4

INVESTMENT ACCOUNTING-I

Unit Structure

18.0 OBJECTIVES:

After studying the unit the students will be able to:

- Know the meaning of Investment and Types of Investment.
- Explain the types of transaction
- Understand the Accounting Entries
- Solve the practical problems on the unit.

18.1 INVESTMENT MEANING AND TYPES :

18.1.1 DEFINITIONS

The investment of funds basically means surplus funds of the business are utilized as source of additional income.

The accounting standards have defined as under:-

Investments are the assets held by enterprise for any one or more of the following objectives / advantages accruing to investing enterprise.

i) Earning income by way of dividend, interest or rental.
ii) Capital Appreciation
iii) Any other benefit.

18.1.2 TYPES OF INVESTMENT

Thus the investment can be in various forms, since the aforesaid objective can be achieved in varying forms of investment. These may be.

i) Securities yielding fixed income. Such as Debentures, Bonds, Certificates, Deposits.

ii) Shares.

iii) Jewellery

iv) Capital in Partnership firm

v) Immovable Property.

These investments are classified as

I) **Current Investment:** These are investments to be held for not more than one year from date of acquisition and which are readily realizable.

II) **Long Term Investments:** The investments which are not current are Long Term. The aforesaid classification is basically, based on intention of investing enterprise. as to period of holding and its ready realisability. Of these forms of investment, special accounting is required in case of investment in shares, Bonds, Debentures & Securities.

When the investments are in aforesaid securities issued by different authorities and companies it is necessary to maintain separate account for each or a separate investment register.

18.2 TERM OF TRANSACTIONS:

The aforesaid securities are generally purchased an sold at the price prevailing at recognized stock exchange through brokers. This is called transaction price.

The Brokers charge as service charge commission / Brokerage which is generally expressed as absolute amount or percentage of transaction price. In case of purchase the amount is added to transaction price. In case of sale, it is deducted from price.

In addition the buyer of securities is required to pay Stamp Duty. Thus,

I) **Cost of Investment Purchased**

Include – i) Transaction Price..............

ii) Add Commission / Brokerage................

iii) Add Stamp Duty.............

Total...........

This is called four value of Investment

II) **Sale Proceeds of Investment Comprises**

Transaction Price................

Less: Commission / Brokerage.............

Total..............

When Investments are acquired in exchange for any other assets, the Fair Value of Asset exchanged is cost of Investment.

In case of sale, it is also necessary to ascertain **Cost of Investment sold.**

The cost of investment sold can be arrived as under

i) F.I.F.O. Method

ii) Weighted Average method

iii) The Accounting standard 13, prescribes weighted Average method for this purpose.

The Carrying Amount represents amount at which balance in A/c is carried forward.

The carrying amount to be adopted is

(i) In case of Long Term Investment

- Fair value (as above)

(ii) In case of current Investment

- Fair value (as above)

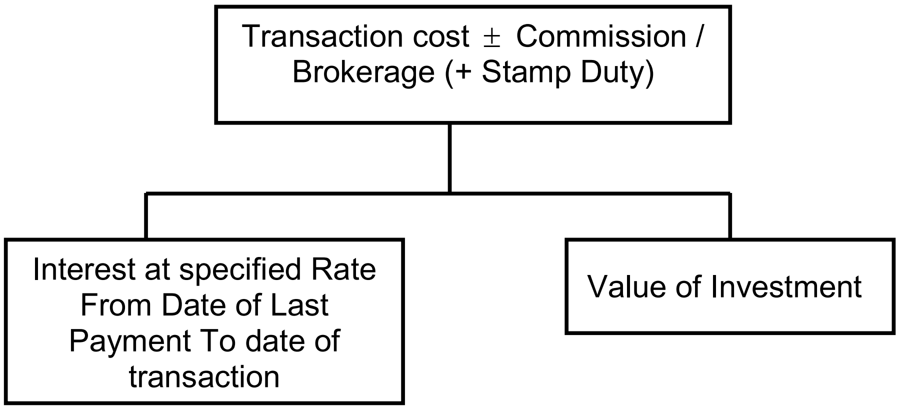
Or Market Value whichever is lower.

However, in case of long term investment. If the decline in value of investment is of long term nature, it is advisable to provide for such loss.

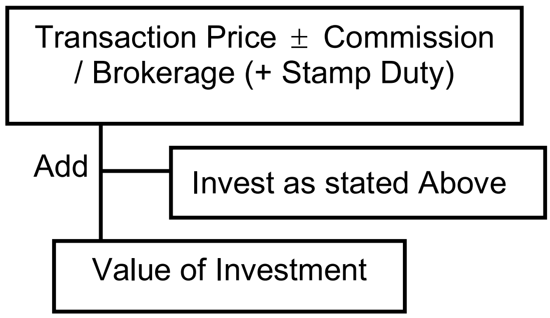
18.3 TYPES OF TRANSACTIONS:

(A) **Fixed-interest bearings investment**: In case of Fixed-interest bearings investment such as securities, Debentures, Bonds the interest is received by the holder of investment on specific dates-normally half yearly. In such case a special treatment is to be given to interest from date of the transaction. For this purpose transactions are categorized as

a) **Cum last payment to interest:** This type of transaction mean transaction is inclusive of above referred interest. The cost of investment is to be segregated between interest and value of investment. Thus



b) **Ex-Interest:** The price is exclusive of interest. Hence aforesaid interest is to paid/received in condition to price.



In case the transaction (whether Cum Interest or Ex interest) is not specified, it is assumed that transaction is cum-interest.

The amount received on sell or renouncement is to be treated as Income, as specified in AS-13.

In case of Bonus Shares, the investor has NIL Cost. For purpose of carrying Amount, average cost of shares after bonus shares.

However for purpose of Income Tax computation aforesaid averaging of cost is not to be considered.

(B) **Shares:**

The Shares transactions are of various types

(i) By Purchase/sale through Broker

(ii) Rights Share

(iii) Bonus Shares

The transaction through Broker may be cum dividend or ex dividend in the same manner as cum interest or ex-interest. However difference is interest is related to time period. Whereas dividend relate to declared amount.

In case of Rights Shares, the issuing company makes offer to shareholder to subscribe and pay for Shares at specific price. Payable directly to company. The Shareholder if desire to Purchase additional shares, can acquire such right from any other shareholder on payment of additional amount called Premium. In case shareholder do not wish to invest, he can sell right and receive premium. The cost of investment in such case is,

i) **Subscribing to Shares:** Amount paid to company at right Price.
ii) **Additional Shares :** Amount paid to seller of rights and paid to company.

18.4 THE ACCOUNTING ENTRIES :

The accounting entries are

1. **Purchase**:
Investment A/c Dr. (Face Value & Amount Column
Income A/c Dr. (Income Column)
To Bank

2. **Sale** :
Bank Dr.
To Investment A/c (Face value & Account Column)
To Income (Income Column)

3. **Profit / Loss on sale** :
Investment (Amount Column)
To Profit or Loss on sale of Investment
To Investment (Amount Column)

4. **Receipt of Income on Due Date**
Bank A/c Dr.
To investment A/c (Income column)

5. **Receipt of Bonus Shares**: Entry only in Face value columns.

Note:
(i) Face value Column can be fitted as Number column in case of Shares.
(ii) In case transaction for item 1 and 2 above is on due date of payment of interest the entry will not have debit or credit to Income column.

18.5 INVESTMENT ACCOUNT:

The investment Account is maintained in multi column form. The separate columns are :

1. Date
2. Particulars
3. Folio
4. Face Value or No. of Shares / Debenture
5. Income-interest or Dividend
6. Cost / Value

Date	Particulars	No.	FV (Rs.)	Income	Investment or capital	Date	Particulars	No.	FV (Rs.)	Income	Investment or capital
	To Balance						To Bank (Sale)				
	To Bank (Purchase)						By Loss on Sale				
	To Profit on Sale						By Balance				
	To Profit/ Loss A/c										

Note: 1. The Accrued Interest should be shown as Balance in Income Column in case of opening & Closing Balances.

2. Balance in Icome column should be transferred to Profit & Loss A/c.

Check Your Progress

- Give the proforma of Investment Account.
- Explain the following terms
    1. Ex-Interest transaction
    2. Cum-Interest transaction
    3. Current Investment
    4. Long Term Investment

PRACTICAL PROBLEMS :

Illustration 1

On 1.2.2009, Messrs File Investment service purchased 9% Debentures of Rs. 100 each of Messrs Alpha Oil Limited having

Face Value of Rs. 16,000 @ 95% (Cum-Interest), the expenses being Rs. 100.

On 1.4.2009 they sold debentures having face value of Rs. 6,000 @ 92% (ex-interest), the expenses being Rs. 60.

On 1.8.2009 they again sold debentures having face value of Rs. 4,000 @ 101% (cum-interest), the expenses being Rs. 40.

On 1-11-2009, they further purchased debentures of Rs. 18,000 @ 103% (ex-interest), the expenses being Rs. 200.

Beside expenses (as stated above), they paid ¼ % brokerage on both purchase and sale. The interest on debentures is payable on June 30 and December 31 every year but received on 15th July and 15th January (next month). On 31-12-2009 the Debentures on hand was valued @ Market Price of 104%.

Prepare 9% Debentures Account in the books of Messrs File Investment Service for the period ended 31.12.2009. Prepare Investment Account with detailed working under Weighted Average Method.

Answer 1:

Messrs File Investment Services
9% Debenture Account of Aplha Oil Limited

Date	Particulars	Face Value	Interest	Capital		Date	Particulars	Face Value	Interest	Capital
2009		Rs.	Rs.	Rs.		2009		Rs.	Rs.	Rs.
Feb.	1.To Bank A/c	16,000	120	15,218		April	1. By Bank A/c	6,000	135	5,446
Aug.1	To P/L A/c			155		April	By Profit & Loss			261
Nov.1	To Bank Account	18,000	540	18,786		July 15	By Bank		450	
	To P/L A/c		1035				Interest:			
							10,000 x 9/100 x 6/12 = 450			
						Aug.1	By Bank Account	4,000	30	3,690
							Sale (Cum-Int)			
						Dec.31	By Accrued Interest		1080	
							Interest			
							24,000 x 9/100 x 6/12 = 1,080			
						Dec.31	By Balance c/d	24,000	-	24,492
	Total	**34,000**	**1,695**	**34,159**			**Total**	**34,000**	**1,695**	**34,159**

Answer 2:

Messrs Share Associates
12% Redeemable Debentures of Beta Products Ltd.

Date	Particulars	Face Value	Interest	Capital		Date	Particulars	Face Value	Interest	Capital
2009		Rs.	Rs.	Rs.		2009		Rs.	Rs.	Rs.
Jan	1 To Balance b/f	50,000	-	52,000		March 31	By Bank A/c	30,000	900	31,200
May 31	To Bank A/c	20,000	1000	19,600			Sales (Cum Interest)			
	Purchase (Cum interest)						30,000 x 107% 32,100			
	20,000 x 103% 20,600						Interest:			
	Interest:						1-1-09 to 31-3-09 (3 mth)			
	1.1.09 to 31.5.09 (5 mth)						30,000 x 12/100 x 3/1 900			
	20,000 x 12/100 x 5/12 1000						Capital 31,200			
	Capital 19,600					June 30	By Bank			
August 31	To Bank A/c	10,000	200	10,400			Interest:		2 ,400	
	Purchase (Ex-int)						40,000 x 12/100 x 6/12 2,400			
	10,000 x 104% 10,400									
	Interest:					Oct 31	By Bank	15,000	600	15,750
	1-7-09 to 31-08-09 (2 mth)						Sale (Ex. Interest)			
	10,000 x 12/100 x 2/12 200						15,000 x 105% 15,750			
Oct 31	To P & L A/c			510			Interest:			
Dec 31	To Profit & Loss A/c		4,800				1.7.009 to 31.10.09 (4 mth)			
							15,000 x 12/100 x 4/12 600			
						Dec 31	By Bank			
							Interest:		2,100	
							35,000 x 12/100 x 6/12 2,100			
						Dec 31	By Balance c/d	35,000	-	35,560
	Total	**80,000**	**6,000**	**82,510**			**Total**	**80,000**	**6,000**	**82,510**

Answer 3:

