2. INVESTMENT ACCOUNTS (AS 13 REVISED)

SOLUTIONS TO ASSIGNMENT PROBLEMS

PROBLEM NO. 1

X Ltd. invested Rs 1,000 lakhs in the equity shares of Y Ltd. Out of the same, the company intends to hold 50% shares for long term period i.e. Rs 500 lakhs and remaining as temporary (current) investment i.e. Rs 500 lakhs. Irrespective of the fact that investment has been held by X Ltd. only for 3 months (from 1.1.2018 to 31.3.2018), AS 13 (Revised) lays emphasis on intention of the investor to classify the investment as current or long term even though the long term investment may be readily marketable.

In the given situation, the realisable value of all such investments on 31.3.2018 became Rs 400 lakhs i.e. Rs 200 lakhs in respect of current investment and Rs 200 lakhs in respect of long term investment.

As per AS 13 (Revised), 'Accounting for Investment', the carrying amount for current investments is the lower of cost and fair value. In respect of current investments for which an active market exists, market value generally provides the best evidence of fair value.

Accordingly, the carrying value of investment held as temporary investment should be shown at realisable value i.e. at Rs 200 lakhs. The reduction of Rs 300 lakhs in the carrying value of current investment will be charged to the profit and loss account.

Standard further states that long-term investments are usually carried at cost. However, when there is a decline, other than temporary, in the value of long term investment, the carrying amount is reduced to recognise the decline.

Here, Y Ltd. lost a case of copyright which drastically reduced the realizable value of its shares to one third which is quiet a substantial figure. Losing the case of copyright may affect the business and the performance of the company in long run. Accordingly, it will be appropriate to reduce the carrying amount of long term investment by Rs 300 lakhs and show the investments at Rs 200 lakhs, since the downfall in the value of shares is other than temporary. The reduction of Rs 300 lakhs in the carrying value of long term investment will also be charged to the Statement of profit and loss.

PROBLEM NO.2

As per AS 13 (Revised) 'Accounting for Investments', for investment in shares - if the investment is purchased with an intention to hold for short-term period (less than one year), then it will be classified as current investment and to be carried at lower of cost and fair value, i.e., in case of shares, at lower of cost (Rs. 5,00,000) and market value (Rs. 2,00,000) as on 31 March, i.e., Rs 2,00,000.

If equity shares are acquired with an intention to hold for long term period (more than one year), then should be considered as long-term investment to be shown at cost in the Balance Sheet of the company. However, provision for diminution should be made to recognize a decline, if other than temporary, in the value of the investments.

Gold and silver are generally purchased with an intention to hold it for long term period (more than one year) until and unless given otherwise. Hence, the investment in Gold and Silver should continue to be shown at cost (since there is no 'other than temporary' diminution) as on 31st March, i.e., Rs 2,00,000 and Rs 1,50,000 respectively, though their market values have been increased.

PROBLEM NO.3

As per AS 13, "Accounting for Investments" Investments classified as 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. The standard also states that indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment.

On this basis, the facts of the case given in the question clearly suggest that the provision for diminution should be made to reduce the carrying amount of shares to Rs 45,000 in the financial statements for the year ended 31st March, 2017 and charge the difference of loss of Rs 2,55,000 to profit and loss account.

PROBLEM NO.4

As per AS 13 (Revised), where investments are reclassified from current to long- term, transfers are made at the lower of cost and fair value at the date of transfer.

1) In the first case, the market value of the investment is Rs. 25 lakhs, which is higher than its cost i.e. Rs. 20 lakhs. Therefore, the transfer to long term investments should be carried at cost i.e. Rs. 20 lakhs.

2) In the second case, the market value of the investment is Rs. 6.5 lakhs, which is lower than its cost i.e. Rs. 15 lakhs. Therefore, the transfer to long term investments should be carried in the books at the market value i.e. Rs. 6.5 lakhs. The loss of Rs. 8.5 lakhs should be charged to profit and loss account.

As per AS 13 (Revised), where long-term investments are re-classified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer.

3) In the third case, the book value of the investment is Rs. 12 lakhs, which is lower than its cost i.e. Rs. 18 lakhs. Here, the transfer should be at carrying amount and hence this re-classified current investment should be carried at Rs. 12 lakhs

PROBLEM NO.5

As per AS 13 "Accounting for Investments", Valuation of current investments on overall (or global) basis is not considered appropriate. Sometimes, the concern of an enterprise may be with the value of a category of related current investments and not with each individual investment, and accordingly the investments may be carried at the lower of cost and fair value computed category-wise (i.e. equity shares, preference shares, convertible debentures, etc.). However, the more prudent and appropriate method is to carry investments individually at the lower of cost and fair value.

