3. INVESTMENT ACCOUNTS

PROBLEM NO: 1

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.)
1.12.2012	To Bank A/c (W.N-1)	10,00,000	20,000	10,00,100	1.03.2013	By Bank A/c (W.N.2)	10,00,000	50,000	9,99,400
1.03.2013	To profit & Loss A/c	-	30,000	-	1.03.2013	By Profit & Loss A/c		-	700
		10,00,000	**50,000**	**10,00,100**			**10,00,000**	**50,000**	**10,00,100**

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: 2

In the Books of Mr.Z

9% Central Government Bonds (Investment) Account

Dr. **(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	1,20,000	2,700	1,18,000	March 31	By Bank A/c	--	6,300	-
March 1	To Bank A/c	20,000	750	19,600	July 1	By Bank A/c	50,000	1,125	50,000
July 1	To P&L A/c	--	--	833	Sept.30	By Bank A/c	--	4,050	--
Oct .1	To Bank A/c	15,000	--	14,700	Nov.1	By Bank A/c	30,000	225	29,700
Nov. 1	To P&L A/c	--	--	200	Dec.31	By Balance c/d	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: Statement showing calculation of cost of closing balance

Calculation	Units		Amount (Rs)
Bonds remained in hand at 31st December, 2008 From original holding (1,20,000 – 50,000 – 30,000) =	40,000	1,18,000/1,20,000 x 40,000	39,333
Purchased on 1st March	20,000		19,600
Purchased on 1st October	15,000		14,700
	75,000		73,633

PROBLEM NO: 3

In the books of Mishra

Investment Account for the year ended 31st December , 2012

Dr. **(Scrip: Equity Shares of Fillco Ltd)** **Cr.**

Date	Particulars	Nominal value (Rs)	Cost	Date	Particulars	Nominal value (Rs)	Cost
1.5.2012	To Bank A/c	8,000	(W.N-1) 42,080	30.11.12	By Bank A/c	2,000	(W.N-2) 11,400
31.10.2012	To Bonus shares A/c	2,000	--	31.12.2012	By Balance c/d	8,000	(W.N-4) 33,664
31.12.2012	To Profit & Loss A/c	--	(W.N-3) 2,984				
		10,000	**45,064**			**10,000**	**45,064**

WORKING NOTES:

1. Calculation of cost of equity share:

Purchase price (800 x Rs.5) = Rs.40,000

Add: Brokerage@5% (Rs.40,000 x 5%) = Rs.2000

Cost of share transfer stamps = Rs. 80

$\left(\frac{Rs.40,000}{100} x\,0.2\right)$

Total of cost of equity shares = Rs.42080

2. Calculation of net sale proceeds:

Sale proceeds (200 x Rs.60) = Rs.12000

Less: Brokerage (Rs.12000 x 5%) = (Rs.600)

Net sale proceeds = Rs.11400

3. Profit on sale of bones shares on 30.11.12

= sale proceeds-Average cost

Sale proceeds = Rs.11,400

Average cost = Rs.42,080/10,000 x 2,000

= 8,416

Profit = Rs.11,400-Rs.8,416

= Rs. 2,984

4. Valuation of equity shares on 31st Dec., 2012

Cost = (Rs.42,080/10,000 x 8,000) = Rs.33,664

Market Value = 800 x Rs.60 = 48,000

Closing balance has been valued at Rs.33,664 being lower than the market value

PROBLEM NO: 4

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.)
1.4.14	To Balance b/d	20,000	4,00,000	31.8.14	By Bank A/c (sale of rights) (W.N.1)	0	7,500
10.6.14	To Bank A/c	5,000	75,000	31.10.14	By Balance c/d (Bal. fig)	37,500	5,80,000
1.8.14	To Bonus issue (W.N.1)	5,000	0				
31.10.14	To Bank A/c (Right shares) (W.N.4)	7,500	1,25,000				
		37,500	**5,87,500**			**37,500**	**5,87,500**

Working Notes:

1) Bonus shares $= \frac{25,000}{5} = 5,000$ shares

2) Right shares $= \frac{25,000 + 5000}{6} x2 = 10,000$ shares

3) Sale of rights $= 10,000$ share x $\frac{1}{4}$ x 3 = Rs.7,500

4) Rights subscribed $= 10,000 \times \frac{3}{4} \times 15$ = Rs. 1,12,500

Assumption: Shares are acquired on cum-right basis

PROBLEM NO: 5

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	-	30,000	10,000

						(W.N.5)			
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	-	-	March 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									
March 31	To P & L A/c (W.N.4)	-	-	42,855					
March 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 = (15,000 shares + 5,000 shares)/5 x 1 = 4,000 shares

2. **Calculation of right shares subscribed**

   Right Shares = (15,000 shares + 5,000 shares + 4,000 shares)/6 = 4,000 shares

   Shares subscribed by XY Ltd. = 4,000/2 = 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

   Amount received from sale of rights will be **credited to P & L A/c** as per para 13 of **AS 13** 'Accounting for investment'

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 right shares
   26,000 shares

   50% of the holdings were sold i.e. 13,000 shares (26,000 x 1/2) 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 shares 13,000 shares would be

= (3,39,000/26,000) x 13,000 = 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 Profit and Loss 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 share are declared on 1st July, 2009 and dividend pertains to the year ended 31.3.2009.