Messrs Cash Credit Limited
9% (Tax Free) Govt. Bonds

Date	Particulars	Face Value	Interest	Capital		Date	Particulars	Face Value	Interest	Capital
2008		Rs.	Rs.	Rs.		2008		Rs.	Rs.	Rs.
Apr 1	To Balance b/f	60,000	-	63,000		Apr. 30	By Bank A/c	50,000	1,500	48,899
Apr 1	To Interest accrued (reversal)	-	1,350	-			Sale (Cum-Interest)			
	60,000 x 9% x 3 mths						50,000 x 1012% 50,500			
May 31	To Bank A/c	50,000	1,875	49,227			- Brokerage x 0.2% 101			
	Purchase (Cum-int)						50,399			
	50,000 x 102% 51,000						Interest:			
	+ Brokerage x 0.2% 102						1.1.08 to 30.4.08 (4 mths)			
	51,102						50,000 x 9/100 x 4/12 1,500			
	Interest:						Capital 48,899			
	1.1.08 to 31.5.08 (mths)						By P & L A/c	-	-	3,601
	50,000 x 9/100 x 5/12 1875					Jun 30	By Bank	-	2,700	-
	Capital 49,227						Interest:			
Sep 1	To Bank A/c	30,000	450	31,564			60,000 x 9/100 x 4/12 2,700			
	Purchase (Cum-Interest)						By Bank A/c	60,000	2,250	61,676
	30,000 x 106.50% 31,950					Dec. 1	Sale (Ex-Interest)			
	Brokerage 30,000 x 0.2% 64						60,000 x 103% 61,800			
	32,014						- Brokerage x 0.2% 124			
	Interest:						Capital 61,676			

	1.7.08 to 31.8.08 (2 mths)						Interest:			
	30,000 x 9/100 x 2/12 450						1.7.08 to 30.11.08 (5 mths)			
	Capital 31,550						60,000 x 9/100 x 5/12 2,250	-		
Dec. 1	To P/L A/c			815		Dec. 31	By Bank A/c			
Feb. 28	To Bank A/c	50,000	750	53,106			Interest :			
	Purchase (Ex-Interest)						30,000 x 9/100 x 6/12 1,350		1,350	
	50,000 x 106% 53,000					2009				
	+ Brokerage					Mar 31	By Interest accrued -	-	1,800	-
	50,000 x 0.2% <u>106</u>						80,000 x 9% x 3 mths			
	53,106					Mar 31	By Balance c/d	80,000	-	83,536
	Interest:									
	50,000 x 9/100 x 2/12 750									
Mar. 28	To P & L A/c -		5,175	-						
	Total	**190,000**	**9,600**	**197,712**			**Total**	**190,000**	**9,600**	**197,712**

Answer 4:

Messrs Manan Finance Limited
6% Government of India Securities

Date	Particulars	Face Value	Interest	Capital		Date	Particulars	Face Value	Interest	Capital
2008		Rs.	Rs.	Rs.		2008		Rs.	Rs.	Rs.
Apr 1	To Bank A/c	75,000	-	78,750		Jun 30	By Bank A/c	45,000	675	47,475
Aug.31	To Bank A/c	30,000	750	30,150			Sale (Cum-Interest)			
	Purchase (Cum-Interest)						45,000 x 107% 48,150			
	30,000 x 103% 30,900						Interest:			
	Interest:						1.4.01 to 31.6.01 (3mths)			
	1.4.01 to 31.8.01 (5 mths)						45,000 x 6/100 x 3/12 675			
	30,000 x 6/100 x 5/12 750						Capital 47,475			
	Capital 30,150					Sep. 30	By Bank	-	1,800	-
Nov 30	To Bank A/c	15,000	150	15,600			Interest:			
	Purchase (Cum-Interest)					2002	60,000 X 6/100 X 6/12 1,800			
	15,000 x 104% 15,600					Jan. 31	By Bank A/c	22,500	450	23,625
	Interest:						Sale (Ex-Interest)			
	1.10.01 to 30.11.01 (2 mths)						22,500 x 105% 23,625			
	15,000 x 6/100 x 2/12 150						(Also equal to prop CP)			
2009							Interest:			
Mar. 31	To Profit & Loss A/c	-	3,600	-			1.10.01 to 31.1.02 (4 mths)			
Mar. 31	To Profit & Loss A/c	-	-	225			22,500 x 6/100 x 4/12 450			
	Profit on Investment A/c						By Bank A/c			

	[SP 47475 – 47250 PCP]						By Bank			
	$\left(\frac{78750}{75000} x 45,000\right)$						52,500 x 6/100 x 6/12 1,575 By Balance c/d Calculation of Cost:	 52,500	1,575 -	 53,625
							Op. Bal. Rs. 7,500			
							= 78,750 / 75,000 x 7500 7,875			
							Purchase Rs. 30,000 30,150			
							Purchase Rs. 15,000 15,600			
							Cost by FIFO basis 53,625			
							Calculation of Market			
							Price:			
							*52500 x 106/100 55,650			
							(Cost Market Price) 53,625			
	Total	**120,000**	**4,500**	**124,725**			**Total**	**120,000**	**4,500**	**124,725**

Answer 5:

Good Bank Ltd.

Date	Particulars	No.	Face Value	Interest	Capital	Date	Particulars	No.	Face Value	Interest	Capital
2009		Rs.	Rs.	Rs.		2009		Rs.	Rs.	Rs.	
Jan. 1	To Balance b/f	10,000	100000	-	125000	May 25	By Bank A/c	-	-	8,000	
May 15	To Bonus (issued)	5,000	50000	-	-		Sale of Rights				
	(1:2 on 10,000)						4000 x Rs. 2				
May 15	To Bank (Rights)	2,000	2,000	-	14,000	Oct. 15	By Bank	-	-	20000	-
	(Entitled to 3:5 rights i.e. 3/5 x						(Dividend @ 20%)				
	10,000 = 6,000 Shares sold						20/100 x 1,00,000				
	4,000 rights: see Contra						**NB:** Bonus and Rights				
	Accepted 2,000 rights shares						Not entitled to Dividend				
	@ a premium of Rs. 3)					Dec. 31	By Balance c/f	17000	170000	-	151000
	3+4 = 7 pd on Application										
Jun. 15	To Bank (Rights)	-		-	12,000						
	(Balance Rs. 6 paid)										
Mar. 31	To Profit & Loss A/c	-	-	28,000	-						
	Total	**17,000**	**170,000**	**28,000**	**151,000**		**Total**	**17,000**	**170,000**	**28,000**	**151,000**

Answer 6:

Wadala Investments Limited
Investment A/c – Equity Shares in Mumbai City Ltd.

Date	Particulars	No.	Face Value	Interest	Capital	Date	Particulars	No.	Face Value	Interest	Capital
2008		Rs.	Rs.	Rs.		2008		Rs.	Rs.	Rs.	
Apr.1	To Balance b/f	1000	10000	-	14250	Aug 15	By Bank				
Aug. 1	To Bank 50	50	500	-	846		(Dividend @ 20%)				
	(Purchase of Shares						20/100 x 10,000	-	-	2000	-
	Cum-dividend)						20/100 x 500	-	-	4	96.00
	[Note A –See Contra]						[Note A –See Contra]				
Oct.1	To Bonus (Issue)	450	4,500	-	-	Nov 1	By Bank	450	4500	-	5037.50
	(3:7 of 1,050 Shares)						(Sale of 450 Shares @				
Jul. 1	To Profit & Loss A/c	-	-	-	537.50		Rs. 11.25 = 5,062.50				
	(Dividend Income)						(-) Brokerage 25.00	-	-	-	-
							Rs. 11.25 = 5,037.50				
						2002					
						Mar 30	By Balance c/f	1050	10500	-	10500.00
	Total	**1500**	**15,000**	**2,004**	**15,633.50**		**Total**	**1500**	**15,000**	**2,004**	**15,633.50**

Answer 7:

Medical Services Ltd
Investment A/c Equity Shares of Sick Ltd.

Date	Particulars	No.	Face Value	Interest	Capital	Date	Particulars	No.	Face Value	Interest	Capital
2008		Rs.	Rs.	Rs.		2008		Rs.	Rs.	Rs.	
Apr. 1	To Balance b/f	20000	200000	-	320000	Sep 30	By Bank	-	-	-	7500
Jun. 1	To Bank	5000	50000	-	70000		(Sale proceeds of rights				
	(Purchase of Shares						Shares 5000 x Rs. 1.50)				
	Cum-dividend)						[Note: Amt. received for				
Aug. 2	To Bonus (Issue)	5000	50000	-	-		Rights will be entered in				
	(1:5 of 25,000 Shares)						Capital column and				
Sep. 30	To Bonus (Issue)	5000	50000	-	75000		Reduces the Cost]				
	(1:3 of 30,000 Shares)					Oct 20	By Bank				
	(50% of 10,000 = 5,000)						(Dividend @ 15% on				
	Shares accepted paid						Rs. 2,00,000 x 15%	-	-	30000	-
	@ Rs. 15)						Rs. 50,000 x 15%**				7500

Nov. 1	To profit & Loss A/c						**Dividend rate was				
	(Profit on sale of 20,000				2857		Not known @ the time				
	Shares- Refer Note 1)						of purchase of 5,000				
							Shares on 1.6.2008				
							By Bank	20000	200000	-	260000
							(Sale of Rs.13 per Share)				
2009						2009					
Mar 31	To Profit & Loss A/c	-	-	30000	-	Mar 31	By Balance c/f	15000	150000	-	192857
	(Dividend Income Transfered)						(Refer Note 2)				
	Total	**35000**	**350000**	**30000**	**467857**		**Total**	**35000**	**350000**	**30000**	**467857**

In the Books of PSI Investments

12% Partly Convertible Debentures of Ted Ltd. A/c (Interest Date 30th June, and 31st December)

Date	Particulars	Nominal Value Rs.	Interest	Capital Value Rs.	Date	Particulars	Nomina l Value Rs.	Interest	Capital Value Rs.
2008					2008				
Apr. 1	To Balance b/f	600000	-	618000	June 30	By Bank	-	36000	-
Aug. 1	To Int. accrued	-	18000	-	Sep 30	By Bank	200000	6000	212000
Aug. 1	To Bank	300000	3000	303000	Dec 31	By Bank	-	42000	-
					Dec 31	By Equity shares	525000	-	536250
2009					2009				
Mar 31	To P & L (Int. trant)	-	66250	-	Feb 1	By Bank	100000	10000	104000
Mar 31	To P & L A/c (Profit)	-	-	7000	Mar 31	By Bal. c/d	75000	-	75750
					Mar 31	By Int. Accrued	-	2250	-
		900000	**87250**	**928000**			**900000**	**87250**	**928000**

Equity Shares in Ted Ltd. A/c

Date	Particulars	No. of Shares	Interest	Capital Value	Date	Particulars	No. of Shares	Interest	Capital Value
2008					2009				
Dec 31	To 12% Partly convertible				Mar 1	By Bank	12600	-	378000
	Debentures A/c	21000	-	536250	Mar 31	By Bal c/d	8400	-	214500
2009									
Mar 31	To P & L A/c (Profit)	-	-	56250					
		21000		**592500**			**21000**		**592500**

Solution:

In the Books of MRK
Investment in Equity Shares of X Ltd. A/c

Date	Particulars	No. of Shares Rs.	Face Value Rs.	Dividend Rs.	Cost Rs.	Date	Particulars	No. of Shares Rs.	Face Value Rs.	Dividend Rs.	Cost Rs.
2008						2008					
April 1	To Bal. b/d	50,000	500,000	-	750,000	Sep	By Bank	-	-	-	20,000
July 1	To Bank	10,000	100,000	-	160,000	Oct 31	By Bank (Dividend)	-	-	100,000	-
Aug 1	To Bonus share	10,000	100,000	-	-	Nov 15	By Bank	50,000	500,000	-	750.000
Sep 30	To Bank	20,000	200,000	-	300,000						
Nov 15	To P & L	-	-	-	100,000						
	(Profit on sale)										
2009						2009					
Mar 31	To P & L (Dividend)	-	-	100,000	-	Mar 31	By Bal. c/d	40,000	400,000	-	520,000
	Total	**90,000**	**900,000**	**100,000**	**1310,000**		**Total**	**90,000**	**900,000**	**100,000**	**1310,000**

Solution:

Date	Particulars	Face Value	Interest	Capital Value	Date	Particulars	Face Value	Interest	Capital Value
1-4-08	To Bal. b/f	200,000	-	190,000	1-6-07	By Bank A/c	60,000	2,250	56,400
1-4-08	To Accounted int	-	4500	-	30-6-08	By Bank (Int Recd.)	-	9,900	-
31.05-08	To Bank A/c (Purchase)	80,000	3,500	73,000	30-11-08	By Bank A/c	40,000	1,500	37,300
1-12-08	To Bank A/c	10,000	375	10,000	31-12-08	By Bank A/c (Int. Recd.)	-	8,550	-
31-12-09	To P & L A/c (Profit on sale)	-	-	1,100	1-3-09	By Bank	10,000	375	10,000
					31-3-09	By Bank c/d	180,000	-	170,000
31-3-09	To P & L A/c (Int.)	-	18,750	-	31-3-09	By Accounted Int. c/d	-	4,050	-
	Total	**290,000**	**-**	**274,100**		**Total**	**290,000**	**26,625**	**274,100**