(i) Hence the company has to value the current investment at Rs 30 Lacs (A Ltd. shares at Rs 8 lacs; B Ltd. shares at Rs 12 lacs and C Ltd. shares at Rs 10 lacs). The company's decision to value the portfolio at Rs 31 lacs is not appropriate.

PROBLEM NO.6

In the Books of Mr. Z

Dr. 9% Central Government Bonds (Investment) A/c (FIFO Method) Cr.

Date	Particulars	Face value	Interest	Principal	Date	Particulars	Face value	Interest	Principal
2008		**Rs.**	**Rs.**	**Rs.**	**2008**		**Rs.**	**Rs.**	**Rs.**
Jan.1	To Balance b/d (W.N 1)	1,20,000	2,700	1,18,000	March 31	By Bank A/c (W.N 3)	--	6,300	-
March 1	To Bank A/c (W.N 2)	20,000	750	19,600	July 1	By Bank A/c (W.N 4)	50,000	1,125	50,000
July 1	To P&L A/c (W.N 5)	--	--	833	Sept.30	By Bank A/c (W.N 6)	--	4,050	--
Oct .1	To Bank A/c	15,000	--	14,700	Nov.1	By Bank A/c (W.N 7)	30,000	225	29,700
Nov. 1	To P&L A/c (W.N 8)	--	--	200	Dec.31	By Balance c/d (W.N 9 & 10)	75,000	1,688	73,633
Dec.31	To P&L A/c (Transfer)	--	9,938	--					
		1,55,000	**13,388**	**1,53,333**			**1,55,000**	**13,388**	**1,53,333**

WORKING NOTE:

1) Interest element in opening balance of bonds = 1,20,000 x 9% x 3/12 = Rs.2,700

2) Purchase of bonds on 01.03.2008:

Interest element in purchase of bonds = 200 x 100 x 9% x 5/12 = Rs.750

Investment element in purchase of bonds = 200 x 98 = Rs.19,600

3) Interest for half-year ended 31 March = 1,400 x 100 x 9% x 6/12 = Rs.6,300

4) Sale of bonds on 01.07.2008:

Interest element = 500 x 100 x 9% x 3/12 = Rs.1,125

Investment element = 500 x 100 = Rs.50,000

5) Profit on sale of bonds on 01.07.2008:

Cost of bonds = (1,18,000/ 1,200) x 500 = Rs. 49,167

Sale proceeds = Rs.50,000

Profit element = Rs.833

6) Interest for half-year ended 30 September = 900 x 100 x 9% x 6/12 = Rs.4,050

7) Sale of bonds on 01.11.2008:

Interest element = 300 x 100 x 9% x 1/12 = Rs.225

Investment element = 300 x 99 = Rs.29,700

8) Profit on sale of bonds on 01.11.2008:

Cost of bonds = (1,18,000/ 1,200) x 300 = Rs.29,500

Sale proceeds = Rs.29,700

Profit element = Rs.200

9) Statement showing calculation of cost of closing balance:

Particulars	Units	Calculation	Amount (Rs.)
Bonds remained in hand at 31st December, 2008 From original holding (1,20,000 - 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

10) Interest element in closing balance of bonds = 750 x 100 x 9% x 3/12 = Rs.1,688

PROBLEM NO.7

In the Books of M/S. Bull & Bear

Investment Account for the period 1st December, 2012 to 1st March, 2013

Dr. (Scrip: 12% Debentures of M/s. Wye ltd.) Cr.

Date	Particulars	Nominal value (Rs.)	Interest	Cost (Rs.)	Date	Particulars	Nominal value (Rs.)	Interest	Cost (Rs.)
01.12.2012	To Bank A/c (W.N-1)	10,00,000	20,000	10,00,100	01.03.2013	By Bank A/c (W.N.2)	10,00,000	50,000	9,99,400
01.03.2013	To profit & Loss A/c *	-	30,000	-	01.03.2013	By Profit & Loss A/c	-	-	700
		10,00,000	**50,000**	**10,00,100**			**10,00,000**	**50,000**	**10,00,100**

* This represents income for M/s. Bull & Bear for the period 1st December, 2012 to 1st March, 2013, i.e., interest for three months- 1st December, 2012 to 28 February, 2013).

