 Marks]

Solution ***Investment account equity shares in X Ltd.***

Date	Particulars	No.	Dividend ₹	Amount ₹	Date	Particulars	No.	Dividend ₹	Amount ₹
2016					2017				
April 1	To Balance b/d	4,000	-	60,000	Jan 20	By Bank A/c (Dividend Income)	-	8,000	2,000
Sept 1	To Bank A/c	1,000	-	14,000	Feb 1	By Bank A/c	4,000	-	56,000
Sept 30	To Bonus Issue	2,000	-	-	Mar 31	By Balance c/d	4,000	-	42,250
Dec 31	To Bank A/c (Right)	1,000	-	12,500					
2017									
Feb 1	To P & L A/c	-	-	13,750					
Feb 1	To P & L A/c (Dividend Income)	-	8,000	-					
		8,000	**8,000**	**1,00,250**			**8,000**	**8,000**	**1,00,250**
April	To Balance b/d	**4,000**	**42,250**						

Working Notes:

1. Cost of shares sold-Amount paid for 8,000 shares

		Marks
(6,000 + 14,000 + 12,500)	86,500	
Less: Dividend on shares purchased on June 1st Sep,2016	(2,000)	
Cost of 8,000 shares	84,500	**(1 Mark)**
Cost of 4,000 shares (Average cost basis)	42,500	
Sale proceeds (4,000 shares @14)	56,000	
Profit on sale	13,750	**(1 Mark)**

*For ascertainment of cost for equity shares sold, average cost basis has been applied in the above answer.

2. Value of investment at the end of the year

Closing balance will be valued based on lower of cost (42,250) or net realizable value (13 × 4,000). Thus investment will be valued at 42,250.

3. Calculation of sale of right entitlement

1,000 shares × 8 per share = 8,000

Amount received from sale of rights will be considered to P/L A/c As per 13 'Accounting for investments'

4. Dividend received on investment held as 1St April, 2016

= 4,000 shares × 10 × 20%

= 8,000 will be transferred to Profit and Loss A/c

Dividend Received on shares purchased on 1st September 2016

= 1,000 shares × 10 × 20% = 2,000 will be investment A/c

Note: It is presumed that no dividend is received on bonus shares as bonus shares are declared on 30th Sept. 2016 and dividends pertains to the year ended 31.3.2016**.**