Solution:

In the Books of Ajay
Investment Account in Equity Shares in Vipro Ltd.
For the year ended 31st March, 2009

Date	Particulars	Face Value (Rs)	Dividend (Rs)	Cost (Rs)	Date	Particulars	Face Value (Rs)	Dividend (Rs)	Cost (Rs)
2008					2008				
April 1	To Balance b/d	3,00,000	-	4,20,000	Oct. 22	By Bank	-	42,000	8,400
July 1	To Bank	60,000	-	96,000	Nov. 1	By Bank	2,50,000	-	3,75,000
Aug 5	To Bonus Shares	60,000	-	-					
Nov 1	To Profit & Loss A/c (Profit)	-	-	72,857					
2009					2009				
Mar. 31	To Profit & Loss A/c	-	42,000	-	Mar. 31	By Balance c/d	1,70,000	-	2,05,457
		-		-			-	-	-
		4,20,000	**42,000**	**5,88,857**			**4,20,000**	**42,000**	**5,88,857**

Solution:

In the Books of Abhishek
Investment in Equity Shares of Raj Entertainment Ltd. Account
for the year ended 31st March, 2009

Date	Particulars	No. of Shares	Dividend Rs.	Cost (Rs)	Date	Particulars	No. of Shares	Dividend Rs.	Cost (Rs)
2008					2008				
April 1	To Balance b/d	10,000		1,60,000	Oct 31	By Bank		40,000	40,000
July 1	To Bank A/c	4,000		80,000					
July 31	To Bank A/c	6,000		1,32,000					
Aug. 22	To Bonus A/c	5,000		NIL					
Oct 15	To Bank A/c	3,000		45,000					
2009					2009				
Jan 1	To Profit & Loss A/c	(WN)		1,85,750	Jan 10	By Bank	7,000		2,80,000
Mar 31	To Profit & Loss A/c	-	40,000	-	Mar 31	By Balance c/d	21,000	-	2,82,750
		-		-			-	-	-
		28,000	**40,000**	**6,02,750**			**28,000**	**40,000**	**6,02,750**

Solution:

In the Books of Mr. Mayur
Investment Account in Equity Shares of Jai Ltd.
for the year ended 31st March, 2009

Date	Particulars	WN	No. of Shares	Dividend Rs.	Cost (Rs)	Date	Particulars	WN	No. of Shares	Dividend Rs.	Cost (Rs)
2008						2008					
April 1	To Balance b/d	-	30,000	-	4,50,000	Oct 31	By Bank	4		60,000	10,000
June 22	To Bank	-	5,000	-	80,000	Nov 15	By Bank (Sale)	-	30,000	-	4,50,000
Aug 16	To Bonus Issue	1	5,000	-	-						
Sept 30	To Bank A/c	2	10,000	-	1,50,000						
	(Right Share)										
Nov 15	To Profit &	5	-	-	48,000						
	Loss A/c										
2009						2009					
Mar 31	To Profit &		-	60,000	-	Mar 31	By Balance c/d	6	20,000	-	2,68,000
	Loss A/c										
	(Balance Figure)										
			-	-	-				-	-	-
			50,000	**60,000**	**7,28,00**				**50,000**	**60,000**	**7,28,00**

Solution:

In the Books of Mandar
Investment Account of 6% Government Securities
for the year ended 31st March, 2009
(Due Date for Interest 30th June and 31st December)

Date	Particulars	WN	Face Value Rs.	Interest Rs.	Capital Rs.	Date	Particulars	WN	Face Value Rs.	Interest Rs.	Capital Rs.
2008						2008					
April 1	To Balance b/d	1	75,000	1,125	78,000	Jun. 30	By Bank	3		3,150	
May 1	To Bank	2	30,000	600	28,800	Aug. 1	By Bank	4	36,000	180	34,740
Nov. 1	To Bank	6	45,000	900	45,450	Aug. 1	By Profit &				
							Loss A/c	5			1877
						Dec 31	By Bank	7		3,420	
2009						2009					
Feb. 1	To Profit &					Feb. 1	By Bank	8+9	24,000	120	24,480
	Loss A/c	10			136	Mar. 31	By Profit &				
Mar. 31	To Profit &						Loss A/c	11			2,189
	Loss A/c			5,595		Mar. 31	By Balance c/d	12	90,000	1,350	89,100
	(Balance Figure)										
			-	-	-				-	-	-
			1,50,000	**8,220**	**1,52,386**				**1,50,000**	**8,220**	**1,52,386**

Solution:

In the Books of M/s Bhagwati
Investment Account of 12% Debentures in Mansi Ltd.
for the year ended 31st March, 2009
(Due Date for Interest 30th June and 31st December)

Date	Particulars	WN	Nominal Value Rs.	Interest Rs.	Cost Rs.	Date	Particulars	WN	Nominal Value Rs.	Interest Rs.	Cost Rs.
2008						2008					
April 1	To Opening					Jun. 1	By Bank A/c	2	30,000	1,500	30,000
	Balance b/d	1	80,000	2,400	76,000		(Sold)				
June 1	To Profit &					Jun. 30	By Bank A/c	4	-	3,000	-
	Loss A/c	3	-	-	1,500		(Half yearly)				
	(Profit on Sale)					Dec 31	By Bank A/c	7	-	9,600	-
Sep. 1	To Bank A/c						(Half yearly)				
	(Purchase)	5	70,000	1,400	68,600						
Dec. 1	To Bank A/c										
	(Purchase)	6	40,000	2,000	41,200						

2009						2009					
Mar.31	To Profit &					Feb. 1	By Bank A/c	8	90,000	900	87,300
	Loss A/c		-	11,300	-		(Sold)				
	(Interest Transfer)					Feb. 1	By Profit &	9	-	-	1,181
							Loss A/c				
							(Loss on Sale)				
						Mar.31	By Profit &	11	-	-	1,319
							Loss A/c				
							(Loss on				
							Valuation)				
						Mar. 31	By Balance c/d	10	70,000	2,100	67,500
			-	-	-				-	-	-
			1,90,000	**17,100**	**1,87,300**				**1,90,000**	**17,100**	**1,87,300**

Solution:

In the Books of Bangalore Investments
12% Debentures in Minerva Ltd. Account
(Interest 30th June, 31st December)

Date	Particulars	WN	Nominal Value Rs.	Income Rs.	Capital Rs.	Date	Particulars	WN	Nominal Value Rs.	Income Rs.	Capital Rs.
2009						2009					
April 1	To Balance b/d	1	1,20,000	1,800	1,40,000	Jun. 30	By Bank A/c	3	-	4,800	-
Jun. 1	To Bank A/c	2	40,000	1,000	39,800	Nov.30	By Bank A/c	5	60,000	1,500	63,000
Nov. 1	To Bank A/c	4	40,000	800	38,400	Nov.30	By Profit &	6	-	-	2,460
							Loss A/c				
						Dec 31	By Bank A/c	7	80,000	2,400	77,300
						Dec 31	By Profit &				
							Loss A/c	8	-	-	9,980
						Dec 31	By Bank A/c	9	-	1,800	-
2010						2010					
Mar 31	To Profit &					Mar.31	By Balance c/d	10	60,000	900	60,000
	Loss A/c			7,800		Mar.31	By Profit &	11	-	-	5,460
	(Balance Figure)						Loss A/c				
			-	-	-				-	-	-
			2,00,000	**11,400**	**2,18,200**				**2,00,000**	**11,400**	**2,18,200**

Solution:

In the Books of Mr. Dharmesh
Investment Account of 12% Debentures of XYZ Ltd.
for the year ended 31st December 2008
(Due Date for Interest – 31st December)

Date	Particulars	WN	Nominal Value Rs.	Income Rs.	Capital Rs.	Date	Particulars	WN	Nominal Value Rs.	Income Rs.	Capital Rs.
2008						2008					
Jan. 1	To Balance b/d		1,00,000	-	91,000	Sept 1	By Bank	2	30,000	2,400	28,800
Apr. 1	To Bank	1	20,000	600	19,000	Dec. 1	By Bank	4	50,000	5,500	44,000
Sep. 1	To Profit &	3	-	-	1,300	Dec. 1	By Bank	5	-	-	1,833
	Loss A/c					Dec 31	By Bank	6	-	4,800	-
Dec 31	To Profit &		-	12,100	-	Dec 31	By Balance c/f		40,000	-	36,667
	Loss A/c										
			-	-	-				-	-	-
			1,20,000	**12,700**	**1,11,300**				**1,20,000**	**12,700**	**1,11,300**

Solution:

In the Books of Mr. Mehta
12% IDBI Bonds Account

Date	Particulars	Face Value Rs.	Interest Rs.	Cost Rs.	Date	Particulars	Face Value Rs.	Interest Rs.	Cost Rs.
2008					2008				
	To Opening Balance	2,00,000	6,000	1,90,000	Jun. 30	By Bank	-	12,000	-
	To Bank (800 x 96)	80,000	1,600	75,200	Oct. 31	By Bank (700 x 94)	70,000	2,800	65,800
					Oct. 31	By Profit & Loss A/c	-	-	500
					Dec.31	By Bank		12,600	
2009					2009				
	To Profit &		25,800		Feb. 28	By Bank (300 x 96)	30,000	600	28,200
	Loss A/c				Feb. 28	By Profit & Loss A/c			214
		-	-	-	Mar. 31	By Balance c/d	1,80,000	5,400	1,70,486
		2,80,000	**33,400**	**2,65,200**			**2,80,000**	**33,400**	**2,65,200**

Note:

1-2-2009	(Buy-Gain-Int) 6000 @ 95%	15200
	Expen.	100
	Brokerage @ 1/4%	38
		15338
	Less: Interest	
	On 16000 for Int.	120
	Investment	**15218**
1-4-2009	(Sell-Ex. Int.	
	6000 @ 12%	5520
	(-) Brokerage @ 1/4%	14
	(-) Expenses	60
		5446
	Cost $\frac{(15218x6000)}{16000}=$	5707
	Loss	**261**
1-8-2009	Sell (Cum Int)	
	4000 @ 10%	4040
	(-) Expenses	40
	(-) Brokerage @ 1/4%	10
		3990
	(-) Interest	30
		3960
	(-) Cost $\frac{(152118x6000)}{16000}=$	3805
	Loss	**155**
1-11-2009	Buy (Ex. Int.)	
	18000 @ 10.3%	18540
	(+) Expenses	200
	(+) Brokerage @1/4%	46
		18786
	Interest	
	On 18000 for 4mth.	540
	FV	Cost
	Cost of Investment-24000	24492
	Market Value @ 104	**24960**

Illustration 2:

Messrs Share Associates wants you to prepare Investment Account (with detailed notes and workings). The Company gives you the details for the year 2015 relating to 12% Redeemable Debentures of Rs. 100 each of Beta Products Limited:

Jan.1 : Balance Rs. 52,000 having Face Value of Rs. 50,000.

Mar. 31 : Sale of Rs. 30,000 @ Rs. 107 cum interest.

May 31 : Purchase of RS. 20,000 @ 103 cum-interest.

Aug. 31 : Purchase of Rs. 10,000 @ 104 ex-interest.

Oct. 31 : Sale of Rs. 15,000 @ 105 ex-interest.

Interest is payable on 30th June and 31st Dec. every year. The Accounting year of the Company ends on 31st December. Market Price of Debentures as at 31st December was Rs. 99.

What will be the difference, if Market Price Rs. 103 on 31st December, instead of Rs. 99 as mentioned above.

(Hint: If Market Price is Rs. 101, the new Profit on Investment Account will be Rs. 150, instead of old loss of Rs. 400).

March 31 Cost of Investment $\frac{52000}{50000}$x30000 = 31200

Profit /Loss – Nil

Oct 31 Cost of Investment

50,000

- 30000 20000 - 20800

20000 - 19600

10000 - 10400

50000 - 50800

Sales $\frac{50800}{50000}$x15000 15240

Sales - 15750

Profit 510

31Dec $\therefore$ Balance F.V. 35000 = 35560

If Investment are treated as

Short Term / current

to be reflected at cost or Market

Value whichever is lower

(i) If Market Price @ 99 - 34650

Cost - 35560

(Lower –Rs. 34650/-)

(ii) If Market Price is 103 - 36050

Cost 35560

(Lower Rs. 35560)

Illustration 3:

On 1-4-2014, Messrs Cash Credit Limited had a balance of 9% (Tax free) government Bonds costing Rs. 63,000, having face value of Rs. 60,000. During the year, the Company had the following transactions:

April 30 2014	: Sales	Rs.50,000 @101% cum-interest
May 31 2014	: Purchases	Rs.50,000 @102% cum-interest
Sep 1, 2014	: Purchases	Rs.30,000 @106.50% cum-interest
Dec, 1 2014	: Sales	Rs. 60,000@103% ex-interest
Feb. 28, 2015	: Purchases	Rs. 50,000@106% ex-interest

Interest is payable half-yearly on 30th June and 31st December every year. Brokerage was paid at 0.20% on purchase and sale. The Company closes its account on 31st March Medical Services Limited.