WORKING NOTES:

1) Cost of 12% Debentures Purchased On 1.12.2012 **Amount (Rs.)**

Cost Value (10,000×Rs.101)	= 10,10,000
Add: Brokerage (1% Of Rs.10,10,000)	= 10,100
Less: Cum Interest (10,000×100×2%×12/100)	= (20,000)
Total	= 10,00,100

2) Sale Proceeds of 12% Debentures Sold On 31st March, 2013 **Amount (Rs)**

Sale price (10,000×Rs.106) = 10,60,000

Less: brokerage (1% on Rs.10,60,000) = (10,600)

Less: Cum Interest (10,000x100x12%x5/12) = (50,000)

Total = 9,99,400

PROBLEM NO.8

Investment Account for the year ending on 31st December, 2018

Scrip: 8% Convertible Debentures in C Ltd.

[Interest payable on 31st March and 30th September]

Date	Particulars	Nominal value(Rs.)	Interest (Rs.)	Cost (Rs.)	Date	Particulars	Nominal Value(Rs.)	Interest (Rs.)	Cost (Rs.)
1.4.18	To Bank A/c	2,00,000	-	2,16,000	30.9.18	By Bank A/c [3,00,000 x 8% x 6/12]	-	12,000	-
1.7.18	To Bank A/c(W.N.1)	1,00,000	2,000	1,10,000	1.10.18	By Bank A/c	80,000	-	86,400
31.1218	To P & L A/c[Interest]	-	14,033	-	1.10.18	By P & L A/c(loss) (W.N.1)	-	-	533
					1.12.18	By Bank A/c (Accrued interest) (55,000 x 0.08 x 2/12)	-	733	-
					1.12.18	By Equity shares in C Ltd. (W.N 3 and 4)	55,000	-	59,767
					31.12.18	By Balance c/d	1,65,000	3,300	1,79,300
		3,00,000	**16,033**	**3,26,000**			**3,00,000**	**16,033**	**3,26,000**

SCRIP: Equity shares in C Ltd

Date	Particulars	Cost(Rs.)	Date	Particulars	Cost(Rs.)
1.12.18	To 8% Debentures	59,767	31.12.18	By Balance c/d	59,767

Working Notes:

1) Cost of Debenture purchased on 1st July = Rs.1,12,000 – Rs.2,000 (Interest) = Rs.1,10,000

2) Cost of Debentures sold on 1st Oct.

   = (Rs.2,16,000 + Rs.1,10,000) x 80,000/3,00,000 = Rs.86,933

3) Loss on sale of Debentures = Rs.86,933– Rs.86,400 = Rs.533

   Nominal value of debentures converted into equity shares =Rs.55,000

   [(Rs.3,00,000 – 80,000) x.25]

   <u>Interest received before the conversion of debentures</u>

   Interest on 25% of total debentures = 55,000 x 8% x 2/12 = 733

4) Cost of Debentures converted = (Rs.2,16,000 + Rs.1,10,000) x 55,000/3,00,000 = Rs.59,767

5) Cost of closing balance of Debentures = (Rs.2,16,000 + Rs1,10,000) x 1,65,000 / 3,00,000

   = Rs.1,79,300

6) Closing balance of Debentures has been valued at cost being lower than the market value i.e. Rs.1,81,500 (Rs.1,65,000 @ Rs.110)

7) 5,000 equity Shares in C Ltd. will be valued at cost of Rs 59,767 being lower than the market value Rs.75,000 (Rs.15 x5,000)

NOTE: It is assumed that interest on debentures, which are converted into cash, has been received at the time of conversion.

PROBLEM NO.9

In the books of Mr. Krishna

Dr. Investment Account for the year ended 31st March, 20X2 Cr.

(Scrip: Equity Shares of TELCO Ltd.)

Date	Particulars	Nominal value	Cost	Date	Particulars	Nominal value	Cost
01.04.20X1 31.01.20X2 31.03.20X2	To Bank A/c (W.N.1) To Bonus shares (W.N.5) To P&L A/c (W.N.3)	1,00,000 50,000	1,23,000 - 3,100	31.03.20X2	By Bank A/c (W.N.2) By Balance c/d (W.N.4)	50,000 1,00,000	44,100 82,000
		1,50,000	**1,26,100**			**1,50,000**	**1,26,100**

Working Notes:

1) Cost of equity shares purchased on 1.4.20X1 = (1,000 × 120) + (2% of 1,20,000) + (½% of 1,20,000) = 1,23,000
2) Sale proceeds of equity shares (bonus) sold on 31st March, 20X2= (500 × 90) - (2% of 45,000) = 44,100.
3) Profit on sale of bonus shares on 31st March, 20X2 = Sales proceeds - Average cost

   Sales proceeds = 44,100

   Average cost = (1,23,000 /1,50,000) x 50,000 = 41,000

   Profit = 44,100 - 41,000 = 3,100.
4) Valuation of equity shares on 31st March, 20X2

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

   Market Value = 1,000 shares × 90 = 90,000

   Closing balance has been valued at 82,000 being lower than the market value.
5) Bonus shares do not have any cost.