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

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

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

PROBLEM NO: 6

In the books of Smart Investment

12% Govt. Bonds for the year ended 31st March, 2014

Dr. **Cr.**

Date	Particulars	No. of Shares	Interest	Amount (Rs)	Date	Particulars	No. of Shares	Interest	Amount (Rs)
1.4.13	To Balance b/d	1,200	3,600	1,26,000	30.6.13	By Bank A/c (interest) (3,200 x 100 x 12% x 6/12)	--	19,200	--
2.5.13	To Bank A/c	2,000	8,000	1,92,000	30.9.13	By Bank A/c	1,500	4,500	1,57,500
31.3.14	To P & L A/c (interest)	--	27,400	--	31.12.13	By Bank A/c (Interest) (1,700 x x100 x 12% x 6/12)	--	10,200	--

31.3.14	To P & L A/c	--	--	8,437.50 (W.N-1)	31.3.14	By balance c/d	1,700	5,100	1,68,937.50 (W.N-2)
		3,200	**39,000**	**3,26,437.50**			**3,200**	**39,000**	**3,26,437.50**

Investment in Equity shares of X Ltd. For year ended 31.3.2014

Dr. **Cr.**

Date	Particulars	No. of Shares	Dividend	Amount (Rs)	Date	Particulars	No. of Shares	Dividend	Amount (Rs)
15.4.13	To Bank A/c	5,000	--	10,10,000 (W.N-3)	16.9.13	By Bank A/c (Dividend)	--	--	7,500
3.6.13	To Bonus issue A/c	2,000	--	--	15.12.13	By Bank A/c (Sale)	3,000	--	8,91,000 (W.N-4)
31.8.13	To Bank A/c	800	--	2,00,000	15.1.14	By Bank A/c (interim dividend)	--	4,800	--
31.3.14	To P & L A/c		4,800	4,28,500 (W.N-5)	31.3.14	By Balance c/d	4,800	--	7,40,000 (W.N-6)
		7,800	**4,800**	**16,38,500**			**7,800**	**4,800**	**16,38,500**

WORKING NOTE:

1. Profit on sale of bonds on 30.9.13 = Sale proceeds – Average cost

= Rs.1,57,500 - Rs. [(1,26,000+1,92,000) x 1,500/3,200]

Profit **= Rs.8,437.50**

2. Valuation of bonds on 31st March,2014

Cost = Rs.3,18,000/3,200 x 1,700 = **Rs. 1,68,937.50**

3. Cost of equity shares purchased on 15.4.2013 = Cost + Brokerage

= (5,000 x Rs.200) + 1% of (5,000 x Rs.200)

= Rs.10,10,000

4. Sale proceeds of equity shares on 15.12.2013 = Sale price - Brokerage

= (3,000 x Rs.300) - 1% of (3,000 x Rs.300)

= Rs.8,91,000

5. Profit on sale of shares on 15.12.2013 = Sale proceeds - Average cost

= Rs.8,91,000 - [(10,10,000 + 2,00,000 – 7,500) x 3,000/7,800]

= Rs.8,91,000 - Rs. [12,02,500 x 3,000/7,800]

Profit **= Rs.4,28,500**

6. Valuation of equity shares on 31st March , 2014

Cost = Rs. [12,02,500 x 4,800/7,800] = **Rs.7,40,000**

Market Value = 4,800 shares x Rs.220 = **Rs. 10,56,000**

Closing stock of equity shares has been valued at Rs. 7,40,000 i.e. cost being lower than the market value.

Note:

1. It is presumed that no dividend is received on bonus shares as bonus shares are declared on 3.6.2013. and dividend pertains to the year ended 31.03.2013.

2. The amount of dividend for the period, for which shares were not held by the investor, has been treated as capital receipt.

PROBLEM NO: 7

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**.

i) 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: 8

Solution: As per Para 2(d) of AS-13 (refer point 13.3), the accounting standard is not applicable to Bank, Insurance Company, Mutual Funds'; in these cases CANARA Bank is a bank, therefore **AS-13** does not apply here. For the banks the RBI has issued guidelines for classification and valuation of the investment. Therefore the CANARA Bank should comply with RBI guidelines.

THE END