On which date the market value was Rs. 105.25%. Prepare Ledger Account in the books of Messrs Cash Credit Limited, with detailed working with weighted Avarage Method.

Note: Cost of Bonds Sold

30-4	63000 / 60000	x	50000	= 52500
Sale				48899
Loss				3601

Dec. 1

60000	- 63000
50000	- 49227
30000	- 31564
-140000	- 143781
- 50000	- 52500
90000	- 91291

$$\frac{91291}{90000} x 60000$$

Loss =	60861
Sale	61676
Profit	815

Illustration 4:

Manan Finance Limited gives you the following details for the Accounting Year from 1.4.2014ss relating to 6% Govt. of India Securities of Rs. 100 each:

Apr. 1: Balance Rs. 78.750 having Face Value of Rs. 75,000.
June 30 : Sale of Rs. 45,000 @ Rs. 107 cum-interest.
Aug 31 : Purchase of Rs. 30,000 @ 103 cum-interest.
Nov. 30 : Purchase of Rs. 15,000 @ 104 ex-interest.
Jan. 31 : Sale of Rs. 22,500 @ 105 ex-interest.

Interest is payable on 30th September and 31st March every year. Market Price of Securities as at 31st March was Rs. 106. Prepare Account under FIFO Method.

Illustration 5:

On 1.1.2014 Good Bank Ltd. had 10,000 Equity Shares of Rs. 10 each in Old (Nagaland) Ltd. purchased at Rs. 1,25,000. The Company, like other Investment Companies, doesn't make any apportionment of Dividends (received or receivable) in between Capital and Revenue.

On 15.5.2014, Old Ltd. made a BONUS issue of 1 fully paid share for every 2 share held on 15.5.2014. In addition, on the same day RIGHT shares were issued at 3 Shares for every 5 Shares held on that date at a premium of Rs. 3 payable as under:

Rs. 7 to be paid on application (including Premium) and the balance in one call after a month.

Bonus and Right Shares announced on 15.5.2014 are not to rank for Dividend for the year ending 30th June, 2014.

2,000 Right Shares were taken up by Good Bank Ltd. and the balance rights were sold at Rs. 2 each on 25.5.2009. on 15.10.2014ss the Company declared a Dividend @ 20% for the year ending on 30.6.2009.

Prepare Investment Account in the books of Good Bank Ltd.

Illustration 6:

Wadala Investments Ltd. held on 1.4.2014, 1,000 Equity Shares of Rs. 10 each in Mumbai City Ltd. at a book value of Rs. 14,250. It had the following further transactions during the year 2014-2015 in respect of these Shares:

a) Purchased on 1-8-2014 50 Shares cum-dividend for RS. 846 (including Brokerage) and registered.

b) The Company declared and paid on 15.8.2014 dividend at 20%.

c) The Company declared on 1-10-2014 a BONUS issue of 3 shares for every 7 Shares held in the Company.

d) The Company sold 450 Shares on 1-11-2014 at Rs. 11.25 per Share and paid brokerage of Rs. 25.

Prepare Investment Account in the books of Wadala Investments Ltd. for the Accounting Year from 1-4-2014 to 30.3.2015.

Note A: Out of the Dividend of Rs. 2,100 received, Rs. 96 must be credited to Capital Column as it pertain to shares purchased on cum-dividend basis (Dividend to calculate upto 1st Aug. 2014). For 14 days, Dividend of Rs. 4 taken to Revenue A/c Rs. 846 paid at the time of purchase should be entered in the Capital column as dividend rate was not known as on that date.

Note B: Profit on Sale of Shares is calculated as under:

Cost of total 1,500 Shares including Bonus Shares:

For 1,500 Shares (14,250 + 846 – 96)		15000.00
For 1 Share (Rs. 1500 Shares)	Rs.	10
For 450 Shares sold Cost (Rs. 1 0x 450)		4500.00
Sale Price as above		5037.50
Profit on Sale of Shares		537.50

Note C: Shares are to be valued "at cost or market price, whichever is less". After the Bonus issue, there is no difference between par value and cost value.

Illustration 7:

On 1.4.2014 (having accounting year ending 31-3-2015), Medical Services Ltd. had 20,000 Equity Shares of Sick Ltd. having face value of Rs. 10 each at Rs. 16 per Share.

On 1.6.2014, Medical Services Ltd. purchased 5,000 additional Equity Shares in Sick Ltd. at a premium of Rs. 4 per Share cum-dividend.

On 30.06.2014 the Directors of Sick Ltd. announced a BONUS and RIGHTS issue. Bonus was declared at 1:5 and the same was received on 2.8.2015

Right Shares at 1:3 was issued on 10-8-2014 at Rs. 15 Share, payable not later than 30-9-2014. Medical Services Ltd. exercised their option to 50% and the balance was sold at Rs. 1.50 per Share.

Dividends for the year ended 31-3-2014 at 15% was declared by the Sick Ltd. and received by Medical Services Ltd. on 20-10-2014.

On 1.11.2014 Medical Services Ltd. sold 20,000 Equity Shares of Sick Ltd. at a premium of Rs. 3 per Share.

Prepare Investment Accounts in the books of Medical Services Ltd. for the year ended 31-3-2015.

Note 1: Cost Price calculation

1.4.2014	[20,000 Shares]	320000.00
1.6.2014	[5,000 Shares]	70000.00
2.8.2014	[5,000 Shares]	-
30.9.2014	[5,000 Shares]	75000.00
		465000.00
(-) 30.9.2014 Sales Proceeds		-7500.00
(-) 30.10.2014 Dividend on Purchases		-7500.00
Cost Price of 35,000 Shares		450000.00
Therefore, Cost price of 20,000 Shares		
[4,50,000/35,000 x 20,000]		257143.00
(-) Sale Price of 20,000 Shares @ Rs. 13		260000.00
Profit on sale of 20,000 Shares		**2857.00**

Note 2: Cost price calculation :

1.4.2014	[20,000 Shares]	320000.00
1.6.2014	[20,000 Shares]	70000.00
2.8.2014	[5,000 Shares]	-
30.9.2014	[5,000 Shares]	75000.00
		465000.00
		465000.00
(-) 30.9.2014 Sales Proceeds		-7500.00
(-) 30.10.2014 Dividend on Purchases		-7500.00
Cost Price of 35,000 Shares		- 450000.00
Therefore, Balance of 15,000 Shares		
[4,50,000/35,000 x 15,000]		**192857.00**

M/s A Investments submits you following details regarding, investment in 12% Partly Convertible Debentures of Ted Ltd.

(a) Opening balance as on 1-4-2014, 6,000 debentures of Rs. 100 each Purchased on 31st Jan. 2014 at Rs. 104 cum-interest.

(b) Aug. 1,2014 – Purchased 3,000 debentures at Rs. 102 cum interest.

(c) Sep. 30, 2014 – Sold 2,000 debentures at Rs. 106 ex-interest.

(d) Dec. 31, 2014 – Received equity shares of Rs. 10 at the premium of Rs. 15 per share in conversion of Rs. 75 per debentures at par, the balance Rs. 25 per debenture being non convertible portion.

(e) Feb. 1, 2015 – Sold 4,000 debentures (non-convertible portion of Rs. 25 each @ Rs. 26 ex-interest).

(f) Mar 1, 2015, sold 60% of the shares received at Rs. 30 per share.

On 31st Mar, 2015 the debentures and shares of Ted Ltd. were quoted at Rs. 34 and Rs. 26 respectively. Interest on debentures is receivable each year on 30th June and 31st Dec. 2015.

You are required to give 12% Debentures and equity Shares in Ted Ltd. A/c for the year ended 31st March 2015

Solution:

Working Notes:

		Rs.
1)	Opening balance as on 1-4-2014	
	6,000 debentures Face value	6,00,000
	Purchased on 31st Jan 2013 @ 104 cum-interest	6,24,000
	Less: Interest @ 12% for 1 month	6,000
	∴ Capital Value	**6,18,000**

2) Interest received on June 30, 2014

$$6,00,000 \times \frac{12}{100} \times \frac{6}{12} = \text{Rs.}36,000$$

3)	Purchase of 3,000 debentures at 102 cum interest on Aug 1, 2014	
	Face Value	3,00,000
	Purchase cost 3,000 x 102	3,06,000
	Less: Interest @ 12% for 1 month	3,000
	∴ Capital Value	**3,03,000**
4)	Sale of 2,000 debentures at 106 ex-interest on Sept. 30,2014	
	Face Value 2,000 x 100	2,00,000
	Sale price ex-interest 2,000 x 106	2,12,000
	Interest @ 12% for 3 months	6,000
	Capital Value	**2,12,000**

5) Interest received on 31st Dec. 2014

$$7,00,000 \ x \frac{12}{100} x \frac{6}{12} = Rs. 42,000$$

6) Amount of debentures converted into equity shares
= 7,000 x 75
= Rs. 5,25,000

No. of equity shares received = $\frac{5,25,000}{25} = 21,000$

Total cost of debentures

	Opening balance	6,18,000
+	Purchased	<u>3,03,000</u>
	Total Cost	9,21,000
	Less: Sold 2,000 debentures (FIFO)	<u>2,06,000</u>
	$\therefore$ Cost of Balance as on 31-12-2008	7,15,000
	75% is converted in equity shares i.e.	<u>5,76,250</u>
	$\therefore$ Cost of 21,000 equity shares	**<u>5,36,250</u>**

7) Sale of 4,000 debentures @ Rs. 26 ex-interest on Feb 1.

Face value 4,000 x 25	1,00,000
Sale price 4,000 x 26 ex-interest	1,04,000
Interest for 1 month	1,000

8) Sale of 60% Shares on March 1,2015 at Rs. 30 per share

Total shares	21,000
$\therefore$ 60% shares	12,600
Sold for 12,600 x 30 =	3,78,000

9) Profit on sale of shares on Mar 1, 2015

Cost of 12,600 shares $= \frac{5,36,250}{21,000} x \, 12,600 =$	3,21,750
Sold for	3,78,000
$\therefore$ Profit = 3,78,000 – 3,21, 750 =	56,250

10) Valuation of closing balance of equity shares

$$= \frac{5,36,250}{21,000} x \, 8,400 = 2,14,500$$

11) Valuation of closing balance of 12% debentures (non convertible part)

	Date	No. of Debentures	Cost Rs.
	1-4-2014	6,000	6,18,000
Add	1-8-2014	3,000	3,03,000
		9,000	9,21,000
Less:			
Sold	30-9-2014	2,000	2,12,000
		7,000	7,09,000
Less: Conversion			
	31-12-2014	7,000 x 75	5,36,250
Balance		7,000 x 25	1,72,750
Less:			
Sale	Feb. 1	4,000 x 25	97,000
Balance out of Purchase of 1-8-2014		3,000 x 25.25* =	75,750

$* \left(101 \text{ x } \frac{25}{100}\right)$

On 1st April 2014 MR-K had 50,000 equity shares of X Ltd. at a cost of Rs. 15 per share (Face value of Rs. 10). On 1-7-2014 she purchased another 10,000 shares of the company at Rs. 16 per share.

The directors of X Ltd. announced a bonus and right issue as follows:

Bonus on 1-8-2014 on 1:6 basis

Rights on 1-9-2014 on 3:7 basis @ price Rs.

Due date of payment 30-9-2014

Shareholders can transfer their rights in full or in part. Accordingly, Shilpa sold 1/3rd of her entitlement to Miss Rucha for a consideration of Rs. 2 per share.

Dividends for the Year ended 31st March 2014 at the rate of 20% was declared by the company and received by Miss Shilpa on 31-10-2014. Dividends for shares acquired by her on 1-7-2014 are to be adjusted against cost of purchase. On 15-11-2014 Miss Shilpa sold 50,000 equity shares at a premium of Rs. 5 share.

You are requested to prepare Investment A/c in the books of Miss Shilpa. Books of Accounts are closed on 31st March 2015 and shares are valued at Average Cost.