PROBLEM NO.10

Investment Account in the books of Hasan

Dr. (Equity shares in Vayu Ltd) Cr.

Date	Particulars	No. of Shares	Amount (Rs.)	Date	Particulars	No. of Shares	Amount (Rs.)
01.04.14	To Balance b/d	20,000	4,00,000	31.10.14	By Balance c/d (Bal. fig)	37,500	5,87,500
10.06.14	To Bank A/c	5,000	75,000				
01.08.14	To Bonus issue (W.N.1)	5,000	0				
31.10.14	To Bank A/c (Right shares) (W.N.4)	7,500	1,12,500				
		37,500	**5,87,500**			**37,500**	**5,87,500**

Working Notes:

1) Bonus shares = 25,000/ 5 = 5,000 shares
2) Right shares = $\frac{25{,}000+5{,}000}{6}$ X 2 =10,000 shares
3) Sale of rights = 10,000 shares x ¼ x Rs. 3 = Rs. 7,500.Amount received from sale of rights to be credited to P&L A/c.
4) Rights subscribed =10,000× 3/4×Rs. 15= Rs. 1,12,500

PROBLEM NO.11

In the books of XY Ltd

Investment in the equity shares of ABC Ltd.

Dr. **For the year ended 31st March, 2010** **Cr.**

Date	Particulars	No.	Dividend (Rs.)	Amount (Rs.)	Date	Particulars	No.	Dividend (Rs.)	Amount (Rs.)
2009					**2009**				
April 1	To Balance b/d	15,000	-	2,25,000	Oct.31	By Bank A/c (W.N.5)	-	30,000	10,000
June 1	To Bank A/c	5,000	-	1,00,000	**2010** Jan 1	By Bank A/c (W.N.4)	13,000	-	2,12,355
July 1	To Bonus Issue (W.N.1)	4,000	-	-	Mar. 31	By Balance c/d (W.N.6)	13,000	-	1,69,500
Sept 1	To Bank A/c (W.N.2)	2,000	-	24,000					
2010									
Mar. 31	To P&L A/c (W.N.4)	-	-	42,855					
Mar. 31	To P&L A/c	-	30,000	-					
		26,000	**30,000**	**3,91,855**			**26,000**	**30,000**	**3,91,855**

Working Notes:

1) Calculation of no. of bonus shares issued

Bonus Shares = $\frac{15{,}000\text{shares} + 5{,}000\text{shares}}{5} X1$ = 4,000 shares

2) Calculation of right shares subscribed

Right Shares = $\frac{15{,}000\text{shares} + 5{,}000\text{shares} + 4{,}000\text{shares}}{6} X1$ = 4,000 shares

Shares subscribed by XY Ltd. = $\frac{4000}{2}$ = 2,000 shares

Value of right shares subscribed = 2,000 shares @ Rs. 12 per share = Rs. 24,000

3) Calculation of sale of right entitlement = 2,000 shares x Rs. 8 per share = Rs. 16,000

NOTE: Amount received from sale of rights will be credited to statement of profit and loss.

4) Calculation of profit on sale of shares

Total holding =	15,000 shares	Original
	5,000 shares	Purchased
	4,000 shares	Bonus
	2,000 shares	Rights issue
	26,000 shares	

50% of the holdings were sold

i.e. 13,000 shares (26,000 x1/2) were sold.

Cost of total holdings of 26,000 shares (on average basis)

= Rs. 2,25,000 + Rs. 1,00,000 + Rs. 24,000 - Rs. 10,000 = Rs. 3,39,000

Average cost of 13,000 shares would be = $\frac{3{,}39{,}000}{26{,}000} X13{,}000$ = Rs 1,69,500

Sale proceeds of 13,000 shares (13,000 x Rs. 16.50)	2,14,500
Less: 1% Brokerage	(2,145)
	2,12,355
Less: Cost of 13,000 shares	(1,69,500)
Profit on sale	42,855

5) Dividend received on investment held as on 1st April, 2009 = 15,000 shares x Rs. 10 x 20%

= Rs. 30,000 will be transferred to P&L A/c

Dividend received on shares purchased on 1st June, 2009

= 5,000 shares x Rs. 10 x 20% = Rs. 10,000 will be adjusted to Investment A/c

NOTE: It is presumed that no dividend is received on bonus shares as bonus shares are declared on 1st July, 2009 and dividend pertains to the year ended 31.3.2009.

6) Calculation of closing value of shares (on average basis) as on 31st March,2010

$$= \frac{3,39,000}{26,000} X 13,000 = Rs.\ 1,69,500$$

Closing value of shares would be Rs.1,69,500.

