2. INVESTMENT ACCOUNTS (AS 13 REVISED)

ASSIGNMENT SOLUTIONS

PROBLEM NO.1

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.2

1. As per AS 13 "Accounting for Investments", current investments should be carried 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.3

As it is stated in the question that financial statements for the year ended 31.03.2009 are under preparation, the views given are on the basis that the financial statements are yet to be approved by the Board of Directors Para 3.2 of AS 4 (Revised) "**Contingencies and Events occurring after the Balance Sheet Date" defines "Events occurring after the balance sheet date" as those significant events, both favourable and unfavourable, that occur between the balance sheet date and the date on which the financial statements are approved by the Board of Directors in the case of a company**.

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. Para 17 of AS 13 'Accounting for investments' 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 given case clearly suggest that the provision for diminution should be made to reduce the carrying amount of long term investment to Rs.80,000 in the financial statements for the year ended 31st March, 2009

PROBLEM NO.4

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.5

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.6

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	To Bank A/c (W.N.1)	1,00,000	1,23,000	31.03.20X2	By Bank A/c (W.N.2)	50,000	44,100
31.01.20X2	To Bonus shares (W.N.5)	50,000	-				
31.03.20X2	To P&L A/c (W.N.3)		3,100		By Balance c/d (W.N.4)	1,00,000	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.7

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	31.08.14	By Bank A/c (sale of rights) (W.N.3)	0	7,500
10.06.14	To Bank A/c	5,000	75,000	31.10.14	By Balance c/d (Bal. fig)	37,500	5,80,000
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
4. Rights subscribed =10,000× 3/4×Rs. 15= Rs. 1,12,500

Assumption: Shares are acquired on cum-right basis

PROBLEM NO.8

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

= $\frac{3,39,000}{26,000}$ X13,000 = Rs. 1,69,500

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

PROBLEM NO.9

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%]

Working Notes:

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.10

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

Note: 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.11

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

THE END