Working Notes:

(a) Profit on sale of 50,000 equity shares:		Rs.
Amount paid for 90,000 shares		12,10,000
Less:		
Amount received on sale of Rights	20,000	
Dividend received for pre-acquisition Period	20,000	40,000
$\therefore$ Cost of 90,000 shares		Rs. **11,70,000**

$\therefore$ Cost of 50,000 shares $\frac{11,70,000}{90,000} \times 50,000 =$ 6,50,000

Sold for	7,50,000
$\therefore$ Profit	Rs. **1,00,000**

(b) Value of Closing Stock $\frac{11,70,000}{90,000} \times 40,000 =$ 5,20,000

Illustration: 10

Ankush Ltd. held on 1st April 2014 Rs. 2,00,000 of 9% Government bonds (2001) at Rs. 1,90,000 (Face Value of Bonds Rs. 100 each). Three months interest had been accrued on the above date. On 31st May 2014 the company purchased same Government bonds of the face value Rs. 80,000 at Rs. 95 cum interest. On 1st June 2014, 600 bonds were sold at Rs. 94 ex-interest. Interest on the bonds was payable each year on 30th June and 31st December and was credited by the bank on same date. On 30th November 400 bonds were sold at Rs. 97 cum interest. On 1st December, the company purchased the same 100 bonds at par ex-interest. On 1st, March 2015 the company sold 100 bonds at Rs. 103 (ex-interest). The market price of the bonds on 31st March 2015 was Rs. 96. Prepare 9% Government bonds (2005) A/c in the books of Ankush Ltd. following first in first out method.

Working Notes:

(1) Interest accrued on 1-4-2014

Face value x Interest Rate x Period

$$2,00,000 \times 9\% \times \frac{3}{12} = \text{Rs. } 4,500$$

(2) Purchased on 31st May 2014- Cum Int.

Face value = Rs. 80,000	Rs. 76,000
Purchased price @ Rs. 95	Rs. 3,000
Less: Interest @ 9% on 80,000 for 5 months	Rs. 73,000
∴ Capital Value	

(3) Sale on 1-6-2014, 600 bonds at Rs. 94 ex-interest.

Face value	Rs. 60,000
Sale Price @ Rs. 94	Rs. 56,400
Interest @ 9% on 60,000 for 5 months	Rs. 2,250

(4) Interest received on 20-6-2014

$$2,00,000 \times 9\% \times \frac{6}{12} = \text{Rs. } 9,400$$

(5) Sale on 30-11-2014, 400 bonds at Rs. 97 cum interest

Face value = 40,000	
Sale price 400 x 97 =	Rs. 38,800
Less: Int. $40,000 \times 9\% \times \frac{5}{12}$	Rs. 1,500
Capital Value	Rs. 37,300

(6) Int. received on 31-12-2014

$$1,90,000 \times 9\% \times \frac{6}{12} = \text{Rs. } 8,550$$

(7) Closing Balance (FIFO) Method

Opening Balance – Sales (Bank) + Purchase = Closing Balance

∴ Closing Balance

= 2,00,000 – (60,000 + 40,000 + 10,000) + (80,000 + 10,000)

= 2,00,000 – 1,10,000 + 90,000

= Rs. 1,80,000

19.2 EXERCISE:

19.2.1 OBJECTIVE TYPE QUESTIONS

- **Multiple Choice Questions :**

1. Interest is always calculated on the
   (a) Market Value
   (b) Cost of purchase
   (c) Nominal/Face Value
   (d) Higher of cost and fair value

2. The cost of right shares is
   (a) Added to the cost of investments
   (b) Subtracted from the cost of investments
   (c) No treatment is required
   (d) None of the above

3. Any reduction to market value of currency investment from cost, on valuation date is debited to
   (a) Revaluation reserve (b) Profit and Loss Account
   (c) Capital Reserve (d) General Reserve

4. Investments in immovable properties are to be shown under
   (a) Fixed assets (b) Currency assets
   (c) Current Investments (d) Long-term Investments

5. Interest on securities is paid
   (a) To the holder of the security on the due date, in respect of his actual period of holding
   (b) To the holders of the security on the due date, irrespective of his actual period of holding
   (c) To the original purchaser of the security
   (d) None of the above

6. When dividend is actually received on the due date.
   (a) The entire amount is entered in the capital Column (Cr.) of the Investment Account.
   (b) The entire amount is entered in the income Column (Dr.) of the Investment Account.
   (c) The pro-rata amount relating to the period after the date of acquisition is entered in the Income Column (Cr.) of the Investment Account.

(d) The pro-rata amount relating the period before the date of acquisition is entered in the Income Column (Cr.) of the Investment Account.

7. When the rights shares are subscribed –
   (a) Nominal Value is entered in the NV column (Cr.) and Cost is entered in the Capital column (Cr.) of the Investment Account.
   (b) Nominal value is entered in the Capital column (Dr.) of the Investment Account.
   (c) Nominal Value is entered in the NV column (Dr.) and Cost is entered in the Capital column (Dr.) of the Investment Account.
   (d) Cost is entered in the NV column (Dr.) of the Investment Account.

8. When the rights are sold (without subscribing)
   (a) Sale proceeds are credited to the Investment Account
   (b) Sale proceeds are debited to the Investment Account
   (c) No entry is made in the Investment Account and Sale proceeds are credited to the Profit and Loss Account
   (d) None of the above

9. If an investment is acquired in exchange of another asset say Building, the acquisition cost of the investment is determined by reference to
   (a) The market value of the Building
   (b) The market value of the investment acquired
   (c) The lower of the two market values
   (d) The higher of the two market values

10. Short term investments are carried at
   (a) Market Value
   (b) Cost Price
   (c) Cost or Market Value whichever is less
   (d) None of the above

1.c, 2. a, 3. b, 4. d, 5. b, 6. c, 7. c, 8. c, 9. a, 10. c.

- **Fill in the blanks.**

1. The current investments are valued on closing date at ------------------------Value of the security.

2. If a security is transferred on the exact date when interest falls due, the entire interest upto that due date belongs to the ____________.

3. Dividend on shares accrues on the date of its ____________.

4. Dividend on shares is paid to the holder of the share on the date of ____________ , irrespective of his actual period of holding.

5. When shares are purchased, Cost is entered in the (Capital / NV) column (Dr.) in the Investment Account.

6. Weighted Average Cost of Securities on Date of Sale

$$= \frac{?}{\text{Total Number of Securities}} \times \text{Total Cost of Investments on date of Sale}$$

7. Long term investments are carried at

Answer: (1) Lower of the cost or market value (2) Seller, 3) Declaration, (4) Book-closure, (5) Capital, (6) Number of Securities Sold , (7) Cost Price

- **State whether True or False.**

1. Total Payment by purchaser = Ex-interest Price – Accrued Interest

2. Dividend on shares is paid to the holder of the shares on the date of declaration, irrespective of his actual period of holding.

3. If a security is transferred on the exact date when interest falls due, the entire interest upto that due date belongs to the purchaser.

4. If a security is transferred on any date other than the due date for payment of interest, the purchaser has the right to claim the interest upto the date of transfer as his income.

5. If a security is transferred on any date other than the due date for payment of interest, the seller has the right to claim the interest after the date of transfer as his income.

6. Ex-interest price less Accrued Interest = Cost of the investment

7. Interest is always calculated on the Market Value of the Security.

8. Dividend is always calculated on the Face Value or Nominal Value of the shares.

9. Dividend on shares accrues on the date of the book closure by the company.

10. Interest is paid to the holder of the security on the due data, in respect of his actual period of holding.

11. When bonus shares are received only the Nominal Value of such bonus shares is entered in the Investment Account.
12. When the rights are sold (Without subscribing) no entry is made in the Investment Account.
13. When the rights are sold (without subscribing), sale proceeds are credited to the Profit and Loss Account.
14. Whether the price is cum-interest or ex-interest, accrued interest is always calculated and entered in the Income column in the Investment Account.
15. Investment held as long term investment is always valued at cost at the year end as per As 13.
16. Nominal Value column in the Investment.

True: 8, 11, 12, 13, 14, 15, 16. False: 1, 2, 3, 4, 5, 6, 7, 9, 10,

Q.1 Explain the term Investment as per AS-13.

Q.2 a) What are constituent of cost of Investment?

b) What are the types of Investment?

Q.3 What is the carrying amount of investment in different cases?

Q.4 Write short Notes:

(a) Ex-interest

(b) Current Interest

(c) Rights Shares

(d) Bonus Shares

Q.5 Janapriya Finance Ltd. purchased on 1st February, 2015 Rs. 64,000 12% Debentures of Bharat Brewery Ltd. at 98 ex-int, plus brokerage 1/8% and expenses on purchases including stamp duty Rs. 100. On 30th June 2015, Rs. 24,000 Debentures were sold at 102 ex-interest, less brokerage at 1/8% and expenses on sale Rs. 20. On 1st August 2015, Rs. 32,000 Debentures were purchased at 101 cum interest, plus brokerage at 1/8% and expenses on purchase Rs. 60. On 31st, October, 2015, Rs. 16,000 Debentures were sold at 102 cum interest, less brokerage at 1/8% and expenses on sale Rs. 20. The market price of Debentures on 31st December 2015 was 95.

Interest on Debentures is payable on 31st March and 30th September every year. Show the Investment Account for the year ended on 31st December 2015 in the books of Janapriya Finance Ltd. transferred to P & L A/c Rs. 6880.

Q.6 On 15th March O.P Ltd. purchased Rs. 10,000 9% Govt stock (Interest payable on 1st April, 1st July, 1st October and 1st January) at 88 com-interest. On 1st August, Rs. 20,000 stock is sold at 88 cum-interest, and on 1st September, Rs. 30,000 stock is sold at 891/4 ex-interest. On 31st December the date of the balance sheet, the market price was Rs. 90.

Show the Ledger account of the Investment for the year ignoring Income tax, Brokerage etc, and making apportionments in months.

Q.7 Mr. Asoka Auddy furnishers the following details relating to his holding in 6% Debenture Bonds of M/s. Pyne & Co. Ltd.

On 1.1.15 Face value of Debenture Bonds Rs. 90,000 (cost Rs. 88,500)

On 1.3.15 150 unit purchased Ex-interest at Rs. 98.

On 1.7.15 Sold 300 units ex-interest out of the original holdings at Rs. 100.

On 1.10.15 Purchased 75 units at Rs. 98 cum-interest.

On 1.11.15 Sold 300 units Ex-interst at Rs. 99 out of the original holdings. Interest dates are 30th. September and 31st March. Mr. Auddy closes his books on 31st, December each year. Show the Investment Account in the books of Mr. Auddy.

Q.8 Kalyani investment held 100; 6% stock @ Rs. 102 on 1.1.2015 on which interest is payable half-yearly on 30th June and 31st December. The following were his transaction in the same stock during the year ending 31.12.2015.

On 1.3.15 Purchased 200 stock en-interest @ Rs. 104.

On 31.8.15 Sold 100 stock ex-interest @ Rs. 106.

On 1.10.15 Purchase 300 stock cum-interest @ Rs. 105.

On 30.11.15 Sold 200 stock cum-interest @ Rs. 107

Assuming brokerage @ 1/4%

Draw up Investment Account in the books of Kalyani Investment Ltd.

Calculate profit or loss on sale on the basis of average cost an on the date of sale.

(8) On 1.4.2014, Sunshine Ltd. had in 5% debentures amounting to Rs. 3,00,000. Interest is payable half-yearly. On 30th June and 31st December.

During the year ended 31.3.15, the following purchases were made in the open market:

15.6.15 Rs. 50,000 nominal ex-int; cost Rs. 49,450.

11.11.15 Rs. 40,000 nominal cum-int; cost Rs. 40,250

The debentures, thus purchased, were not cancelled until 30.6.15.

Draw up the own Debenture Investment Account; (Calculations are made in months and to the nearest rupee).

(9) Samar Financiers held Rs. 20,000, 6% Debentures in Stabdi Electronic Ltd. on 1st July, 2014 with a book value of Rs. 17,262. Interest is payable on 30th June and 31st December. On 1st October 2014 a further Rs. 10,000 of these Debentures were purchased at 100 cum-interest, brokerage etc. costing Rs. 140. On 1st, January 2015 one half of the total holding of the Debentures was sold at Rs. 111, brokerage, etc. on such sale amounting to Rs. 50, the proceeds being invested on the same day in equity shares of Rs. 1 at Rs. 5 each of the Manolex India Ltd., brokerage, etc. on purchase being Rs. 250. On 31st May 2015 a dividend of 30% was received from Manolex India Ltd., together with a bonus issue of one equity share for each five already held.

On 20th June 2015 all equity Shares in Manolex India Ltd. were sold at Rs. 4.50 each, brokerage, etc. on such sale being Rs. 50.

Show the Ledger Accounts in respect of the above investments for the year ended 30th June, 2015. Ignore income tax. No apportionments are required of accrued dividend on the equity Shares of Manolex India Ltd.