PROBLEM NO.12

Dr. **Investment in Equity shares of JP Power Ltd.** **Cr.**

Date	Particulars	No.	Dividend (Rs.)	Amount (Rs.)	Date	Particulars	No.	Dividend (Rs.)	Amount (Rs.)
01.01.16	To Bank A/c	600		12,000	31.3.16	By Balance c/d	1,500		34,500
15.03.16	To Bank A/c	900		22,500					
		1,500		34,500			1,500		34,500
01.04.16	To Balance b/d	1,500		34,500	15.9.16	By Bank - dividend		4,500	3,000
20.05.16	To Bank A/c	1,000		23,000	20.12.16	By Bank	1,500		33,000
25.07.16	To Bonus shares	2,500		-	01.02.17	By Bank	1,000		24,000
12.11.16	To Bank A/c	600		12,000	31.03.17	By Balance c/d	3,100		36,812.50*
20.12.16	To P&L A/c (profit on sale)			15,187.50*					
01.02.17	To P&L A/c (profit on sale)			12,125					
31.03.17	To P&L A/c (dividend)		4,500						
		5,600	4,500	96,812.50			5,600	4,500	96,812.50

Working Notes:

1) Calculation of Weighted average cost of equity shares

600 shares purchased at Rs. 12,000

900 shares purchased at Rs. 22,500

1,000 shares purchased at Rs. 23,000

2,500 shares at Nil cost

600 right shares purchased at Rs. 12,000

Total cost of 5,600 shares is Rs. 66,500 [Rs. 69,500 less Rs. 3,000 (pre-acquisition dividend received on 1,000 shares purchased on 20.5.17].

Hence, weighted average cost per share will be considered as Rs. 11.875 per share (66,500/5,600).

2) It has been considered that no dividend was received on bonus shares as the dividend pertains to the year ended 31st March, 2016.

3) Calculation of right shares subscribed by Vijay

Right Shares (considering that right shares have been granted on Bonus shares also) = 5,000/5 x 1= 1,000 shares

Shares subscribed = 1,000 x 60%= 600 shares

Value of right shares subscribed = 600 shares @ Rs. 20 per share = Rs. 12,000

Calculation of sale of right renouncement

No. of right shares sold = 1,000 x 40% = 400 shares

Sale value of right = 400 shares x Rs. 3 per share = Rs. 1,200

<u>**Note:**</u> As per para 13 of AS 13, sale proceeds of rights is to be credited to P & L A/c.

4) Profit on sale of equity shares

As on 20.12.16

Sales price (1,500 shares at Rs. 22)	33,000.00
Less: Cost of shares sold (1,500 x Rs. 11.875)	(17,812.50)
Profit on sale	15,187.50

As on 01.02.17:

Sales price (1,000 shares at Rs. 24)	24,000
Less: Cost of shares sold (1,000 x Rs. 11.875)	(11,875)
Profit on sale	12,125

Balance of 3,100 shares as on 31.03.17 will be valued at Rs. 36,812.50 (at rate of Rs. 11.875 per share

PROBLEM NO.13

Dr. Investment Account-Equity Shares in X Ltd. Cr.

Date	Particulars	No of shares	Dividend	Amount	Date	Particulars	No of shares	Dividend	Amount
20X1 Jan. 1	To Balance b/d	20,000	-	3,20,000	20X1 Oct. 20	By Bank (dividend)*	-	30,000	7,500
June 1	To Bank	5,000	-	70,000	Nov. 1	By Bank	20,000		2,60,000
Aug. 2	To Bonus Issue	5,000	-	-	Nov. 1	By P&L A/c (W.N.2)			1,429
Sep. 30	To Bank (Right) (W.N.1)	5,000	-	75,000	Dec 31	By Balance c/d (W.N.3)	15,000		1,96,071
Nov. 1	To P&L A/c (Dividend income)		30,000						
		35,000	**30,000**	**4,65,000**			**35,000**	**30,000**	**4,65,000**
Jan. 1, 20X2	To Balance b/d	15,000		1,96,071					

* Dividend = [20,000 x 10 x 15%] [5,000 x 10 x 15%]

<u>**Working Notes:**</u>

1) Right shares

No. of right shares issued = (20,000 + 5,000 + 5,000)/ 3 = 10,000 shares

No. of right shares subscribed = 10,000 x 50% = 5,000 shares

Amount of right shares issued = 5,000 x 15 = Rs.75,000

No. of right shares sold = 10,000 – 5,000 = 5,000 shares

Sale of right shares = 5,000 x 1.5 = Rs.7,500 to be credited to statement of profit and loss