(10) On 1.1.2015 X Ltd. had 5,000 Equity Share of Rs. 10 each in Alpha Ltd. purchased for Rs. 62,500. The Company, unlike Investment Companies does not make any apportionments of dividends (received or receivable) in between Capital and Revenue. On 15.5.2015 the Alpha Ltd. made a Bonus issue of one fully paid share for Two held on 15.5.15. In addition, on the same day Right Shares were issued at 3 for 5 held on that date

at a premium of Rs. 3, Rs. 7 to be paid on application and the balance in one call after a month. These Shares were not to rank for dividend for the year ending 30th June, 1989. 1,000 Rights were taken up by X Ltd, balance rights being sold at Rs. 2 each on 25.5.1915. On 15.10.15 the company declared a dividend of 20% for the year ending 30th June 2015.

Make out the Investment Account in the books of X Ltd. Ignore income tax.

(11) On 1st April 2015 Mr. Das had 10,000 Equity Shares in Indian Steel Ltd. Face Value of the Share was Rs. 10 each but their book value was Rs. 16 per share. On 1st June 2015 Mr. Das Purchased 2,500 more equity shares in the company at a premium of Rs. 4 per ahead.

On 30th, June 2015. The directors of Indian Steel Ltd. announced a bonus and right issue. Bonus was declared at the rate of one equity held and these shares were received in 2nd August 2015.

The terms of the right issue were:

(a) Rights shares to be issued to the existing share holders on 10th August, 2015.

(b) Right issues would entitle the holders to subscribe to additional equity at the rate of one share for every three share held at 15 per share the whole sum being payable by 30th September.

(c) Existing share holders may, to the extent of their entitlement, either wholly or in part, transfer their rights to outsiders.

(d) Mr. Das exercise his option under the issue for 50% of his entitlements and the balance of rights, he sold to Rahul for a consideration of Rs. 1.50 per share.

(e) Dividends for the year ended 31st March 2015 at the rate of 15% were declared by the Company and received by Mr. Das on 20th October, 2015.

(f) On 1st, November Mr. Das sold 10,000 Equity Shares at a premium of Rs. 3 per share.

Show the investment Amount as it would appear in Mr. Das's books as on 31.12.2015 and the value of held on that date.

(I.C.W.A. (Inter) adapted)

Q.9 On 1st April, 2015 Santosh purchased 50,000 equity shares of Telco Ltd. at a cost of Rs. 15 per share. On 16th May, 2015 he acquired another 10,000 shares of the same company for Rs. 16 per share.

The directors of Telco Ltd. announced a bonus and right issue.

Bonus basis 1:6 on 31st Aug 2015.
Rights basis 4:7 on 12th Sept. 2015 at Rs. 20 per share. The date for payment 30th Sept. 2015.

Shareholders can transfer their rights in full or in part. Accordingly, Santosh sold 40% of his entitlement to Paritosh at Rs. 3 per share.

Dividend for the year ended 31st March 2015 at the rate of 25% was declared by Telco Ltd. on 25th Oct. 2015sss and received by Santosh on 4th Nov. 2015. Dividends for Shares acquired by him on 16th, May 2015 are to be adjusted against the cost of the purchase. On 26th Nov. 2015 he sold 47,000 shares at Rs. 20 per share.
You are required to prepare the Investments Account in the books of Mr. Santosh.

Q.10 Mr. Sudhanshu holds on 1st April 2014 Rs. 50,000 6% Gold Bonds, at a cost of Rs. 48,000, Investments on which interest is payable on 1st Jan and 1st July each year.

Following ire the transactions of sales and purchases of be same security during the year ended 31st March 2015.

Purchases

(i) On 1.5.2014 Face value Rs. 40,000 @ 102 cum-interest.

(ii) On 1.11.2014 Face value Rs. 30,000 @ 101 ex-interest.

Sales

(i) On 1.8.2014 Face value Rs. 30,000 @ 103 ex-interest.

(ii) On 1.3.2015 Face value Rs. 40,000 @ 101 cum-interst.

Brokerage @ 1% was paid on sale & purchase of Investments

Income Tax is deducted on interest @ 10% by the Governments.
Prepare investment account in the books of Mr. Sudhanshu.

Q.11 Nutan Bharat Bank Limited held on 1st January 2015, 1,000 equity shares of Rs. 10 each in Double Century Limited at a book value of Rs. 14,250. It had the following further transactions during the year 2000, in respect of these shares:

(1) Purchased on 1st April, 2015, 50 shares cum-dividend for Rs. 850 (including brokerage) (the shares were immediately registered in its name).

(2) The company declared and paid on 15th April, 2015, dividend at 20%.

(3) The company declared on 1st June, 2015, a bonus issue of 3 shares for every 7 shares held in the company.

(4) The bank sold 450 shares on 1st July, 2015, at Rs. 11.25 per share and paid brokerage and transfer charges Rs. 25.

You are required to prepare the investment account in the Bank's ledger in respect of these shares.

Q.12 On 15th May, 2015, Alpha Limited made a bonus issue of 1 fully paid share for every two held on 15th May, 2015. In addition, on the same day rights shares were issued at 3 for every 5 held on that date it a premium of Rs. 3, Rs. 7 to be paid on application and the balance in one call after a month. These shares are not to rank for dividend for the year ending 30th June, 2015. 2,000 rights shares were taken u by X Ltd., balance rights being sold at Rs. 2 each on 25th May 2015.

On 15th October, 2015 the company declared a dividend of 20% for the year ending 30th June, 2015.

Q.13 On 1st April 2015, Sundhya had 20,000 Equity Shares in Alpha Ltd. Face value of the shares was Rs. 10 each but their book value was Rs. 16 per share.
On 1st June 2015, Singh purchased 5,000 more equity shares in the company at a premium of Rs. 4 per share.

On 30th June, 2015, the directors of X Ltd announced a bonus and rights issue. Bonus was declared at the rate of one equity share for every five shares held and these shares were received on 2nd August 2015.

The terms of the rights issue were:

(a) Rights shares to be-issued to the existing shareholders on 10th August.

(b) Rights issue would entitle the holders to subscribe to additional equity shares at the rate of one share for every three shares held at Rs. 15 per share – the whole sum being payable by 30th September, 2015.

(c) Existing shareholders may, to the extent of their entitlement, either wholly or in part, transfer their rights to outsiders.

(d) Singh exercised his option under the issue for 50% of his entitlements and the balance of rights, he sold to Ananth for a consideration of Rs. 1.50 per share.

(e) Dividends for the year ended 31st March 2015, at the rate of 15% were declared by the company and received by Singh on a 20th October.

(f) On 1st November, 2015, Singh sold 20,000 equity shares at a premium of Rs. 3 per share.

Show the investment account as it would appear in Singh's books as on 31.12.2015 and the value of shares held on that date.

Problem No. 1

On 1st April, 2014; Mr. Ajay had 30,000 equity shares in Vipro Ltd. face value of the share was Rs. 10 each but his purchase price was Rs. 14 per share. On 1st July, 2014; Ajay purchased 6,000 additional equity shares of the same company for a price of Rs. 16 per share. On 31st July, 2014; the directors of the company announced a bonus and rights issue. Bonus was declared at the rate of one equity share for every six shares held. Bonus shares were received on 5th August, 2014.

1. Rights shares to be issued to the existing holders on 17th August, 2014.
2. Rights offered were at the rate of one share for every three shares held at Rs. 15 per share. Full amount was payable by 30th September, 2015.
3. Existing shareholders may to the extent of their entitlement, either wholly or in part, transfer their rights, to outsiders.
4. Ajay exercised his option and subscribed for 60% of his entitlement and the balance of rights, he sold to Vikas for a consideration of Rs. 1.50 per share.
5. Dividend for the year ended 31st March, 2014 at the rate of 14% was declared by the company and received by Ajay on 22nd October, 2014.
6. On 1st November, 2014; he sold 25,000 shares at Rs. 15 per share.

   Prepare Investment Account of equity shares in Vipro Ltd. for the year ended 31st March, 2015 in the books of Mr. Ajay. Apply AS-13.

   The market price of an equity share was Rs. 14 as on 31st March, 2015.

Working Notes:

1. **Bonus Shares: 1:6**

   No. of Shares held = 30,000 + 6,000
   = 36,000 shares

   No. of Bonus Shares = $\frac{1}{6}$ x 36,000
   = 6,000 shares

2. **Rights Shares:**

   Rights Shares Ratio: 1:3

   Ajays holding = 30,000 + 6,000 + 6,000
   = 42,000 shares

   Rights Entitlements = $\frac{1}{3}$ x 42,000
   = 14,000 shares

   Rights Share subscribed = 60% of 14,000
   = 8,400 shares @ Rs. 15 per share
   = 1,26,000

3. **Sale of Rights Entitlements:**

   No. of Rights Entitlements not subscribed = 40% of 14,000
   = 5,600

   Sale of Rights Entitlements = 5,600 shares @ Rs. 1.50
   = Rs. 8,400

   As per AS- 13, Sale of Rights Entitlements is credited to Profit & Loss Account.

4. **Dividend received:**

   Dividend on 22nd October, 2014 for the year ending 31st March, 2014. Ajays holding on 22nd October, 20148 = 50,400 (30,000 + 6,000 + 6,000 + 8,400) shares. These will be no dividend on 14,400 shares (6,000 + 8,400) as these shares were not in existence as on 31st March, 2014.

   Out of remaining 36,000 share (50,400 – 14,400), 6,000 shares were purchased by Ajay after 31st March, 2014. Hence, dividend on these shares will be pre-acquisitions dividend.

   Pre-acquisition dividend = 14% of Rs. 60,000
   = Rs. 8,400

   It will be deducted from cost.

   So, Normal dividend = 14% of Rs. 3,00,000
   = Rs. 42,000

5. **Profit or Loss on Sale:**

Cost of Shares Sold

Date	Face Value Rs.	Cost Rs.
1.4.2014	3,00,000	4,20,000
1.7.2014	60,000	96,000
5.8.2014	60,000	-
22.10.2014	-	-8,400
	4,20,000	5,07,600
1.11.2014	-2,50,000	3,02,143
	1,70,000	**2,05,457**

Sale Proceeds :

25,000 shares @ Rs. 15 = Rs. 3,75,000

Less: Cost of Shares Sold $\left(\frac{5,07,600}{4,20,000} x 2,50,000\right)$ = Rs. 3,02,143

Profit on Sale = Rs. 72,857

6. **Valuation on 31st March, 2015:**

Cost Price = Rs. 2,05,457

Market Price = 17,000 x 14

= 2,38,000

Whichever is less.

Problem No. 2 (October, 2014)

On 1st April, 2014; Mr. Abhishek had 10,000 equity shares (of Rs. 10 each) in RAI Entertainment Ltd. at the cost of Rs. 1,60,000.

On 1st July, 2014; he acquired 4,000 more shares in the same company for Rs. 80,000
On 31st July, 2014; he further acquired 6,000 more shares at Rs. 22 per share.

On 10th August, 2014; Rai entertainment Ltd. announced bonus shares to the equity shareholders in the ratio of 1 bonus share for every 4 shares held on 5th August, 2014. Abhishek received the bonus shares on 22nd August, 2014.

The directors of Rai Entertainment Ltd. issued rights shares to the equity shareholders as on the following terms:

1 Rights shares to be issued to the existing shareholders as on 31st August, 2014.

2. Right offered was at the rate of Rs. 15 per share in the ratio of 1 share for every 5 shares held. Full amount was payable on or before 15th October, 2014.

3. Shareholders would be entitled to renounce their entitlement either wholly or in part to the outsiders.

4. Abhishek exercised his right of option under the issue of 3,000 shares and sold the balance to Mr. Raj @ Rs. 4 per share. On 20th October, 2014; Rai Entertainment Ltd. declared the dividend @ Rs. 4 per share for the year ending 31st March, 2014. Abhishek received the dividend on 31st October, 2014.

   On 10th January, 2015 Abhishek sold 7,000 shares @ Rs. 40 per share.

Prepare Investments Account in the books of Abhishek for the year ended 31st March, 2015.