2) Cost of shares sold:

Particulars	Rs.
Amount paid for 35,000 shares (Rs.3,20,000 + Rs.70,000 + Rs.75,000)	4,65,000
Less: Dividend on shares purchased on June 1 (since the dividend pertains to the year ended 31st March, 20x1, i.e., the pre-acquisition period)	(7,500)
Cost of 35,000 shares	4,57,500
Cost of 20,000 shares (Average cost basis)	2,61,429
Sale proceeds	2,60,000
Loss on sale	1,429

3) Value of investment at the end of the year:

Assuming investment as current investment, closing balance will be valued based on lower of cost or Net realisable value.

Here, Net realisable value is Rs.14 per share i.e. 15,000 shares x Rs.14 = Rs.2,10,000 and cost 4,57,000/35,000×15,000 = Rs. 1,96,071. Therefore, value of investment at the end of the year will be 1,96,071.

PROBLEM NO.14

In the books of Nidhi

Dr. 8% Bonds Account (Interest Payable: 1st November & 1st May) Cr.

Date	Particulars	Nominal value (Rs.)	Interest (Rs.)	Amount (Rs.)	Date	Particulars	Nominal value (Rs.)	Interest (Rs.)	Amount (Rs.)
1.4. 20X1	To Bank A/c(W.N.1)	12,00,000	40,000	9,26,000	1.5. 20X1	By Bank A/c (12,00,000 x 8%x 6/12)	-	48,000	-
1.10. 20X1	To Profit & Loss A/c (W.N 6)			11,500	1.10. 20X1	By Bank A/c (W.N 2)	3,00,000	10,000	2,43,000
					1.11. 20X1	By Bank A/c (W.N 3)	-	36,000	-
31.3. 20X2	To Profit & Loss A/c		84,000		31.3. 20X2	By Balance c/d (W.N.4)	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**

Investment in Equity Shares of X Ltd. Account

Date	Particulars	No.	Dividend	Amount	Date	Particulars	No.	Dividend	Amount
12.4. 20X1	To Bank A/c	1,00,000		40,00,000	15.5. 20X1	By Bank A/c	1,25,000		25,00,000
15.5. 20X1	To Bonus Issue	1,50,000			1.12. 20X1	By Bank A/c (W.N 7)		2,25,000	
31.3. 20X2	To P&L A/c (W.N 5)		2,25,000	5,00,000	31.3. 20X2	By Balance c/d (W.N.8)	1,25,000		20,00,000
		2,50,000	**2,25,000**	**45,00,000**			**2,50,000**	**2,25,000**	**45,00,000**

Working Notes:

1) Cost of investment purchased on 1st April, 20X1

12,000, 8% bonds were purchased @ Rs.80.50 cum-interest. Total amount paid 12,000 bonds x Rs.80.50 = 9,66,000 which includes accrued interest for 5 months, i.e., 1st November, 20X0 to 31st

March, 20X1. Accrued interest will be Rs.12,00,000 x 8/100x 5/12 = Rs.40,000. Therefore, cost of investment purchased = Rs.9,66,000 – 40,000 = Rs.9,26,000.

Note: It has been assumed that the nominal value of a bond is Rs.100.

2) Sale of bonds on 1st October, 20X1

3,000 bonds were sold @ Rs.81 ex-interest, i.e., Total amount received = 3,000 x 81 + accrued interest for 5 months =Rs.2,43,000 + Rs.10,000 (3,00,000 x 8/100 x 5/12)

3) Interest received on 1st November, 20X1

Interest will be received for 9,000 bonds @ 8% for 6 months, i.e., Rs.9,00,000 x 8/100x1/2 = Rs.36,000.

4) Cost of bonds on 31.3.20X1

Cost of bonds on 31.3.20X1 will be Rs.9,26,000/ 12,000 x 9,000 = Rs.6,94,500. Interest accrued on bonds on 31.3.20X1 = 9,00,000 x 8% x 5/12 = Rs.30,000

5) Profit on sale of bonus shares

Cost per share after bonus = Rs.40,00,000/ 2,50,000 = Rs.16 (average cost method being followed)

Profit per share sold (Rs.20 – Rs.16) = Rs.4.

Therefore, total profit on sale of 1,25,000 shares = Rs.4 x 1,25,000 = Rs.5,00,000.