Working Notes:

1. Bonus Shares $= \frac{20,000}{4} x1$ = 5,000 shares

2. Rights Shares $= \frac{1}{5} x\ 25,000$ = 5,000 shares

   i) Purchased 3,000 Shares

   ii) Sold 2,000 Shares

3. **Cost of Shares Purchased**

Date	Particulars	No. of Shares	Cost Rs.
1.4.2014	Purchase	10,000	1,60,000
1.7.2014	Purchase	4,000	80,000
31.7.2014	Purchase	6,000	1,32,000
22.8.2014	Bonus	5,000	Nil
15.10.2014	Rights	3,000	45,000
31.10.2014	Dividend	-	(40,000)
	Total	**28,000**	**3,77,000**

4. Cost of shares sold = $\frac{3,37,000}{28,000} x\ 7,000$ = 94,250

5. Profit Loss on Sale of Shares:

   Sale Proceeds = (7,000 x 40) = Rs. 2,80,000

   Less: Cost of Shares sold

   (Weighted average cost as per AS-13) = Rs. 94,250

   Profit = Rs. **1,85,750**

Problem No. 3 (April, 2014)

On 1st April, 2014; Mr. Mayur had 30,000 equity shares in Jai Ltd. at a book value of Rs. 4,50,000 (face value Rs. 10 per share). On 22nd June, 2014; he purchased another 5,000 shares of the company for Rs. 80,000.

The Directors of Jai Ltd. announced a bonus issue of equity shares in the ration of one share for seven shares held on 16th August 2014.

On 31st August, 2014; the Company made a right issue in the ratio of three shares for 8 shares held on payment of Rs. 15 per share. Due date for the payment was 30th September, 2014. Mr. Mayur subscribed to $\frac{2}{3}$rd of the right shares and sold remaining of his entitlement to Vinayak for a consideration or Rs. 2 per share.

On 31st October, 2014; received dividends from Jai Ltd. @ 20% for the year ended 31st March, 2014. Dividend for shares acquired by him on 22nd June, 2014 are to be adjusted against the cost of purchase.

On 15th November, 2014; Mayur sold 30,000 equity shares at a premium of Rs. 5 per share.

You are required to prepare Investments Account in the book of Mr. Mayur. Assume that the books of accounts are closed on 31st March, 2015 and shares valued at weighted average cost.

Working Notes:

1. **Cost of Shares Sold**

Date	Particulars	No. of Shares	Cost Rs.	
1.4.2014	Opening Balance	30,000	4,50,000	
22.6.2014	Purchases	5,000	80,000	
		35,000	5,30,000	
16.8.2014	Bonus Shares	5,000	-	
		40,000	5,30,000	
30.9.2014	Right Shares	10,000	1,50,000	
		50,000	6,80,000	
31.10.2014	Dividend	-	(10,000)	
		50,000	6,70,000	
15.11.2014	Sold	30,000	4,02,000	$\frac{30,000}{50,000} \times 6,70,000$
	Balance	**20,000**	**2,68,000**	

2. Bonus Shares = $\frac{35,000}{7} \times 1$ = 5,000 shares

3. Rights Shares = $\frac{40,000}{8} \times 3$ = 15,000

15,000

Purchased $\frac{2}{3}$ 10,000

Sold $\frac{1}{3}$ 5,000

Sale of Rights Shares = 5,000 x Rs. 2
= Rs. 10,000

4. As per AS-13, profit on sale of right entitlement is directly credited to Profit & Loss Account.

Dividend received on 31st October, 2014 = 30,000 x 10 x 20%
= Rs. 60,000

Dividend received on Shares purchased on 22nd June, 2014
= 5,000 x 10 x 20%
= 10,000

Which is adjusted to Investment Account

Sold: 30,000 Shares at Rs. 15	= Rs. 4,50,000
Less: Cost of Shares sold	= Rs. 4,02,000
Profit	**= Rs. 48,000**

Problem No. 4

During the year ended 31st March, 2015; a company had acquired shares of Telecom Ltd. as follows:

Date of Acquisition	No. of Shares	Purchase Cost per share Rs.
4.5.2014	500	55.00
25.8.2014	500	60.00
15.12.2014	1,000	70.00
18.2.2015	750	75.00

On 15th March, 2015; a company sold 1,000 shares at Rs. 80 per share.

Calculate profit or loss on sale of shares.

Solution:

Cost of Shares Purchased

Date	No. of Shares	Rate Rs.	Cost Rs.
4.5.2014	500	55.00	27,500
25.8.2014	500	60.00	30,000
15.12.2014	1,000	70.00	70,000
18.2.2015	750	75.00	56,250
	2,750		**1,83,750**

Profit / Loss on Sale of Shares

		Rs.
Sale Proceeds	(1,000 x 80)	80,000
Less: Cost of Shares sold		
(Weighted Average Cost as per AS-13) $\left(\frac{1,83,750}{2,750} x 1,000\right)$		66,820
Profit		**13,180**

Problem No. 5 (October, 2007)

Mr. Mandar holds as on 1st April, 2014; Rs. 75,000 (cost price Rs. 78,000) 6% Government securities as investment on which interest is payable half yearly on 30th June and 31st December every year. The following transactions took place during the accounting year ended 31st March, 2015.

Purchases:

i) On 1st May, 2014; face value Rs. 30,000 @ 98 cum-interest.

ii) On 1st November, 2014; face value Rs. 45,000 @ 101 ex-interest.

Sales:

i) On 1st August, 2014; face value Rs. 36,000 @ 97 cum-interest.

ii) On 1st February, 2015; face value Rs. 24,000 @ 102 ex-interest.

Market price of investment at 1% discount on 31st March, 2015.

Write up Investment Account closing it on 31st March 2015 in the books of Mrs. Mandar. Investments are to be valued at cost or a market value whichever is less. (Apply AS-13)

Working Notes:

Sr. No	Date	Computation	Amount Rs.
1.	1.4.2014	Accrued Interest $75,000 \times \frac{6}{100} \times \frac{3}{12}$	1,125
2.	1.5.2014	Cum-interest Price $30,000 \times \frac{98}{100}$ 29,400 Less: Accrued Interest $\frac{6}{100} \times 30,000 \times \frac{4}{12}$ <u>600</u> Cost of Purchase	<u>28,800</u>
3.	30.6.2014	Interest received: $1,05,000 \times \frac{6}{100} \times \frac{6}{12}$	3,150
4.	1.8.2014	Sale: Cum-interest Sale $36,000 \times \frac{97}{100}$ 34,920 Less: Accrued Interest $36,000 \times \frac{6}{100} \times \frac{1}{12}$ <u>180</u>	34,740
5.	1.8.2014	Profit /Loss Cost 36,617 Sale <u>34,740</u>	1,877
6.	1.11.2014	Ex-Interest Purchase 101% of Rs. 45,000 Accrued Interest 6% of 45,000 for 4 months	45,450 900
7.	31.12.2014	Interest received: 6% of 1,14,000 (75,000 + 30,000 + 45,000 -36,000) for 6 months	3,420

<table>
<tr><td>8.</td><td>1.2.2015</td><td>Ex-interest Sale:
102% of 24,000</td><td>24,480</td></tr>
<tr><td>9.</td><td></td><td>Accrued Interest
6% of 24,000 for 1 month</td><td>120</td></tr>
<tr><td>10.</td><td>1.2.2015</td><td>Loss on Sale:
Sale 24,480
Less:Cost of Investment sold 24,344
Profit</td><td>136</td></tr>
<tr><td>11.</td><td>31.3.2015</td><td>Cost of Investment Sold & Carrying Cost:
<table>
<tr><th></th><th>F.V.
Rs.</th><th>Cost
Rs.</th></tr>
<tr><td>1.4.2014</td><td>75,000</td><td>78,000</td></tr>
<tr><td>1.5.2014</td><td>30,000</td><td>28,800</td></tr>
<tr><td>30.6.2014</td><td>1,05,000</td><td>1,06,800</td></tr>
<tr><td>1.8.2014</td><td>36,000</td><td>36,617</td></tr>
<tr><td></td><td>69,000</td><td>70,183</td></tr>
<tr><td>1.11.2014</td><td>45,000</td><td>45,450</td></tr>
<tr><td>31.12.2014</td><td>1,14,000</td><td>1,15,633</td></tr>
<tr><td>1.2.2015</td><td>24,000</td><td>24,344</td></tr>
<tr><td>31.3.2015</td><td>90,000</td><td>91,289</td></tr>
<tr><td>31.3.2015</td><td>Cost</td><td>91,289</td></tr>
<tr><td></td><td>M.V.
(99% of 90,000)</td><td>89,100</td></tr>
<tr><td></td><td>Loss</td><td>2,189</td></tr>
</table></td><td>$\frac{1,06,800}{1,05,000} \times 36,000$
=36,617

$\frac{1,15,633}{1,14,000} \times 24,000$
= 24,344</td></tr>
<tr><td>12.</td><td>31.3.2015</td><td>Interest accrued:
6% of 90,000 for 3 months</td><td>1,350</td></tr>
</table>

Problems No. 6 (March, 2007)

Miss Bhagawati entered into the following transactions of purchase and sales of 12% debentures of Rs. 100 each of Mansi Ltd. Interest is payable on 30th June and 31st December every year.

Transactions are as under:

Date	No. of Debentures	Terms
01.04.2014	8,000	Opening Balance at a cost of Rs. 76,000
01.06.2014	300	Sold at Rs. 105 each cum-interest
01.09.2014	700	Purchased at Rs. 98. each ex-interest
01.12.2014	400	Purchased at Rs. 108 each cum-interest
01.02.2015	900	Sold at Rs. 97 each ex-interest

Prepare Investments Account of 12% debentures in the books of Bhagwati for the year ended 31st March, 2015. The market value on 31st March, 2015 was Rs. 67,500 of the said investment. Apply AS-13.

Working Notes:

1	1.4.2014: Accrued interest on opening balance for 3 months $\left(80{,}000 \times 12\% \times \frac{3}{12}\right)$	Rs. 2,400
2	1.6.2014: Sale at cum-interest	
	(i) Cum Interest Price received (300 x 105)	Rs. 31,500
	(ii) Interest accrued for 5 months (January-May) $\left(30{,}000 \times 12\% \times \frac{5}{12}\right)$	Rs. 1,500
	(iii) Sold cum-interest, So credit to capital	Rs. 30,000
3	1.6.2014: Profit on Sale	
	(i) Sale Price	Rs. 30,000
	(ii)Cost $\left(30{,}000 \times \frac{76{,}000}{80{,}000}\right)$	Rs. 28,500
	(iii) Profit	Rs. 1,500
4	30.6.2014: Half-yearly interest received $\left[(80{,}000 - 30{,}000) \times 12\% \times \frac{6}{12}\right]$	Rs. 3,000
5	1.9.2014: Purchased Ex-interest	
	(i) Ex-interest Price paid (700 x 98)	Rs. 68,600
	(ii) Accrued Interest for 2 months (July & August) $\left(70{,}000 \times 12\% \times \frac{2}{6}\right)$	Rs. 1,400
	(iii) Total Payment	Rs. 70,000
6	1.12.2014: Purchased cum-interest	
	(i) Price paid (400 x 108)	Rs. 43,200
	(ii) Purchased after due date; so Accrued Interest for 5 months (July-November) $\left(40{,}000 \times 12\% \times \frac{5}{12}\right)$	Rs. 2,000
	(iii) Credit to Capital (as purchased cum-interest)	Rs. 41,200

7	31.12.2014: Half-yearly Interest received $\left(1,60,000 \times 12\% \times \frac{6}{12}\right)$	Rs. 9,600
8	1.2.2015: Sale Ex-interest (i) Price received (Ex-interest) (900 x 97) (ii) Accrued Interest $\left(90,000 \times 12\% \times \frac{1}{12}\right)$	Rs. 87,300 Rs. 900
9	Loss on above Sale (i)Cost $\left(90,000 \times \frac{1,57,300}{1,60,000}\right)$ (ii) Sale Price (iii) Loss	Rs. 88,481 Rs. 87,300 Rs. 1,181
10	31.3.2015: Interest Due & Valuation (i) Interest Due $\left(70,000 \times 12\% \times \frac{3}{12}\right)$ (ii) Valuation Book Value (Balance Figure) (1,87,300 – 1,18,481) Market Value (Lower of the two)	Rs. 2,100 Rs. 68,819 Rs. 67,500 Rs. 67,500
11	Loss on valuation is the balancing figure of the account at the year-end.	

Problem No. 7 (March, 2006)

Banglore Investment hold 1,200 – 6% debentures of Rs. 100 each in Minerva Ltd. as on 1st April, 2015 at a cost of Rs. 1,40,000. Interest is payable on 30th June and 31st December each year.

Other details are as under:

Date	Details	Rs.
01.06.2015	400 Debentures are purchased cum interest at	40,800
01.11.2015	400 Debentures are purchased ex-interest at	38,400
30.11.2015	600 Debentures are sold cum-interest for	64,500
31.12.2015	800 Debentures are sold ex-interest for	77,300

Prepare Investment Account valuating closing balance on 31st March, 2010 at cost or market price whichever is lower. The debentures are quoted at par on 31st March, 2016ss.