6) Profit on sale of bonds

	Rs.
Sale value	= 2,43,000
Cost of Rs.3,00,0008% bonds = 9,26,000/12,00,000 x 3,00,000	= 2,31,500
Profit	= 11,500

7) Dividend on equity shares = 1,25,000 x 10 x 18% = Rs.2,25,000

8) Value of equity at end of year

Cost per share after bonus	= Rs.16
Number of shares	= 1,25,000
Value of equity at end of year	= 1,25,000 x 16 = Rs.20,00,000

PROBLEM NO.15

In the books of Nisha

8% Bonds for the year ended 31st March, 2018

Date	Particulars	No.	Income Rs	Amount Rs	Date	Particulars	No.	Income Rs	Amount Rs
2017 1 April,	To Bank A/c	9,000	30,000	6,94,500	1 May 2017	By Bank- Interest	-	36,000	
Oct. 1 2018 March 31	To P & L A/c (W.N.1)	-	-	8,625	1 Oct. 2017	By Bank A/c	2,250	7,500	1,82,250
	To P & L A/c		40,500		1 Nov. 2018	By Bank- Interest		27,000	
					2018 Mar. 31	By Balance c/d (W.N.2)	6,750	-	5,20,875
		9,000	70,500	7,03,125			9,000	70,500	7,03,125

Investment in Equity shares of Moon Ltd. for the year ended 31st March, 2018

Date	Particulars	No.	Income Rs	Amount Rs	Date	Particulars	No.	Income Rs	Amount Rs
2017 July 10	To Bank A/c	12,000	--	5,38,560	2018 March 15	By Bank – dividend *	-	23,760	
2018 Jan. 15	To Bank A/c (W.N. 3)	1,200	-	6,000	March 31	By Balance c/d (bal. fig.)	13,200	-	5,44,560
March 31	To P & L A/c	-	23,760						
		13,200	23,760	5,44,560			13,200	23,760	5,44,560

* Considering that dividend was received on right shares also

Working Notes:

1) Profit on sale of 8% Bonds

Sales price Rs 1,82,250

Less: Cost of bond sold = 6,94,500/9,000x 2,250 (Rs 1,73,625)

Profit on sale Rs 8,625

2) Closing balance as on 31.3.2018 of 8 % Bonds

6,94,500/ 9,000 x 6,750= Rs 5,20,875

3) Calculation of right shares subscribed by Moon Ltd.

Right Shares = 12,000/4 x 1= 3,000 shares

Shares subscribed by Nisha = 3,000 x 40% = 1,200 shares

Value of right shares subscribed = 1,200 shares @ Rs 5 per share = Rs 6,000

4) Calculation of sale of right entitlement by Moon Ltd.

No. of right shares sold = 3,000 – 1,200 = 1,800 rights for Rs 4,050

Note: As per para 13 of AS 13, sale proceeds of rights are to be credited to P & L A/c.

SOLUTIONS FOR SELF PRACTICE

PROBLEM NO.1

1) As per AS 13 "Accounting for Investments", current investments should be arried at cost or fair value, whichever is lower. Here, the current Investment should be carried at fair value of Rs 48 Lakhs, being the lower of Rs 60 Lakhs (cost) or Rs 48 Lakhs (fair value). The difference of Rs 12 Lakhs should be charged to profit and loss account.

2) Current investment should be carried at cost or fair value, whichever is lower. In the given case, the current investments should be carried at cost of Rs 86 Lakhs, being the lower of Rs 86 Lakhs (cost) or Rs 90 Lakhs (fair value).

PROBLEM NO.2

In the books of Madhuri Dixit

Investment A/c (15% Debentures stock

Date	Particulars	Face value	Interest	Amount	Date	Particulars	Face Value	Interest	Amount
1.3.01	To Bank	24,000	500	21,552	31.3.01	By Bank		600	

	(WN.1)					(WN.2)			
1.9.01	To P & L (WN.3)			36	1.9.01	By Bank (WN 3)	10,000	208	9,016
30.9.01	To Bank (WN 5)	8,000		7,436	30.9.01	By Bank (WN.4)		350	
1.12.01	To P & L			89	1.12.01	By Bank (WN.6)	6,000	50	5477
31.12.01	TO P & L		908		31.12.01	By P & L			540
						By Bal C/d	16,000	200	14080
		32000	**1208**	**29113**			**32000**	**1208**	**29113**

Working Note:

1) On 1.3.01

Interest = 24,000 x 5% x 5/12 =500

Purchase cost = 24,000 x 90% = 21,600

Add: Brokerage @ 2% = 432

Add: Stamp expenses = 20

Less: Interest = (500)

= 21,552

2) On 31.3.01

Interest = 24,000 x 5% x 6/12 = 600

3) On 1.9.01

Interest = 10,000 x 5% x 5/12 = 208

Sale of investment:

Sale value = 10,000 x 92% = 9,200

Less: Brokerage @ 2% = (184)