Working Notes:

1	Accrued interest on opening balance for 3 months (January to March) $\left(\text{Rs. } 1,20,000 \text{ x } \frac{6}{100} \text{ x } \frac{5}{12}\right)$	Rs. 1,800
2	(i) Price Paid (ii) Purchased after due date: Accrued Interest for 5 months (January to May) $\left(\text{Rs. } 40,000 \text{ x } \frac{6}{100} \text{ x } \frac{5}{12}\right)$ (iii) Purchased cum-interest; so cost (Rs. 40,800 – Rs. 1000)	Rs. 40,800 Rs. 1,000 Rs. 39,800
3	Interest amount upto 30th June received $\left(\text{Rs. } 1,60,000 \text{ x } \frac{6}{100} \text{ x } \frac{6}{12}\right)$	Rs. 4,800
4	(i) Price paid (ii) Purchased after due date; so accrued interest for 4 months (July to October) $\left(\text{Rs. } 40,000 \text{ x } \frac{6}{100} \text{ x } \frac{4}{12}\right)$ (iii) Purchased ex-interest	Rs. 38,400 Rs. 800 Rs. 38,400
5	(i) Price received (ii) Sold after due date. So Interest due for 5 months (July to November) $\left(\text{Rs. } 60,000 \text{ x } \frac{6}{100} \text{ x } \frac{5}{12}\right)$ (iii) Sold cum-interest; so credit to capital (Rs. 64,500 – Rs. 1,500)	Rs. 64,500 Rs. 1,500 Rs. 63,000
6	Loss on Sale: Sale Proceeds Less: Cost on Investments sold Loss on Sale	 Rs. 63,000 Rs. 65,460 Rs. 2,460

7	(i) Price received (ii) Sold after due date; so interest due for 6 months (July to December) $\left(\text{Rs. } 80{,}000 \times \frac{6}{100} \times \frac{6}{12}\right)$ (iii) Sold ex-interest	Rs. 77,300 Rs. 2,400 Rs. 77,300
8	Loss on Sale: Sale Proceeds Less: Cost of Investments sold Loss on Sale	 Rs. 77,300 Rs. 87,280 Rs. 9,980
9	Interest amount upto 31st December received $\left(\text{Rs. } 60{,}000 \times \frac{6}{100} \times \frac{6}{12}\right)$	Rs. 1,800
10	Accrued Interest on closing balance for 3 months (January to March) $\left(\text{Rs. } 60{,}000 \times \frac{6}{100} \times \frac{3}{12}\right)$	Rs. 900
11	Loss on Valuation 31.3.2016 Market Price (at par) Cost of Investments Loss on Valuation on 31.3.2016	 Rs. 60,000 Rs. 65,460 Rs. 5,460

Cost of Investment Sold

Date	Particulars	Face Value Rs.	Cost Rs.	
1.4.2015	Opening Balance	1,20,000	1,40,000	
1.6.2015	Purchased	40,000	39,800	
30.6.2015	Balance	1,60,000	1,79,800	
1.11.2015	Purchased	40,000	38,400	
		2,00,000	2,18,200	$\frac{2{,}18{,}200}{2{,}00{,}000} \times 60{,}000$
30.11.2015	Sold	60,000	65,460	$= 65{,}460$
		1,40,000	1,52,740	$\frac{1{,}52{,}740}{1{,}40{,}000} \times 80{,}000$
31.12.2015	Sold	80,000	87,280	$= 87{,}280$
31.12.2015	Balance	**60,000**	**65,460**	

Problem No. 8 (March, 2005)

On 1st January, 2014; 1,000 – 12% debentures of Rs. 100 each of Shiva Ltd. were held as investment by Mr. Dharmesh at a cost of Rs. 91,000. Interest is payable on 31st December.

On 1st April, 2014; Rs. 20,000 of such debentures were purchased by Dharmesh @ Rs. 98 cum-interest.

On 1st September, 2014; Rs. 30,000 of such debentures were sold at Rs. 96 ex-interest.

On 1st December, 2014; Rs. 50,000 of such debentures were sold at Rs. 99 cum-interest. Interest is received on due date.

Prepare Investment Account for 12% debentures of Shiva Ltd. in the books of Mr. Dharmesh valuing closing stock as on 31st December, 2014 applying AS-13. The debentures were quoted at Rs. 93 on 31st December 2014.

Working Notes:

1	1.4.2014:		
	(a) Price paid	(200 x 98)	Rs. 19,600
	(b) Accrued Interest	$\left(20{,}000 \times \frac{12}{100} \times \frac{3}{12}\right)$	Rs. 600
	(c) Purchased cum-interest		Rs. -
	∴ Cost	(19,600 – 600)	Rs. 19,000
2	1.9.2014:		
	(a) Price received ex-interest	(300 x 96)	Rs. 28,800
	(b) Accrued Interest	$\left(30{,}000 \times \frac{12}{100} \times \frac{8}{12}\right)$	Rs. 2,400
	∴ Total Receipts		Rs. 31,200
3	1.9.2014:		
	Profit / Loss on Sale:		
	Sale Proceeds		Rs. 28,800
	- Cost	$\left(\frac{30{,}000}{1{,}40{,}000} \times 1{,}10{,}000\right)$	Rs. 27,500
	Profit		Rs. 1,300
4	1.12.2014:		
	(a) Price received (cum-interest)	(500 x 99)	Rs. 49,500
	(b) Accrued Interest	$\left(50{,}000 \times \frac{12}{100} \times \frac{11}{12}\right)$	Rs. 5,500
	∴ Cost of Investments	(49,500 – 5,500)	Rs. 44,000
5	1.12.2014:		
	Profit / Loss on Sale:		
	Sale Proceeds		Rs. 44,000
	- Cost	$\left(\frac{50{,}000}{90{,}000} \times 82{,}500\right)$	Rs. 45,833
	Loss		Rs. 1,833
6	31.12.2014:		
	Interest	(12% of Rs. 40,000)	Rs. 4,800

7	31.12.2014 Valuation of Stock: Closing Balance (Cost) Nominal Value Rs. 40,000 Market Price (400 x 93) ∴ Valuation is at cost price as per AS-13, i.e. cost or market price whichever is lower	 Rs. 36,667 Rs. 37,200

Problem No. 9

Mr. Arvind entered into following transactions of purchase and sale of equity shares of Aspi Ltd. The shares have paid up value of Rs. 10 per share.

Date	No. of Shares	Terms
01.01.2014	600	Buy @ Rs. 20 per share
15.03.2014	900	Buy @ Rs. 25 per share
20.05.2014	1,000	Buy @ Rs. 23 per share
25.07.2014	2,500	Bonus shares received
20.12.2014	1,500	Sale @ Rs. 22 per share
01.02.2015	1,000	Sale @ Rs. 24 per share

Additional Information:

1. On 15^{th} September 2014; dividend @ Rs. 3 per share was received for the year ended 31^{st} March, 2014.
2. On 12^{th} November, 2014; the company made a rights issue of equity shares in the ratio of one share for five shares held on payment of Rs. 20 per share. He subscribed to 60% of the shares and renounced the remaining shares on receipt of premium of Rs. 3 per share.
3. Shares are to be valued on weighted average cost basis.

You are required to prepare investment Account for the year ended 31^{st} March, 2014 and 31^{st} March, 2015.

Solution:

In the Books of Mr. Arvind
Investment A/c
(Equity Shares of Aspi Ltd.)

Date	Particulars	No.	Rs.	Date	Particulars	No.	Rs.
2014				2014			
Jan.1	To Bank A/c	600	12,000	Mar. 31	By Balance c/d	1,500	34,500
Mar. 15	To Bank A/c	900	22,500			-	-
		1,500	**34,500**			**1,500**	**34,500**
Apr. 1	To Balance b/d	1,500	34,500	Sep.15	By Bank A/c		
					(#1)		
May 20	To Bonus A/c	2,500	-		(Dividend)	-	3,000
May 20	To Bank A/c	1,000	23,000	Dec.20	By Bank A/c	1,500	33,000
Nov 12	To Bank A/c	600	12,000				
Dec 20	To Profit &	-	15,187				
	Loss A/c						
2015				2015			
Feb.1	To Profit &	-	12,125	Feb. 1	By Bank A/c	1,000	24,000
	Loss A/c			Mar. 31	By Balance c/d	3,100	36,812
		-	-			-	-
		5600	**63312**			**5600**	**63312**

Note:

1. Dividend is received on 15th September, 2014; @ Rs. 3 per share on 25,000 shares. Out of these, dividend for 1,000 shares is pre-acquisition dividend, therefore Rs. 3,000 is credited to Investment Account.

2. Number of shares held on 12th November, 2014 is 5,000 shares. Right issue is of 1:5, i.e. 1,000 shares. Number of shares subscribed is 60%, i.e. 600 shares @ Rs. 20.
   Premium on renouncement is 400 x 3 = Rs. 1,200.

3. Profit on 1,500 shares sold on 20th December, 2014:

Total number of shares [1,500 + 2,500 (Bonus) +1,000 + 600] = 5,600 shares.

$\therefore$ Weighted Average Cost of 1,500 shares $\left(\frac{66,500}{5,600} \times 1,500\right)$ Rs. 17,813

Sale Price of 1,500 shares Rs. 33,000

$\therefore$ Profit **Rs. 15,187**

4. Profit on 1,000 shares sold on 1st February, 2015:
   Total number of shares [1,500 + 2,500 (Bonus) + 1,000 + 600] = 5,600 shares.

   $\therefore$ Weighted Average Cost of 1,000 shares $\left(\frac{66,500}{5,600} \times 1,000\right)$ Rs. 11,875

   Sale Price of 1,000 shares Rs. 24,000

   $\therefore$ Profit **Rs. 12,125**

Cost of Shares Sold

Date	Particulars	No. of Shares	Cost Rs.	
1.1.2014		600	12,000	
15.5.2014		+ 900	22,500	
		1,500	34,500	
20.5.2014		+1,000	23,000	
		2,500	57,500	
25.7.2014	Bonus	+2,500	-	
		5,000	57,500	
15.9.2014	Capital Dividend	-	(3,000)	(1,000 share x Rs. 3)
		5,000	54,000	
12.11.2014	Right	+600	12,000	
		5,600	66,500	$\frac{1,500}{5,600} \times 66,500$
20.12.2014	Sold	-1,500	17,813	
		4,100	48,687	$\frac{1,000}{4,100} \times 48,687$
1.2.2015	Sold	1,000	11,875	
		3,100	**36,812**	

Problem No. 10. (October, 2003)

Mr. Mehta furnishes the following information regarding his holding in 12% IDBI bonds.

2014

April 1 Opening Balance-Nominal value of 12% bonds Rs. 2,00,000
Cost Rs. 1,90,000. Three month's interest had accumulated as interest was receivable half yearly on 30th June and 31st December.

August 31 He purchased a further Rs. 80,000 of the bonds at Rs. 96 cum interest.

October 31 Sold 700 12% bonds of Rs. 100 each at Rs. 94 ex-interest.

2015

February 28 Sold 300 12% bonds of Rs. 100 each at Rs. 96 cum interest.

The face value of each bond was Rs. 100.
Prepare 12% IDBI Bonds Account for the year ended 31st March, 2015.
Use Weighted Average.

Working Notes:

Sr. No.	Date	Computation	Amount
1.	1.4.2014	Accrued Interest 12% of 2,00,000 for 3 months	 6,000
2.	3.6..2014	Interest received 12% of 2,00,000 for 6 months	 12,000
3.	31.8.2014	Cum Interest Price 96% of 80,000 Less: Interest 12% of 80,000 for 2 months (July, August)	 76,800 1,600 **75,200**
4.	31.10.2014	Sale 700 bonds @ Rs. 94 ex-interest Cost of Bonds Loss	 65,800 66,300 **500**
5.	31.10.2014	Accrued Interest 12% of 70,000 for 4 months (July to October)	 2,800
6.	31.12.2014	Interest Received 12% of 2,10,000 for 6 months	 12,600
7.	28.2.2015	Sale 300 Bonds @ 96 cum interest Interest 12% of 30,000 for 2 months (January, February) Cost of Bonds Sold Loss	28,800 600 28,200 28,414 **214**
8.	31.3.2015	Accrued Interest 12% of 1,80,000 for 3 months	 5,400

Cost of Bonds Sold

Date	Face Value Rs.	Cost Rs.	
1.4.2014	2,00,000	1,90,000	
31.8.2014	+80,000	75,200	
	2,80,000	2,65,200	
31.10.2014	-70,000	-66,300	
31.12.2014	2,10,000	1,98,900	$\frac{1,98,900}{2,10,000} \times 30,000$ = 28,414
28.2.2015	-30,000	28,414	
	1,80,000	**1,70,486**	

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