= 9,016

Profit or loss on sale:

Net sale value = 9,016

Less: Cost of 10,000 face value

Debentures of stock sold

21,552/24,000 X 10,000 = (8,980)

Profit 36

4) On 30.9.01

Interest = (24,000 – 10,000) x 5% x 6/12 = 350

5) On 30.9.01

Interest = Nil

Cost of debentures = 8,000 x 91% = 7,280

Add: Brokerage @ 2% = (7280 x 2%) = 146

Add: Charges = 10

Total = **7,436**

6) On 1.12.01

Interest = 6,000 x 5% x 2/12 = 50

Sale value of Debentures = 6,000 x 94% = 5,640

Less: Brokerage @ 2% (5640 x 2%) = (113)

Less: Interest = (50)

= **5,477**

Profit or loss on sale:

Cost of Debentures (21,552/24,000 x 6,000)	= (5,388)
Net Sale value	= 5,477
Profit	89

7) Cost value of remaining debentures:

Face value	Cost	
8,000 (24,000 – 10,000 – 6,000)	8,000 x 21,552/24,000	= 7,184
8,000		= 7,436
		= 14,620

Market value = 16,000 x 88% = 14,080

8) Interest = 16,000 x 5% x 3/12 = 200

PROBLEM NO.3

In the books of XYZ Ltd.

9% Government Securities.

Date	Particulars	Face value	Interest	Amount	Date	Particulars	Face value	Interest	Amount
1-4-18	To Balance b/d (WN.1)	1,00,000	2,250	90,000	1-6-18	By Bank (W.N.3)	60,000	2,250	54,150
1-5-18	To Bank (W.N.2)	80,000	2,400	73,600	30-6-18	By Bank (W.N.4)	-	5,400	-
1-6-18	To P & L A/c(WN.3)	-	-	150	30-9-18	By Bank (W.N.5)	40,000	900	37,000
30-9-18	To P & L A/c	-	-	1,900	31-12-18	By Bank (W.N.7)	-	4.050	-
1-12-18	To Bank A/c (W.N.6)	10,000	375	10,000	1-3-19	By Bank (W.N.8)	10.000	150	9.500
1-3-19	To P & L A/c(WN.8)	-	-	300	31-03-2019	By Bal C/d	80.000	1,800	74,400
31-3-19	To P & L A/c	-	9,525	-					
		1,90,000	14,550	1,75,950			1,90,000	14,550	1,75,950

Working Notes:

1) Accrued Interest as on 1-4-18 = Rs. 1,00,000 x 9% x $\frac{3}{12}$ = 2,250

2) Amount paid 80,000 x $\frac{95}{100}$ = 76,000

(–) accrued interest from 1-1-18 to 30-4-18 80,000 x 9% x $\frac{4}{12}$ = 6,400

Value of the debentures debited to investment A/c **= 73,600**

3) Amount received on sale of debentures as on 1-6-18 60,000 x $\frac{94}{100}$ = 56,400

(–) accrued interest from 1-1-18 to 31-5-18 60,000 x 9% x $\frac{5}{12}$ = (2,250)

Value o Debenture sold = 54,150

(–) cost of Debentures of face value $\frac{90,000}{1,00,000} \times 60,000$ = 54,000

Profit on sale of Debentures **= 150**

4) Interest credited as on 30-6-18 (1,00,000 + 80,000 – 60,000) x 9% x $\frac{6}{12}$ = 5,400

5) Amount received on sale of Debentures of Face value Rs. 40,000 as on 30-9-18

$40,000 \times \frac{97}{100}$ = 38.800

(–) interest accrued on those sold debentures from 1-7-18 to 30-9-18

$40,000 \times 9\% \times \frac{3}{12}$ = (900)

Value of Debentures sold = 37,900

(–) Cost of Debentures sold $\frac{90,000}{1,00,000} \times 40,000$ = 36,000

Profit on sale of Debentures **= 1,900**

6) Interest included on Debenture purchased on 1-12-18 (from 1-7-18 to 30-11-18)

$10,000 \times 9\% \times \frac{5}{12}$ = 375

7) Interest received on 31-12-18 90,000 x 9% x $\frac{6}{12}$ = 4,050

8) Sale value of Debenture 10,000 x $\frac{95}{100}$ = 9,500

(–) Cost of Debentures sold $\frac{73,600}{80,000} \times 10,000$ = 9,200

= 300

And interest included on Debentures sold 10,000 x 9% x $\frac{2}{12}$ = 150

9) Interest accrued on Outstanding Debentures as on 31-3-19 80,000 x 9% x $\frac{3}{12}$ = 1,800

THE END